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July 31, 2002

EX PARTE – Via Electronic Filing

Ms. Marlene Dortch
Secretary
Federal Communications Commission
The Portals
445 12th Street, S.W.
Washington, DC 20554

Re: CC Dockets No. 96-45, 98-171, 90-571, 92-237, 99-200,
95-116, 98-170, and NSD File No. L-00-72

Dear Ms. Dortch:

As a follow-up to its prior meetings with FCC staff, the Coalition for Sustainable Universal Service (“CoSUS”) hereby submits revised versions of its charts reflecting the Average USF Recovery Charge Per Residence, both with and without carrier mark-ups for the CoSUS and SBC/BellSouth proposal, and back-up materials that document CoSUS’s estimates. The back-up materials also document CoSUS estimates of average USF recovery charge per residence using BellSouth’s estimate of a per QSC charge of \$0.65 for the SBC-BellSouth proposal.

The back-up materials consist of five worksheets entitled:

- “Five-Way Comparison Of Average FUSF Per Household By Income Level -- Current vs. COSUS vs. SBC”
- “Worksheet 1 -- Calculation of SBC/BellSouth QSCs & Per QSC Assessment”
- “Worksheet 2 -- Derivation of FUSF Contribution Factors”
- “Worksheet 3 -- Estimating Incremental Impact of SLC Increases and USF Contribution Factor Changes on the LEC Per Line USF Charges for 2nd Quarter 2003-Under Alternative Assumptions”
- “Worksheet 4 -- Estimating Per Line USF Recovery from Wireless Subscribers in 2nd Quarter 2003-Under Alternative Assumptions.”

In addition, we have included a written description of how the number of the TNS database was used as the basis for identifying the number of households in each income group, the average long distance FUSF charges for households in each income group, and the penetration of presubscribed long distance wireline, wireless, and broadband connection in each income group.

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Among other things, these materials show that although incremental changes, such as moving the revenue-based contribution mechanism to collect-and-remit, may mitigate some problems with the current mechanism (e.g. competitive inequities from the reporting lag and differences in carrier-specific uncollectibles), such incremental changes do not fundamentally address the unsustainability of the current mechanism. Moreover, other discriminatory aspects of the current revenue-based system, such as the wireless safe harbors, the partial international exemption, and distortions in the treatment of bundled products, would remain. In addition, they show that the average residential household across all income groups would benefit from adoption of the CoSUS proposal.

In accordance with the FCC rules, a copy of this letter with attachments has been filed electronically in the above-captioned dockets.

Sincerely,



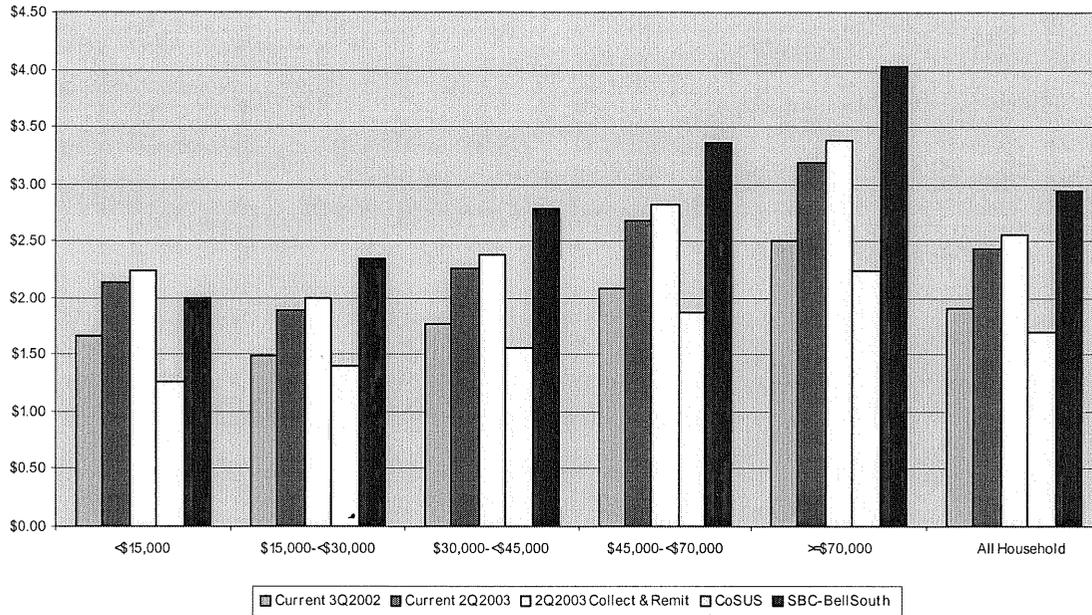
John T. Nakahata
Counsel to the Coalition for Sustainable Universal Service

