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October 9, 2002

VIA ELECTRONIC FILING

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 - 12th Street, S.W., Room TW-A325
Washington, D.C. 20554

Re: *Notice of Ex Parte Presentation*
Universal Service Contribution Methodology (CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, and NSD File No. L-00-72).

Dear Ms. Dortch:

This is to advise you that, on October 8, 2002, Anne E. Hoskins, Regulatory Counsel, Verizon Wireless, and the undersigned, met with William Maher, Chief, Wireline Competition Bureau; Carol Mattey, Deputy Chief, Wireline Competition Bureau; Eric Einhorn, Acting Chief, Telecommunications Access Policy Division, Wireline Competition Bureau; and Rose Crellin of the Wireless Telecommunications Bureau, Commercial and Private Wireless Division. The topic of the meeting was the above-referenced universal service contribution methodology proceeding.

In addition, on October 9, 2002, Anne Hoskins of Verizon Wireless sent a follow-up email to Carol Mattey addressing the potential allocation of USF contributions according to number assignment. That email pointed out that the FCC considered a per-number cost recovery mechanism in the context of local number portability (LNP) cost recovery and rejected it – in a context where it is arguably more relevant.[1] The Commission reached the same conclusion regarding the shared industry costs of number pooling administration.[2]

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1 *Telephone Number Portability,* CC Docket No. 95-116, Third Report & Order, FCC 98-82, 13 FCC Rcd 11701 (1998).

2 *Numbering Resource Optimization,* CC Docket No. 99-200, Report & Order and Further Notice of Proposed Rulemaking, FCC 00-104, 15 FCC Rcd 7574 (2000).

The email further observed that the Commission also considered and rejected per-number charges to fund NANP administration.[3] There, the FCC determined not to use per-number charges because they "would be inequitable, as they may fall disproportionately on the fastest growing users of numbers such as wireless service providers. Additionally, implementing a system of per-number charges would require additional record keeping and accounting to establish each entity's charge, leading to an additional administrative level." The FCC affirmed this basic approach following the 1996 Act, which establishes a "competitive neutrality" requirement for the recovery of numbering administration costs under section 251(e)(1), but modified the original mechanism slightly to ensure that only "telecommunications carriers" as defined by the statute are required to contribute, and only based on telecom revenues net of revenues from other carriers, to avoid inequitable double-counting.[4] The email pointed out that, in each case, the Commission explicitly considered a per-number basis for collecting the costs of various forms of numbering administration and determined that revenue-based recovery was more appropriate.

The materials that Verizon Wireless used in the meeting are attached. Consistent with the Commission's Rules, this letter is being filed electronically in each of the above-referenced dockets.

Respectfully submitted,

WILKINSON BARKER KNAUER, LLP

By: /s/
L. Charles Keller

cc: William Maher
Carol Mattey
Eric Einhorn
Rose Crellin

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3 *Administration of the North American Numbering Plan*, CC Docket No. 92-237, Report & Order, 11 FCC Rcd 2588 (1995).

4 *Implementation of the Local Competition Provision of the Telecommunications Act of 1996*, CC Docket Nos. 96-98 et al., Second Report and Order and Memorandum Opinion & Order, FCC 96-333, 11 FCC Rcd 19392 (1996).

UNIVERSAL SERVICE CONTRIBUTION METHODOLOGY

VERIZON WIRELESS

October 2002

Revenue-based Assessment is Equitable and Sustainable

- **CMRS carriers pay a significant share of the total USF burden.**
  - To reflect market changes, re-examine the safe harbor level and clarify its application; don't discard the safe harbor.

- **Wireless Carrier Traffic Studies**
  - CTIA data collection shows actual wireless share of interstate revenue in a range from 10% - 28.5%.
  - Studies shows that simplifying assumptions can be developed and that the safe harbor concept is sound. A revenue safe harbor is less complex than the proposed capacity-based equivalency ratios under a connection-based assessment.
  - As Verizon Communications has shown, a wireless safe harbor of 20% would yield a contribution factor below 10%. Broadening the contributor base would help even more.

