

Universal Service Contribution Reform

Coalition for Sustainable Universal
Service (CoSUS)

October 21, 2002

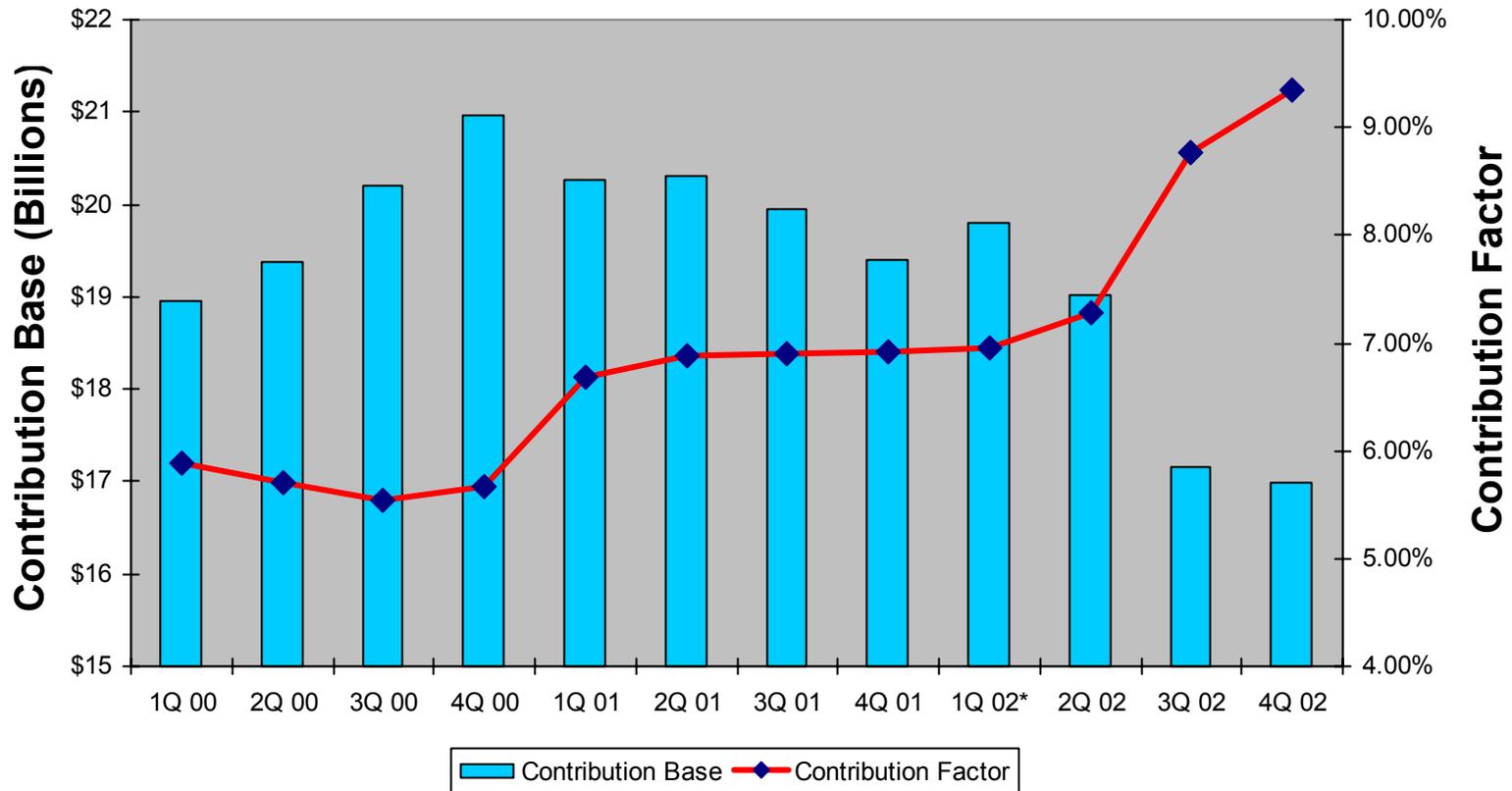
Goal

- Collect universal service contributions in a manner that is:
 - Sustainable
 - Competitively neutral
 - Minimizes transactions costs (paid by consumers in the end)
 - Legal.

