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August 12, 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, Ann Rakestraw and the undersigned, met with Jordan Goldstein of Commissioner Copps' 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: Jordan Goldstein

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.

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How would the collect and remit proposal work?

Current process

1. On Form 499, all providers of interstate telecommunications services report their gross billed interstate revenues for each quarter. The amount billed to recover contributions is reported on an annual basis.
2. The Universal Service Administrative Company (USAC) projects the funding need for the next quarter of the year.
3. The FCC establishes the contribution factor for the next quarter by dividing the projected funding need by the total industry interstate revenues from the past quarter of the year (including a 1% carrier uncollectible adjustment). The current factor is 7.28%.
4. This results in a contribution factor that is assessed on a six-month time lag. For example, the gross billed interstate revenues for the first quarter of the year are reported in the second quarter. The anticipated funding need for the third quarter is also developed during the second quarter. A contribution factor for the third quarter is calculated by dividing the projected funding need by the total industry interstate revenues from the first quarter. This contribution factor is used by firms to develop a charge that is billed in the third quarter.
5. Contributing firms develop their next quarterly contribution charge assessed upon their customers by considering: whether their revenues are increasing or decreasing; their uncollectibles; administrative expenses associated with billing, collecting and remitting monies to the administrator; and other factors (*e.g.*, their projection of billable units during the next quarter).
6. In some cases, these adjustments have resulted in billing an amount that is substantially different than the contribution factor published by the FCC.

Verizon's proposal

1. Form 499 would be revised to require interstate telecommunications service providers to report net interstate revenues actually received from customers (not including the amount that recovers the providers' contributions to the federal universal service fund), rather than gross billed interstate revenues.
2. Each quarter, all providers of interstate telecommunications services would report the net amount of interstate revenues received from their customers (not including the amount that recovers the providers' contributions to the federal universal service fund) during the previous quarter on the revised Form 499.
3. USAC would project the funding need for the next quarter of the year.
4. USAC would incorporate both carrier and end user uncollectible factors, and would project total industry interstate revenues that would actually be received by contributing telecommunications firms for the next quarter. This projection would use statistical methods similar to those successfully used by the FCC staff and by NECA. This projection would be reasonably accurate at the start, and would become more so as additional data points become available and more experience is gained.
5. The FCC would develop the contribution factor for the next quarter by dividing the projected funding need by projected total industry interstate revenues to be collected from consumers.
6. Firms would develop their charge to customers based upon the contribution factor. This charge could be developed as either the published contribution percentage times the monthly interstate charge on the individual bill, or as a flat monthly amount reasonably reflecting the average interstate charges for a class of customers, such as single line residential and business customers. (Verizon uses the latter approach because it is more stable and predictable for consumers, and costs less.)
7. As today, contributing firms would be able to mark up the contribution factor by a small amount to reflect administrative expenses solely related to billing, collecting and remitting to the fund administrator. This administrative markup should be limited to a "safe harbor" amount (typically 1% to 3% in state programs). The FCC would develop the administrative "safe harbor" level and could require contributing firms to justify any administrative mark up above the "safe harbor" level.
   - Because the contribution factor already reflects net revenues, there is no need for an uncollectible markup.
8. Firms that add a contribution charge to their bills would label it to alert consumers that it represents recovery of contributions to the federal universal service program. Typical line item labels would include: "Federal Universal Service Contribution," "Federal Universal Service Fee," or "Universal Connectivity Fee."
9. Contributing firms would remit to the fund administrator an amount equal to the contribution percentage times their actual interstate revenues for a quarter (not including the amount that recovers the firm's contributions to the federal fund). This means a firm could choose to not charge a customer for competitive or other reasons, but would still have an obligation to provide contribution for that customer's interstate revenue amount.
   - Because the administrative safe harbor amount would be the only mark up permitted, firms would not be able to make up from some customers amounts not charged to other customers.
   - Because contributions for each firm are based on their current revenues, there is no need for contributors to adjust their charges to customers for declining or increasing revenues.