JTN/krs

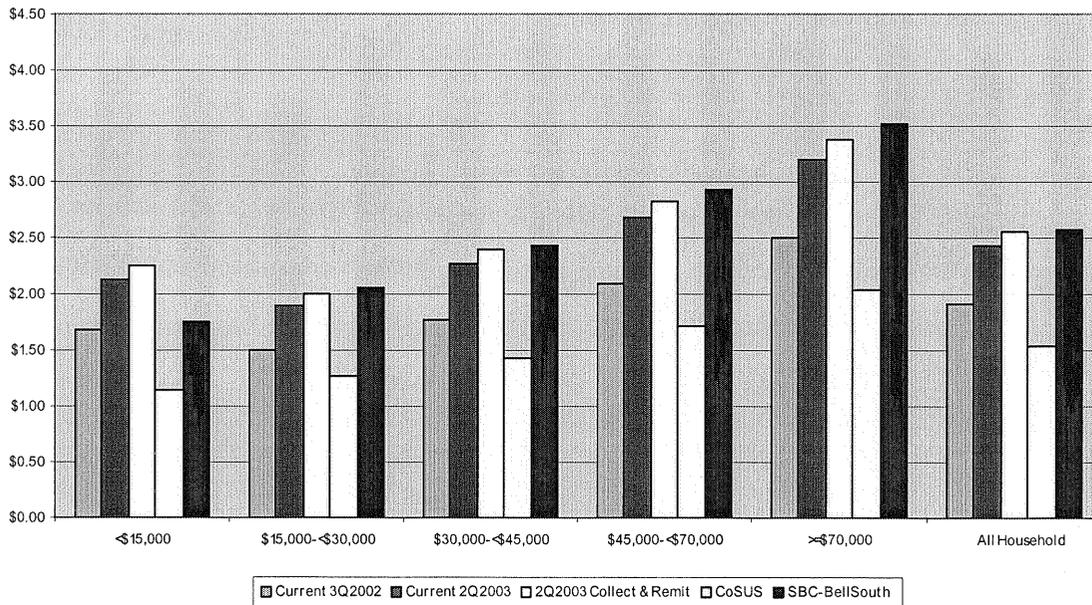
Attachments

c: Eric Einhorn
Diane Law Hsu
Paul Garnett

**Average USF Recovery Charge
Per Residence, By Household Income
(Includes Carrier Mark-ups for CoSUS and SBC/BellSouth Proposals)**



**Average USF Recovery Charge
Per Residence, By Household Income
(No Carrier Mark-ups for CoSUS and SBC/BellSouth Proposals)**