Revenues-based system – Broken and Now Unlawful

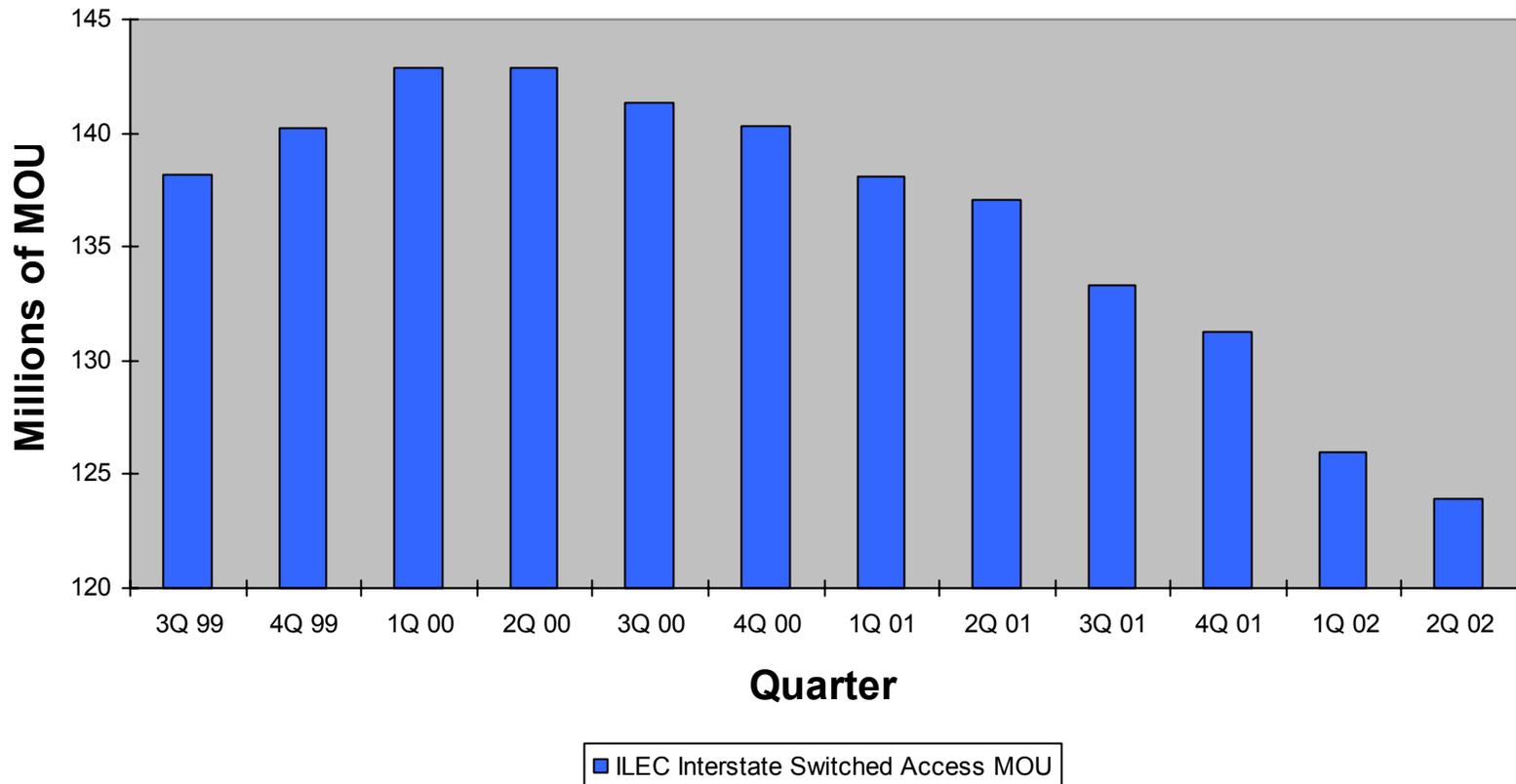
- Declining interstate revenues will continue and accelerate.
- Changing the wireless safe harbor won't halt the decline.
- Wireless safe harbor and partial international exemption are discriminatory.
- Reporting lags are discriminatory.

