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Director – Regulatory Affairs



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July 25, 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

Dear Ms. Dortch:

On July 23, 2002, Frank Gumper, Neal Bellamy, Joe DiBella, and the undersigned, met with Bill Scher, Katie King, Narda Jones, Jennifer Schneider, and Geoff Waldau of the Wireline Competition Bureau. Also participating by teleconference were state Joint Board staff members David Dowds (Florida), Carl Johnson (New York), Lori Kenyon (Alaska), Peter Pescosolido (Connecticut), Larry Stevens (Iowa), Mike Lee (Montana), Phil McClelland (Pennsylvania/consumer advocate) and Earl Poucher (Florida/consumer advocate).

We discussed Verizon's comments filed in response to the Commission's NPRM seeking comment on issues from its *Ninth Report and Order* remanded by the United States Court of Appeals for the Tenth Circuit as well as Verizon's *ex parte* of June 26, 2002. 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,

A handwritten signature in black ink, appearing to read "W. Scott Randolph".

W. Scott Randolph
Attachment

cc: Bill Scher
Katie King
Narda Jones
Geoff Waldau
Jennifer Schneider

Tenth Circuit Court of Appeals Remand Proceeding

July 2002



Remand Issues

- Must Define
 - Reasonably Comparable
 - Sufficient
- Justification of the 135% Cost Benchmark
- Must develop mechanisms to induce state action to preserve and advance universal service

Reasonably Comparable

- Balance principles in the Act
 - Balance “reasonably comparable” with the need to fund all of the universal service programs
- One of the goals of the Act was to ensure that rates remain reasonably comparable between urban and rural areas as competition develops
 - Congress did not tell the States to revise existing residential rates to achieve “reasonably comparable” and “affordable rates”
- The range of existing rates should be used to determine “reasonably comparable”
 - GAO Report provides current rate information
- Definition of urban and rural
 - Urban areas should be defined as MSAs
 - Rural areas should be defined as Non-MSAs

Reasonably Comparable

- The GAO study can be used to identify a range of rates that are reasonably comparable
 - The mean Residential rate is \$14.79 for Central City, \$15.00 for Suburb, \$14.76 for Non-MSA
 - The Residential Standard Deviation (SD) is \$5.31 for Central City, \$5.39 for Suburb, \$5.40 for Non-MSA
 - A range of rates that is two standard deviations from the mean captures 95% of the GAO study observations
- Rural rates that are within two SD of urban rates are reasonably comparable, *i.e.*, \$14.79 plus 2 times \$5.31, or a maximum of \$25.41

Sufficient

- The Act states that there should be specific, predictable and sufficient Federal and state mechanisms.
- A “sufficient” fund must be one that allows reasonably comparable rates without impacting affordability or impairing the amount of funds available for other universal service programs.

Why a Cost Benchmark

- The variety in today's rate levels among states result from important state-specific factors noted in comments:
 - The mixture of urban, suburban, and rural customers in a state
 - Availability of both basic local and extended area calling plans in urban and rural areas
 - The scope of services provided in basic local and extended local calling area plans
 - Community of Interest
- While a cost benchmark should reflect a range of “reasonably comparable” rates, a simple comparison of basic residential rates is not a reliable method of identifying a state that needs Federal support due to higher costs because of the above state-specific factors

Why a Cost Benchmark

- Purpose of a cost benchmark is to provide sufficient universal service support to enable reasonable comparability of rates among states.
 - The Commission has long used this approach because it enables reasonable comparability between states, and allows states to adopt additional support mechanisms, if required, in order to preserve and advance universal service within the state.