FIVE-WAY COMPARISON OF AVERAGE FUSF PER HOUSEHOLD BY INCOME LEVEL -- CURRENT Vs. COSUS Vs. SBC

		<\$15,000	\$15,000- <\$30,000	\$30,000- <\$45,000	\$45,000- <\$70,000	≥\$70,000	All Household	Sources
INPUT:								
(A)	Average Number of Wireline Connections per HH	1.03	1.05	1.09	1.16	1.33	1.14	TNS Data
(B)	Average Number of Long Distance PICs per HH	0.79	0.87	0.96	1.07	1.25	0.99	TNS Data
(C)	Average Number of Wireless Connections per HH	0.12	0.22	0.33	0.55	0.71	0.40	TNS Data
(D)	Average Number of Dial-Up Connections per HH	0.20	0.33	0.49	0.60	0.69	0.46	TNS Data
(E)	Average Number of DSL Connections per HH	0.01	0.01	0.03	0.04	0.06	0.03	TNS Data
(F)	Average Number of Cable Modem Connections per HH	0.01	0.03	0.05	0.07	0.12	0.06	TNS Data
(G)	Projected Contribution Factor for 2Q03 Under Current System	0.0953	0.0953	0.0953	0.0953	0.0953	0.0953	See Worksheet 2
(H)	Projected Contribution Factor, with Collect&Remit, for 2Q03 Under Current Sys.	0.1013	0.1013	0.1013	0.1013	0.1013	0.1013	See Worksheet 2
OUTPUT @ Current Rates -- Under Three Options:								
(I)	Current Mechanism: Average Local FUSF (\$0.60*A)	\$0.62	\$0.63	\$0.65	\$0.70	\$0.80	\$0.68	See Worksheet 3
(J)	Current Mechanism: Average Wireless FUSF (\$0.52*C)	\$0.06	\$0.11	\$0.17	\$0.29	\$0.37	\$0.21	See Worksheet 4
(K)	Current Mechanism: Average Long Distance FUSF	\$0.99	\$0.75	\$0.95	\$1.11	\$1.33	\$1.01	TNS Data
(L)	Current Mechanism: Average Total FUSF per HH (I+J+K)	\$1.67	\$1.49	\$1.78	\$2.09	\$2.50	\$1.90	
(M)	CoSUS : Number of Assessible Connections (A+C)	1.15	1.27	1.42	1.71	2.04	1.54	
(N)	CoSUS: Charge per Assessible Connection with markup	\$1.10	\$1.10	\$1.10	\$1.10	\$1.10	\$1.10	10% Mark-up
(O)	CoSUS: Charge per Assessible Connection without markup	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	
(P)	CoSUS: Average FUSF with markup per HH (M*N)	\$1.27	\$1.40	\$1.56	\$1.88	\$2.24	\$1.69	10% Mark-up
(Q)	CoSUS: Average FUSF without markup per HH (M*O)	\$1.15	\$1.27	\$1.42	\$1.71	\$2.04	\$1.54	
(R)	SBC: Number of Assessable Connections where data avail (A+2*C+2*E+2*F)	1.31	1.57	1.91	2.48	3.11	2.12	
(S)	SBC: Charge per Assessible Connection w markup - where data available	\$0.70	\$0.70	\$0.70	\$0.70	\$0.70	\$0.70	10% Mark-up
(T)	SBC: Charge per Assessible Connection w/o markup	\$0.64	\$0.64	\$0.64	\$0.64	\$0.64	\$0.64	See Worksheet 1
(U)	SBC: Number of Assessable Connections - where data not available (B+D)	0.99	1.20	1.45	1.67	1.94	1.45	
(V)	SBC: Charge per Assessible Connection w markup - where data not available	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80	25% Mark-up, differential covers costs of acquiring line info.
(W)	SBC: Total number of Assessible Connections (A+B+2*C+D+2*E+2*F)	2.30	2.77	3.36	4.15	5.05	3.57	
(X)	SBC: Average FUSF for dial-around and pre-paid-card per HH	\$0.28	\$0.28	\$0.28	\$0.28	\$0.28	\$0.28	See Note Below
(Y)	SBC: Average Total FUSF per HH - with markup (R*S+U*V+X)	\$2.00	\$2.35	\$2.78	\$3.36	\$4.02	\$2.93	
(Z)	SBC: Average Total FUSF per HH - without markup (W*T+X)	\$1.75	\$2.05	\$2.43	\$2.93	\$3.51	\$2.57	
(Z')	SBC: Average Total FUSF per HH @ \$0.65 per QSC (W*\$0.65+X)	\$1.78	\$2.08	\$2.46	\$2.98	\$3.56	\$2.60	
OUTPUT @ Projected 2nd Quarter 2003 Rates -- Under Current Mechanism								
(AA)	LOCAL: Projected 2Q03 FUSF (\$0.73*A)	\$0.75	\$0.77	\$0.80	\$0.85	\$0.97	\$0.83	See Worksheet
(AB)	LOCAL: Projected 2Q03 FUSF - with Collect&Remit (\$0.76*A)	\$0.78	\$0.80	\$0.83	\$0.88	\$1.01	\$0.87	See Worksheet 3
(AC)	WIRELESS: Projected 2Q03 FUSF (\$0.68*C)	\$0.08	\$0.15	\$0.22	\$0.37	\$0.48	\$0.27	See Worksheet 4
(AD)	WIRELESS: Projected 2Q03 FUSF - with Collect&Remit (\$0.72*C)	\$0.09	\$0.16	\$0.24	\$0.40	\$0.51	\$0.29	See Worksheet 4
(AE)	LD: Projected 2Q03 FUSF - [K*(G/0.0728)]	\$1.30	\$0.98	\$1.24	\$1.45	\$1.74	\$1.32	
(AF)	LD: Projected 2Q03 FUSF - with Collect&Remit [K*(H/0.0728)]	\$1.38	\$1.04	\$1.32	\$1.54	\$1.85	\$1.41	
(AG)	TOTAL PROJECTED 2Q03 FUSF per HH - (AA+AC+AE)	\$2.13	\$1.90	\$2.26	\$2.67	\$3.19	\$2.43	
(AH)	TOTAL PROJECTED 2Q03 FUSF per HH - with Collect&Remit (AB+AD+AF)	\$2.25	\$2.00	\$2.39	\$2.82	\$3.37	\$2.56	