Contribution Base and Factor (1Q 2000 – Present, 1Q 2002 Corrected)



* Contribution Base and Contribution Factor for 1Q 2002 are recalculated using end user interstate and international revenues as reported in Telecommunications Industry Revenues 2000, Table 14.

ILEC Interstate Switched Access MOUs



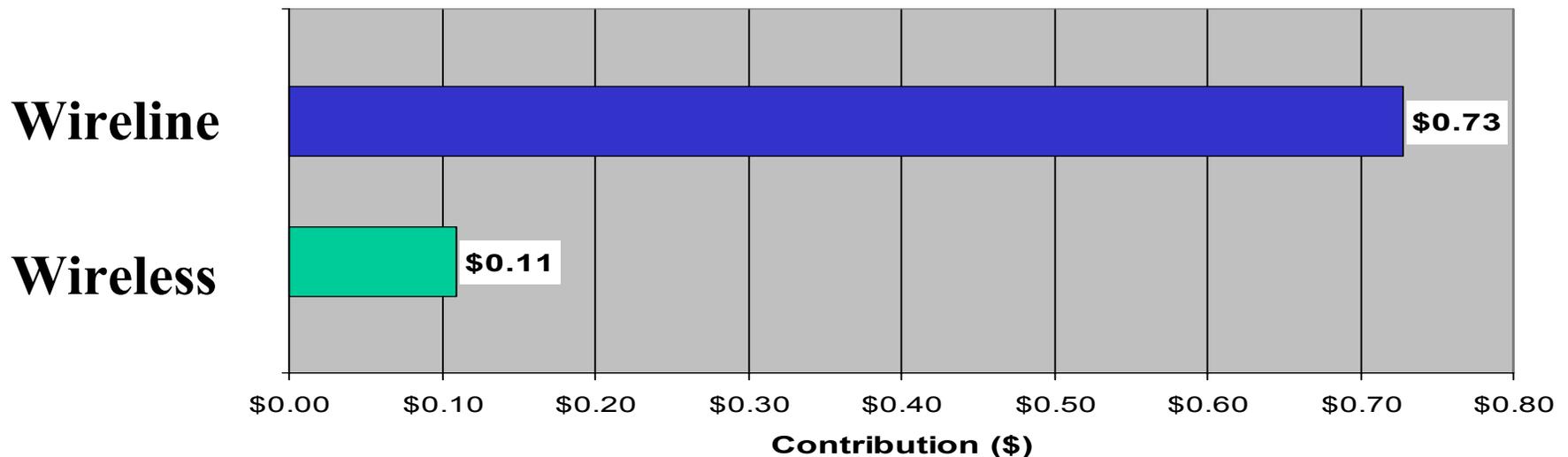
What is an “Interstate Telecommunications” Dollar?

“Any distance” packages (flat-rate or bundle of minutes) may include:

- Local (telecom.)
- Intrastate LD (telecom.)
- Interstate LD (telecom.)
- Voicemail (info. service)
- Text messaging (info. service)

