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July 24, 2002

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, DC 20554

Ex Parte: **Federal-State Joint Board on Universal Service, CC Docket No. 96-45; 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements, CC Docket No. 98-171; Telecommunications Services for Individuals with Hearing and Speech Disabilities and the Americans with Disabilities Act of 1990, CC Docket No. 90-571; Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, CC Docket No. 92-237, NSD File No. L-00-72; Numbering Resource Optimization, CC Docket No. 99-200; and Telephone Number Portability, CC Docket No. 95-116**

Appropriate Framework for Broadband Access to the Internet over Wireline Facilities; Universal Service Obligations for Broadband Providers, CC Docket No. 02-33

Dear Ms. Dortch:

On July 23, 2002, Neal Bellamy, Ed Shakin and the undersigned, met with Christopher Libertelli of Chairman Powell's office to discuss Verizon's proposals to revise the methodology for contributing to the universal service funds. We also discussed Verizon's *ex parte* of July 2, 2002 that provided additional details and analysis of Verizon's proposal to require all broadband providers to contribute to the schools and libraries fund. The attached material was used in the discussions.

Pursuant to Section 1.1206(a)(1) of the Commission's rules, and original and one copy of this letter are being submitted to the Office of the Secretary. Please associate this notification with the record in the proceedings indicated above. If you have any questions regarding this matter, please call me at (202) 515-2530.

Sincerely,

W. Scott Randolph
Attachment

cc: Christopher Libertelli

UNIVERSAL SERVICE CONTRIBUTION PROCEEDING
CC Docket 96-45 (FCC 02-43)

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The Commission should adopt a new collect and remit contribution method that will adequately address the concerns with the current mechanism.

1. USAC would set the quarterly contribution percentage level based on anticipated fund needs and projections of revenues that would be actually collected.
2. Under Verizon's proposed collect and remit, contributors would report their total interstate revenues actually collected, and remit an amount equal to the contribution percentage. Contributions thus would not be affected by uncollectibles, time lag, or by carriers who do not pass through universal service charges to their customers.
3. A "safe harbor" cap could be imposed on the amount carriers can bill customers for recovery of USF administrative expenses. Carriers should retain the flexibility to develop flat monthly fees for similar classes of customers, or to use a uniform percentage assessment.

It is unclear whether there is any significant, systematic "decline," much less a "death spiral" in the interstate revenue base. Even if interstate revenues are declining, the way to address that problem is for the Commission to explore ways both to limit the fund and to increase contributions from other sources.

1. Proponents of the "death spiral" theory focus on reductions in wireline usage and exaggerate the overall decline in interstate revenues.
2. All broadband providers (including cable modem, satellite, and fixed wireless) should be required to contribute to the schools and libraries portion of the fund in order to increase the contributor base and to ensure competitive neutrality among providers of advanced services.
3. The Commission should compile a record to determine whether it is appropriate to adjust existing safe harbor assessments, to address other "leakage" concerns, and to identify the interstate portion of bundled services.

Concerns over the difficulty in identifying interstate revenue levels in bundled offerings are overstated.

1. Firms offering bundles have predictions of usage of the individual components, and track actual usage for marketing adjustments and network planning purposes. Families of bundled offerings provide insight into the component revenue portions (*e.g.*, MCI Neighborhood options).
2. Safe harbors already exist for bundles of telecom, CPE, and information service.
3. Additional safe harbors can be developed.

The proposed switch to a per-connection charge should be rejected, as it would create new administrative difficulties and would undermine principles of parity and competitive neutrality among different technologies and services.

1. A "connection" is difficult to define, especially for multi-line business connections and newer technologies.
2. Definitions are inevitably arbitrary, and would impose disproportionate regulatory burdens on different types of products and services.
3. Administrative burden would grow, as carriers already "count" revenue but would be forced to revamp their systems to focus on counting "connections."
4. The proposal appears to virtually eliminate contributions from carriers who provide the most interstate services and obtain the most interstate revenues by shifting almost all contributions from long distance carriers to LECs and wireless providers.