The Coalition for Sustainable Universal Service (CoSUS)
Proposal for Universal Service Contribution Reform

Key Elements of the CoSUS Proposal for Connection-Based Contribution.

- Every telecommunications carrier and private carrier pays universal service contributions based on the number of interstate or international connections to a public network that it provides to end users.
- Contribution per connection varies based on customer class and capacity. For the final plan (implemented one year after release of an FCC Order), initial assessment rates are:
  - Lifeline connections are exempt.
  - Residential, single line business or non-paging CMRS (i.e. cellular, PCS, and digital SMR) connections are one-third of Tier One multiline business.
  - Paging connections are one-fourth of the residential/single line business/non-paging CMRS assessment rate.
  - Multiline business (non-Centrex switched, special access and private line) connections are:
    - Tier One (less than 1.544 Mbps) of $X (estimated $3.25-$3.50).
    - Tier Two (1.544 Mbps but less than 45 Mbps) of 5 times Tier One.
    - Tier Three (45 Mbps or greater) of 40 times Tier One.
    - Centrex is one-ninth of Tier One.
  - Once the initial, non-transitional rates are set, all assessment rates change in uniform proportion to reflect increases and decreases in fund size and contribution base.
- Carriers pay contributions on a "collect-and-remit" basis.
- The carrier with the end user customer relationship remits the contribution assessment.
- Transition Plan (from April 1, 2003 until the final plan is implemented):
  - Residential and non-paging CMRS connections are initially assessed $1.00 per connection.
  - Business services (including single line business) and paging continue to be assessed on a percentage of interstate and international revenue basis, with the initial percentage determined on a residual basis, after netting out residential and non-paging CMRS contributions.
  - During the transition, both the residential/non-paging CMRS connection assessment and the percentage of interstate and international revenues are adjusted quarterly by the same proportions (up or down) as necessary to generate necessary universal service support.

Reform of the Current Interstate Revenues-Based Mechanism is Necessary.

- The contribution base of end user interstate and international telecommunications revenues is rapidly shrinking, not growing. The quarterly contribution base has dropped nearly 19% from its peak (from a high of $20.96 billion to $16.98 billion for 4Q 2002 – averaging an over 2.5% drop per quarter). NECA-reported interstate access minutes are also declining quarter-over-quarter.
- Reporting lags make the current system discriminatory against carriers with declining market shares.
- The wireless "safe harbors" and partial international exemption render the current system discriminatory, especially as between wireless and wireline providers of long distance services, and pure play international carriers and other international carriers.
- The current system cannot adequately address bundled offerings, which are increasing (e.g., wireless “all distance” plans, MCI Neighborhood).

With the Revised Transition Plan, the CoSUS Proposal Can Be Implemented Immediately.

- The transitional phase of the CoSUS proposal uses information currently collected by carriers providing residential and wireless service. Providers then have another year to develop systems to track and bill capacity-based charges for business connections.
- Residential and wireless connection providers (i.e., LECs and wireless carriers) already have a line item for universal service recovery, so billing systems changes other than changes in the amount of the recovery charge are not needed.
- The CoSUS proposal can be implemented without deciding whether "facilities-based" ISPs should contribute to universal service. However, the CoSUS proposal does not mechanically foreclose contribution by "facilities-based" ISPs.

The CoSUS Proposal Is Efficient and Cost-Effective.

- By collecting assessments for any customer connection at only a single point (the connection service provider), transactions costs are minimized.
- Intermediate service providers (e.g. IXCs and ISPs) do not routinely collect information on end user connection line type, capacity and Lifeline status.
  - Creating mechanisms to transmit that information from connection providers to intermediate carriers in a usable and auditable form is expensive, as experience implementing the PICC shows.
  - The PICC applied only to price cap carriers, not to the 1300 rate-of-return ILECs. Cost will be higher and implementation difficulties greater for rate-of-return ILECs.
- Keeping universal service assessment straightforward and minimizing transactions costs benefits consumers. Transaction costs are deadweight losses.

The CoSUS Proposal's Impact on Residential Consumers.

- Lifeline consumers pay no universal service recovery fees to local or long distance carriers for their Lifeline connection.
- Residential consumers across all income groups will pay less, on average, in universal service recovery fees, than under a continuation of the current revenue-based system, including second lines and wireless connections.
- Universal service recovery fees will be more understandable and more uniform for similar services.

The CoSUS Proposal is Statutorily Permissible.

- Every interstate telecommunications carrier will contribute according to the same equitable and non-discriminatory formula.
  - Section 254(d) prescribes a process.
  - Only *de minimis* carriers will pay no contribution.
  - Most historical IXCs provide end user connections (special access and private line), and this will become increasingly true with bundled local service offerings.
- Section 254(d) does not require a revenue-based assessment, and current rules do not assess all of a carrier's interstate revenues (e.g. interstate access is not assessed). The current system is discriminatory and unsustainable, and thus cannot lawfully be continued.
- An interstate connection-based assessment does not violate Section 2(b); it is not an assessment on intrastate service, just as the SLC is not an intrastate rate. *See NARUC v. FCC*.