- **IXC's USF "Death Spiral" is unsubstantiated.**
  - Revenue-based assessment automatically adjusts each carrier's contribution as its revenues change.
  - Migration of long distance minutes to wireless carriers doesn't seriously undermine total IXC revenue. Most wireless carriers re-sell IXC services to end-users.
  - Nothing requires the FCC to keep the contribution factor below 10%. A $1 assessment on a wireless customer who makes no or few interstate calls in a month yields a much higher effective assessment rate than 10%.

Adopting the CoSUS Proposal is Far Riskier to the Stability of the Funding Mechanism than Modifying the Existing System

- **CoSUS's failure to assess IXCs for their interexchange activity would violate section 254(d) by excluding a significant class of telecommunications carriers. Any connection-based proposal that allows IXCs to escape contributions for the bulk of their interstate revenues also is not equitable or non-discriminatory.**
  - By contrast, the current mechanism's incidental exclusion of pure "carriers' carriers" is inconsequential.

- **The CoSUS approach will result in its own type of "death spiral," requiring residential, single-line business, and wireless connection assessments well above $1 to avoid excessive residual MLB contributions.**
  - Based on current FCC data, $1 assessment would result in an untenable residual contribution requirement of nearly ***$5*** *per MLB line* – even without discounting for Centrex lines (see attached chart).
  - Future growth in the fund would only exacerbate this connection-based "death spiral".
  - Even CoSUS acknowledged the $1 level is untenable by objecting to the Joint Board's proposed temporary freeze at that level.
  - At higher per-customer amounts, the regressive nature of a per-connection mechanism becomes more severe.

The CoSUS Proposal is Too Complicated to Implement by March 2003

- **Even CoSUS member AT&T warns that it may not be possible to implement such a radical change to the collection methodology by March 2003. Sprint expresses similar concerns.**
  - Inequitable and anti-competitive to require wireless carriers to implement a dramatic change to their assessment and collection methodology while providing additional time to the IXCs who proposed the per-connection plan and claimed it was "simple."
- **Significant questions remain about the details of how CoSUS could be implemented, e.g.:**
  - How will the residential, single-line business, and wireless assessment amount be determined from year to year?
  - How will pre-paid wireless handsets be assessed?
  - How will paging units be assessed fairly?
  - How will the Commission and/or carriers handle the enormous re-education effort to minimize consumer confusion and backlash?
- **In light of all these issues, it would be arbitrary to determine on the current record that the CoSUS proposal is equitable and non-discriminatory.**

An Assessment Methodology that Substantially Increases the Wireless Industry's Share of the Total USF Burden, while Substantially Decreasing the IXC Industry's Share, Would Be Inequitable and Discriminatory

- **Section 254 requires that *carriers* (not customers) be assessed on an equitable and non-discriminatory basis.**

- **Wireless carriers, with highest total number of connections, would become the industry segment contributing the most under CoSUS, yet IXCs have far greater interstate activity.**

- **To be equitable, the assessment methodology should reflect differences among carriers' amounts of interstate revenues.**

  - Because IXCs continue to benefit from the largest amount of end-user interstate revenues, they should bear a proportionate share of the contribution obligation.

  - On a per-line basis, wireless revenues are much lower than landline (i.e., combined LEC and IXC) revenues.

- **Given wireless revenue levels and proportion of interstate revenue, the record does not support moving to a per-connection charge of $1 or more. At that level, the charge would either be inequitable and discriminatory (by assessing a greater share of wireless carriers' revenues – both interstate and total), or illegal by assessing wireless intrastate services and revenues in contravention of *Texas Counsel*.**

Assessing a $1 or More Monthly Charge on Each Wireless Handset Will Suppress Demand for Wireless Service and Provide a Competitive Advantage to IXCs

- **Actual assessment rate is likely to exceed the much-cited “$1” figure. (See attached chart re CoSUS; BellSouth/SBC proposal is likely to result in higher assessments by attributing two or more “QSCs” to wireless).**

- **A $1 monthly assessment would more than double the percentage paid by Verizon Wireless’ customers. Higher assessment amount would further increase the effective assessment rate.**

- **Other agencies at all levels of government also are adding new taxes on CMRS carriers to pay for telecom and non-telecom related programs and initiatives.**

  - Average tax/assessment rate on Verizon Wireless customers is approximately 18%. Existing taxes and assessments convert a $40 monthly plan into a $47 monthly plan.