NOTES: Average FUSF for dial around and prepaid calling card is the total assessment calculated on *Worksheet 1*, attached, divided by total residential (CLEC and ILEC) lines, with CLEC residential (and small business) lines estimated at 40% of CLEC total lines. See FCC, *Local Telephone Competition: Status as of June 30, 2001*, Table 6. However, dial-around and prepaid tend to be used more by lower income customers.

Worksheet 1 -- Calculation of SBC/BellSouth QSCs & Per QSC Assessment

Category	Demand	Weighting	Access QSC	Int. Trans. QSC	Total QSC	SOURCE
One-way paging	41,535,000	0.5	20,767,500	20,767,500	41,535,000	CECA Report, p. 71
Asymmetrical <= 6 Mb/s	7,877,975	1	7,877,975	7,877,975	15,755,950	FCC High-Speed Service Report, Feb. 2002, Table 1, "ADSL" & "Coaxial Cable"
Asymmetrical > 6 Mb/s	0	2	0	0	0	
<=64 kb/s						
ILEC Centrex	16,160,117	0.11	1,795,569	1,795,569	3,591,137	SOCC Table 2.6, "Centrex Extensions"
ILEC switched business	43,369,395	1	43,369,395	43,369,395	86,738,790	SOCC Table 2.6, sum of business lines - "centrex extensions"
ILEC switched resident	114,345,035	1	114,345,035	114,345,035	228,690,070	SOCC Table 2.6, residential access lines
ILEC special DSo	2,358,500	1	2,358,500	2,358,500	4,717,000	Gartner Group, US Fixed Public Network Services Market Forecast, Table 1-1
CLEC switched total	13,356,000	1	13,356,000	13,356,000	26,712,000	FCC Local Competition Report, Feb. 2002, Table 3, "Total" - "Resold"
Wireless	128,374,512	1	128,374,512	128,374,512	256,749,024	CTIA Survey
Dial-Up Internet	53,294,752	1	N/A	53,294,752	53,294,752	http://www.internetnews.com/isp-news/article.php/8_924691
>64 kb/s, < 1.544 Mb/s	1,515,200	2	3,030,400	3,030,400	6,060,800	Gartner Group, US Fixed Public Network Services Market Forecast, Table 1-1
>=1.5 Mb/s, < 45 Mb/s	76,600	5	383,000	383,000	766,000	Gartner Group, US Fixed Public Network Services Market Forecast, Table 1-1
>=45 Mb/s	18,600	40	744,000	744,000	1,488,000	Gartner Group, US Fixed Public Network Services Market Forecast, Table 1-1
Total QSCs			336,401,886	389,696,638	726,098,523	
Fund Size					6,000,000,000	
dial-around assessment					145,600,000	\$2 billion (extrapolation from TNS data) times 7.28% contribution factor
pre-paid card assessment					247,520,000	\$3.4 billion (2002 Atlantic/ACM Analysis) times 7.28% contribution factor
Residual for QSCs					5,606,880,000	
QSCs x 12					8,713,182,277	
QSC/month					\$0.64	