Why a 135% Cost Benchmark

- A national cost benchmark is used to identify states that need Federal assistance.
- The Joint Board should recommend the establishment of a cost benchmark that is two SD from the nationwide average cost per-line.
 - Based on the proxy model, the nationwide average cost is \$23.35 and the SD is \$3.74.
 - $\$23.35 + \7.48 (or 2 SDs) = \$30.83
 - This is approximately 132 percent of the average nationwide cost

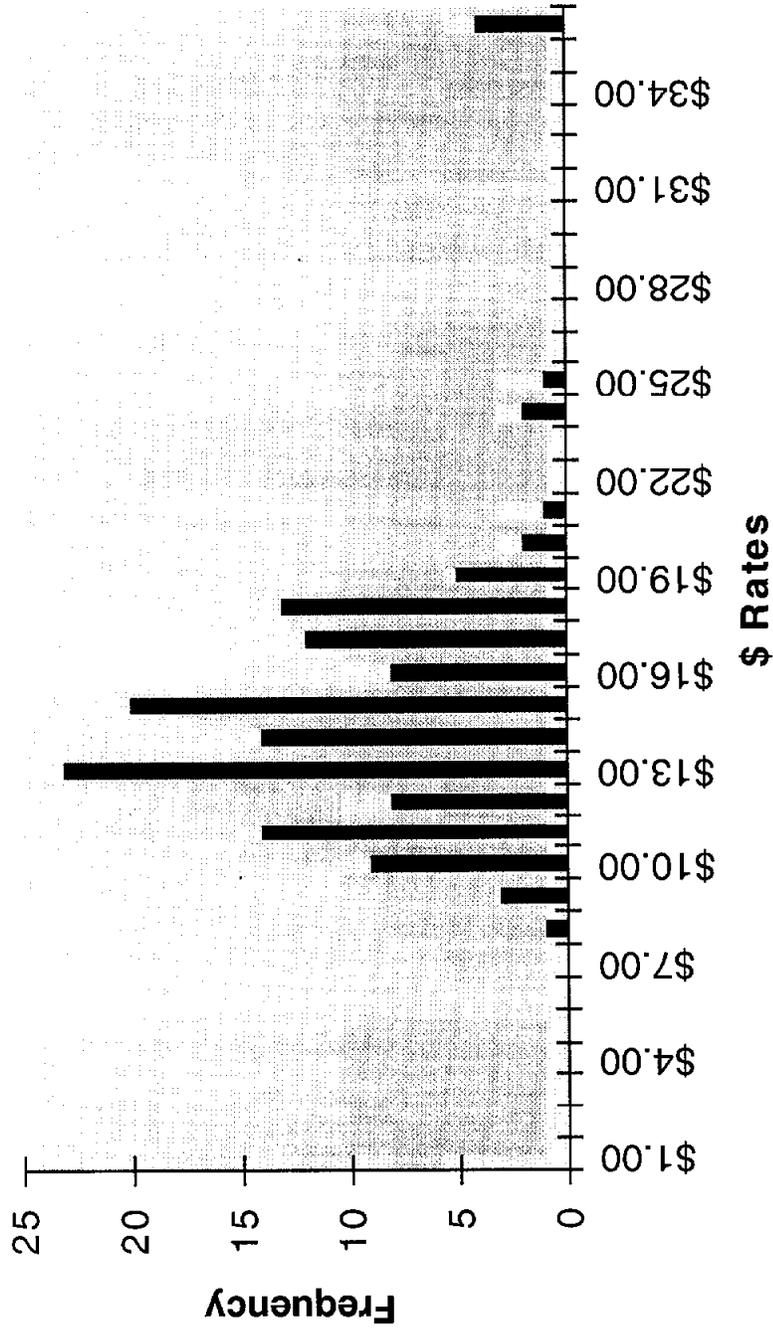
State Inducements

- Working in cooperation with the states, the Joint Board should recommend that the Commission can fulfill its obligation under the Act by conditioning receipt of Federal high cost support on a state's certification that it has reasonably comparable urban and rural rates.

Non-Rural High Cost Mechanism

- The Joint Board should recognize that the current cost benchmark mechanism is working
 - Rates are reasonably comparable today
 - Should continue to use a cost benchmark to identify high cost states
 - The use of two SD in cost supports the existing 135% cost benchmark
- The Joint Board's recommended decision should conclude the Commission's current policy and support mechanism promotes the preservation and advancement of universal service.

Central City Residential Rates



Non-MSA Residential Rates