  - Increased tax burdens will price moderate income customers out of plans that offer large buckets of minutes—thereby undermining wireless carrier competition with IXCs.

  - Customers care about relatively small increases in fees. Missouri voters recently defeated a referendum for a surcharge of 50 cents per month to support wireless 911 services.

  - Rural carriers and IXCs are advocating for new intrastate USF programs, which will reduce access charges paid by IXCs and impose new assessments on wireless carriers.

The CoSUS and BellSouth/SBC Proposals Would Impose Disproportionate Per-Connection Assessments on Wireless Carriers

- **The SBC/BellSouth proposal is infirm because the FCC has held repeatedly that CMRS is a single, integrated service. The FCC cannot impose multiple assessments on CMRS for provision of an integrated service.**

- **The proposed per-handset collection discriminates against wireless carriers in favor of wireline carriers.**

  - Wireless carriers cannot reproduce the convenience of a landline extension in every room without multiple phones ("connections"). Wireless "family plans" seek to reproduce this convenience, but would face significantly greater tax burdens than comparable wireline services.

  - The existing per connection proposals would penalize wireless customers who maintain multiple phones for low use emergency or family purposes.

  - Both CoSUS and SBC/BellSouth would discount the assessment on Centrex multiple lines for a single customer. Wireless customers deserve similar treatment.

Recommendation:

Reject calls from IXCs and other industry sectors to eliminate or reduce their contribution obligations.

Stabilize the Fund by revising the wireless safe harbor and adopting administrative adjustments to the revenue-based system by year-end (e.g., decrease the lag.)

The Commission needs additional time to examine options for broadening the base of contributors, and if warranted, to consider alternative systems that are equitable and non-discriminatory, as required by statute.

VERIZON WIRELESS
ILLUSTRATIVE RESULTS USING FCC DATA FOR ACCESS LINE COUNTS AND FUND REQUIREMENTS
COMPUTATION OF MLB PRICE AND SUSTAINABILITY
Per Unit MLB Price

Funding Source	**USF Rating Category**	**Line Units**	**Monthly Rate**	**Annual $s**
USF Fund Size				**6,345,668,000** (h)
Category (a) units				
ILEC Residence Lines	(a)	111,181,802 (d)	assume $1	1,334,181,624
ILEC SLB Lines	(a)	3,329,973 (d)	assume $1	39,959,676
CLEC Res. & SLB (j)	(a)	7,793,071	assume $1	93,516,852
Lifeline	-(a)	-6,026,611 (c)	assume neg. $1	-72,319,332
Wireless	(a)	128,375,000 (e)	assume $1	1,540,500,000
Pagers	(a)/4	18,000,000	assume $0.25 (g)	54,000,000
Total Units		262,653,235		
Total Weighted Category (a) units		249,153,235		2,989,838,820
Residual Funding Requirement				3,355,829,180
Category (b) units (Residual)				
Business Lines				
ILEC Analog Multi-line	(b)	38,099,775 (d)		
ILEC Digital	(b)	11,913,954 (d)		
CLEC MLB (j)	(b)	8,250,938		
Total Category (b) units	(b)	58,264,667	4.80 (i)	3,355,829,180
Total Collected				**6,345,668,000**

(a) Assumes a $1.00 per-connection assessment for residential, single-line business, and wireless voice connections.
(b) Residually determined per-unit price.
(c) Source: FCC *Statistics of Communications Common Carriers* (Sept. 2002) at Tbl. 2.16.
(d) Source: *Id.* at Tbl. 2.4. (Residential Line count includes payphone lines.)
(e) Source: FCC *Seventh CMRS Competition Report* (July 2002) at C-2, Tbl. 1.
(f) Source: *Id.* at 65.
(g) This chart conservatively uses CoSUS's proposed $0.25/pager assessment without expressing approval for its appropriateness.
(h) Source: FCC 4Q02 *Contribution Factor Public Notice*.
(i) Assumes no reduction for Centrex lines.
(j) Source: FCC *Local Telephone Competition: Status as of June 30, 2001* (Feb. 2002) at Tbl. 2.