Worksheet 2 -- Derivation of FUSF Contribution Factors

<u>Input from USAC's Submission before the FCC for 3rd Qr 2002</u>	(\$ M)	Other Information:
3rd Qr Program Cost+RTF (\$36 M/Qr.)	\$ 1,541.4	<i>First Quarter Program Costs \$1,378.4</i>
Contribution Base (1st Quarter Revenue)	\$ 18,683.9	<i>First Quarter Contribution Base \$ 20,001.0 (revised FCC data)</i>
Circularity (USF Payments)	\$ 1,352.3	
Contribution Base w/o Circularity	\$ 17,331.5	
Factor Before Adjustments	8.98%	With 1% Uncollectibles
Program Cost Adjusted for Growth	\$ 1,538.6	* See Note Below
Contribution Base Adjusted for 3% Average Quarterly Decline Between 1st and 3rd Quarters	\$ 16,307.2	Assuming the 1st to 3rd Quarter Trend to Continue For 2 More Quarter
New Factor with Declining Base	9.53%	With 1% Uncollectibles
Program Cost Adjusted for Growth	\$ 1,538.6	* See Note Below
Contribution Base Adjusted for shifting to Collect&Remit (that eliminates the lag)	\$ 15,343.5	Assuming the Declining Revenue Trend to Continue That Will Result In Lower Collection Base
New Factor with Declining Base plus Collect&Remit	10.13%	With Uncollectibles (See NOTE#2)

*** NOTE # 1:**

- RTF Overlay of \$72 M gets included in next years base. As a result, annualized addition would be \$72 M (or \$18M/Quarter)
- The 3rd Quarter base, before RTF overlay, of \$1,505.4 includes ICLS which is expected to continue at the current rate
- Per above two information, continuing @ 1,541.4 M level may not be the right approach. However, overall Program Cost may grow mainly due to two reasons: 1) Household Growth; 2) ITCs are getting certified and claiming a piece of the pie
- Assuming above input, the new annualized program cost for 2003 would be, \$ 6,154.5 M $(((1,505.4*4)+72)*1.01)$

**** NOTE#2:**

- In the post-Collect&Remit environment traditional "uncollectibles" do not apply. However, 1% assumption is carried forward here as a conservative estimate under the new regime.