Wireline v. Wireless LD Today – A Discriminatory Result

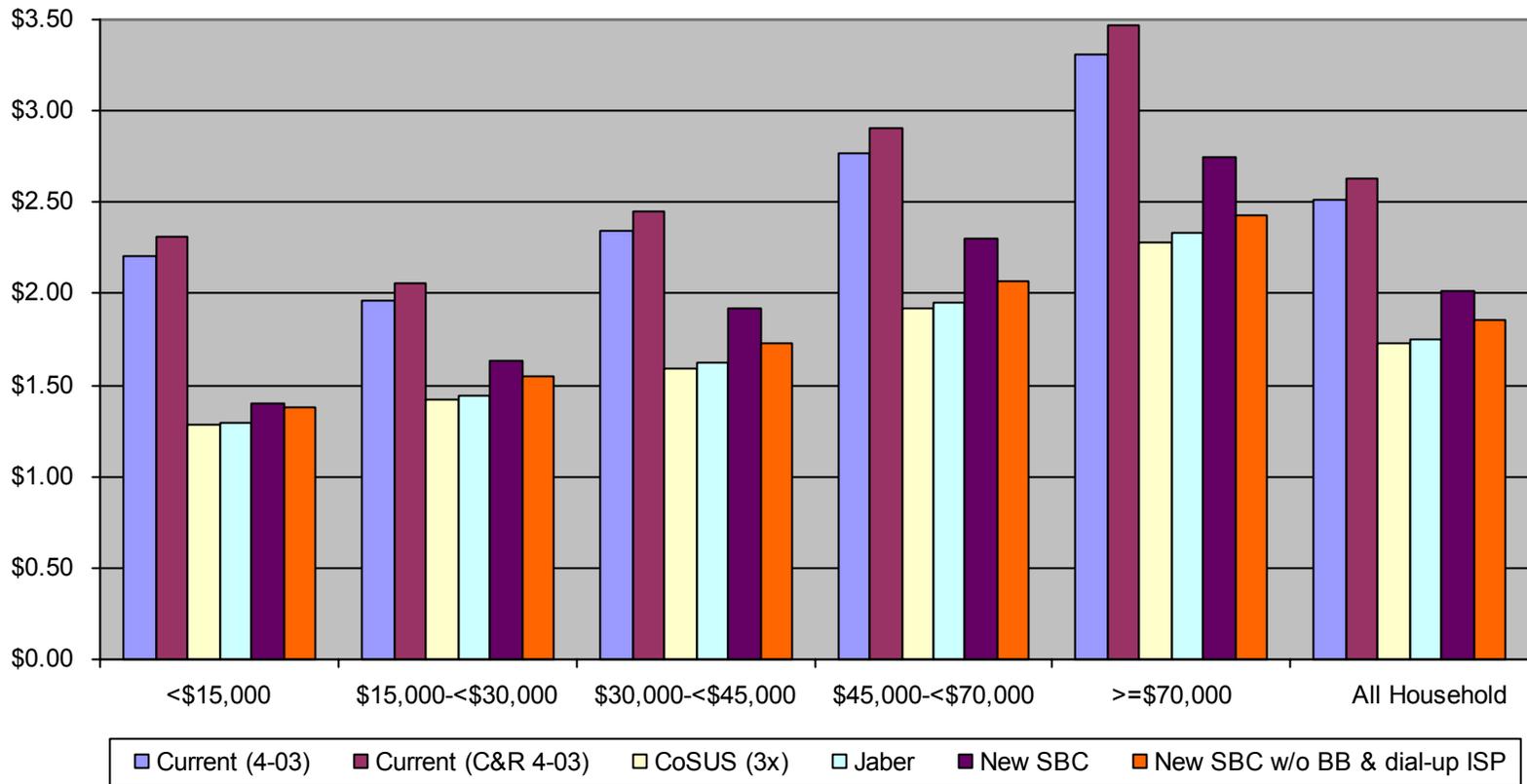
If a customer spends \$10 to buy minutes used for interstate long distance, how much gets contributed to USF today?