Worksheet 3 -- Estimating Incremental Impact of SLC Increases and USF Contribution Factor Changes on the LEC Per Line USF Charges for 2nd Quarter 2003 -Under Alternative Assumptions

	Primary SLC -- National Average	LEC per Line Charge -Current	%Change in SLC	Increase due to SLC Change	Assesment Factor - Current	Assesment Factor - Adjusted	Increase due to Factor Change	LEC per Line Charge - Adjusted
Current -- As of 2ndQuarter, 2002	\$ 4.81	\$ 0.51	0	0	0.0728	0.0728	0	\$ 0.51
Baseline -- 7/1/2002	\$ 5.66	\$ 0.51	17.73%	\$ 0.09	0.0728	0.0728	\$ -	\$ 0.60
Alternative 1: 2nd Qr, 2003	\$ 5.66	\$ 0.51	17.73%	\$ 0.09	0.0728	0.0953	\$ 0.13	\$ 0.73
Alternative 2: 2nd Qr, 2003	\$ 5.66	\$ 0.51	17.73%	\$ 0.09	0.0728	0.1013	\$ 0.16	\$ 0.76

Assumptions:	Factors:
Current with Factor Stabilization	0.0728
Alternative 1: Current Without use of Schools & Libraries Reserve	0.0953
Alternative 2: Current without use of S&L Reserve plus Collect&Remit	0.1013

Worksheet 4 -- Estimating Per Line USF Recovery from Wireless Subscribers in 2nd Quarter 2003-Under Alternative Assumptions

	Average End User Revenue* per Subscriber	Current Safe Harbor Percentage	Average Revenue Subject to FUSF	New Safe Harbor Percentage	Average Revenue Subject to FUSF -- NEW	Assessment Factor - Adjusted	Per Subscriber Recovery Rate for Wireless
Current -- As of 2ndQuarter, 2002	\$ 47.37	15.00%	\$ 7.11	15.00%	\$ 7.11	0.0728	\$ 0.52
Alternative 1: 2nd Qr, 2003	\$ 47.37	15.00%	\$ 7.11	15.00%	\$ 7.11	0.0953	\$ 0.68
Alternative 2: 2nd Qr, 2003	\$ 47.37	15.00%	\$ 7.11	15.00%	\$ 7.11	0.1013	\$ 0.72

* Source: CTIA's Semi-Annual Wireless Industry Survey Results, June 1985 - December 2001, Obtained from the CTIA Website, Average Monthly Bill as of December, 2001

Assumptions:	Factors:
Current with Factor Stabilization	0.0728
Alternative 1: Current Without use of Schools & Libraries Reserve	0.0953
Alternative 2: Current without use of S&L Reserve plus Collect&Remit	0.1013

Methodology for Determining Long Distance FUSF Charges Per Household

1. Using 3rd quarter 2001 TNS bill harvesting raw data and Microsoft Access, long distance FUSF charges were cross tabulated by 16 income groups, breaking out long distance FUSF charges into two subsets: those paying less than \$0.59, and those paying greater than or equal to \$0.59. The 3rd quarter data are from actual customer bills sent in to TNS that cover the period July 1 – September 30, 2001.
2. The sample size contained 6,743 respondents who provided their long distance bills to TNS, 3,752 of whom (or 55.7% of the total) were customers of MCI, AT&T, and Sprint.
3. Mediamark Research Incorporated is one of the leading market survey firms, widely used in the industry, with a representative respondent pool of more than 32,000 per survey. According to Mediamark Research Fall 2001 data, MCI, AT&T, and Sprint had 77.7% of the total long distance market share. Since other inter-exchange carriers are not as likely to have a line item for FUSF, or collect it at all, the TNS data understated FUSF charges. To correct for this, TNS data were weighted to reflect the proper market shares. That is, each bill for Big Three customers was given weight of more than one, and each bill for Non-Big Three customers was given weight of less than one.
4. The effect of applying the 77.7% market share weight was to yield a sample in which the total number of MCI, AT&T, and Sprint customers increased from 3,752 to 5,239, and the total number of Non-Big Three customers decreased from 2,991 to 1,504.
5. In addition, since Big Three customers on average have higher household incomes than Non-Big Three customers, it was necessary to adjust for this so that representation by the Big Three customers would be indicative of their share in each income group. To do this, we maintained the ratio of Big Three customers in each income level when the weights were applied. For example, income group 1, those earning less than \$7,500, had a raw count of 141 Big Three customers, or 3.8% of the total Big Three sample. To maintain the relative weight of income group 1 in the sample, 3.8% was multiplied by 5,239 (the total number of Big Three customers in the sample), to yield 197 Big Three customers in the under \$7,500 income group. The count of those Big Three customers in income group 1 with FUSF charges less than \$0.59 increased from 83 to 116, and those with FUSF charges greater than or equal to \$0.59 increased from 58 to 81. This was done for each income group.
6. The 16 income groups were then combined to form 5 similar-sized income groups: less than \$15,000, \$15,000 to less than \$30,000, \$30,000 to less than \$45,000, \$45,000 to less than \$70,000, and \$70,000+.

Methodology for Determining the Number of Wireless and Wireline Connections Per Household

1. The TNS program MIRIAD and 3rd quarter 2001 TNS bill harvesting data were used to cross-tabulate total wireless and wireline connections per household by income group.
2. The sample size contained 8,100 total respondents, 4,643 of whom (or 57.3% of the total sample) were customers of MCI, AT&T, or Sprint.
3. According to Mediamark Research Incorporated Fall 2001 data, MCI, AT&T, and Sprint had 77.7% of the total long distance market share.
4. Applying the 77.7% market share weight as described above, the total number of MCI, AT&T, and Sprint customers in the sample increased to 6,294, and the total number of Non-Big Three customers decreased from 3,457 to 1,806.
5. Each income group was then weighted to take into account that Big Three customers tend to be higher income than Non-Big Three customers. For example, income group 1, those earning less than \$7,500, had an initial raw count of 170 Big Three customers, or 3.7% of the total Big Three sample. To maintain the relative weight of income group 1 in the sample, 3.7% was multiplied by 6,294, yielding 230.
6. The 16 income groups were then combined to form 5 similar-sized income groups: less than \$15,000, \$15,000 to less than \$30,000, \$30,000 to less than \$45,000, \$45,000 to less than \$70,000, and \$70,000+.

Methodology for Determining Percentage of Households Presubscribed to IXC's

1. Third quarter 2001 TNS survey raw data and Microsoft Access were used.
2. There were 32,930 total respondents to survey question 1: "Does your household have/use/subscribe to long distance?"
3. Using Microsoft Access, the respondents were segmented by income group and answer types.
4. To achieve proper representation within each of the 16 income groups, the weights that TNS applies to each individual respondent in the TNS database to make them nationally representative were applied. These weights, representing an algorithm based on several key demographic factors, provide a composite weighting scale of those demographic factors and are available within the TNS database. For example, if the percentage of households with income below \$7,500 were 5%, but the percentage of households in the TNS database with income below \$7,500 were 8%, then the weight assigned to those low income households would be less than one.
5. The 16 income groups were then combined to form 5 similar-sized income groups, as occurred when determining the long distance FUSF charges.

Methodology for Determining Percentage of Households with Internet Access

1. Third quarter 2001 TNS survey raw data and Microsoft Access were used.
2. There were 32,930 total respondents to survey question 27: "If your household has a computer, which of the following types, if any, Internet access does your household currently have?" Households that checked off multiple access types – e.g., DSL and cable modem – were reported as having multiple connections.
3. Using Microsoft Access, the respondents were segmented by income group and answer types.
4. To achieve proper representation within each of the 16 income groups, the weights that TNS applies to each individual respondent in the TNS database to make them nationally representative were applied. These weights, representing an algorithm based on several key demographic factors, provide a composite weighting scale of those demographic factors and are available within the TNS database. For example, if the percentage of households with income below \$7,500 were 5%, but the percentage of households in the TNS database with income below \$7,500 were 8%, then the weight assigned to those low income households would be less than one.
5. The 16 income groups were then combined to form 5 similar-sized income groups, as occurred when determining the long distance FUSF charges.