CoSUS – The Best Connection Approach

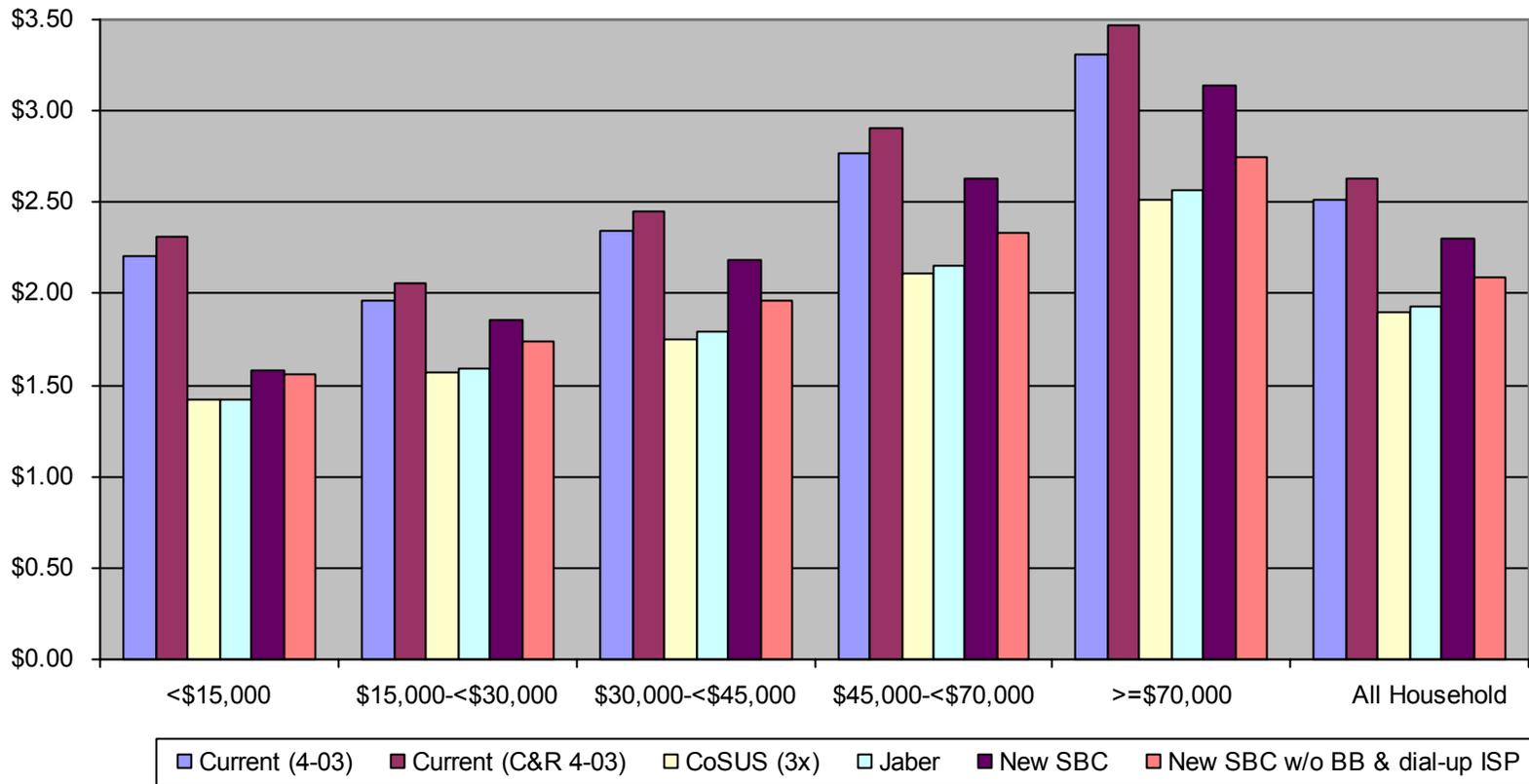
- Straightforward and Sustainable – Every user must have a connection to the network.
- Minimizes transaction costs – Collects USF contribution at a single point, the network connection.
- Legal – Satisfies 254(d), and does not violate 2(b).

Household Impact – Status Quo v. Connection Proposals*



* Estimates for connection proposals do not include possible carrier mark-ups

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Other Connection Proposals Don't Work

- Jaber
 - Not competitively neutral.
 - Accounts fee difficult to implement due to unbillables and uncollectibles; doesn't make sense for business accounts.
- SBC/BellSouth
 - Unnecessary complexity raises transaction costs (and therefore consumer bills).
 - Difficult to implement due to unbillables and uncollectibles, and IXC lack of information about type of end user network connection.

Residential Freeze Would Harm Universal Service

- Largest increases in contribution factor resulted from *Commission* orders to fulfill universal service policies.
- Freezing residential contributions means any future policy changes are borne by small base of users.

Change is Needed April 1, 2003

- CoSUS Transition Plan – Begin residential and non-paging wireless connection charges April 1 @ \$1.00 per connection. Residual percentage of revenue assessment for all business and other wireless services. Proportionate adjustments thereafter.
- Project contribution factor will be over 9.5% by April 1, 2003, and increasing.
- Discrimination from reporting lags and wireless safe harbor is unlawful and causes ongoing harm to competition.