

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of)	
)	
Federal-State Joint Board on)	CC Docket No. 96-45
Universal Service)	
)	
1998 Biennial Regulatory Review – Streamlined)	
Contributor Reporting Requirements Associated)	CC Docket No. 98-171
With Administration of Telecommunications)	
Relay Service, North American Numbering Plan,)	
Local Number Portability, and Universal Service)	
Support Mechanisms)	
)	
Telecommunications Services for Individuals)	CC Docket No. 90-571
with Hearing and Speech Disabilities, and the)	
Americans with Disabilities Act of 1990)	
)	
Administration of the North American)	CC Docket No. 92-237
Numbering Plan and North American)	NSD File No. L-00-72
Numbering Plan Cost Recovery Contribution)	
Factor and Fund Size)	
)	
Number Resource Optimization)	CC Docket No. 99-200
)	
Telephone Number Portability)	CC Docket No. 95-116
)	
Truth-in-Billing and Billing Format)	CC Docket No. 98-170

**COMMENTS OF VERIZON ON PETITIONS FOR RECONSIDERATION
AND CLARIFICATION**

Michael E. Glover
Edward Shakin
Of Counsel

Lawrence W. Katz
c/o Verizon
1515 North Court House Road
Suite 500
Arlington, Virginia 22201-2909
(703) 351-3175

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Counsel for the Verizon
telephone companies

COMMENTS OF VERIZON¹ ON PETITIONS FOR RECONSIDERATION AND CLARIFICATION

No party disagrees with the Commission's policy finding that carriers should be permitted to recover from their customers no more than their costs for universal service contributions. The petitions for reconsideration and clarification address only the method of implementing that policy, which is to be in effect from April 1, 2003, until the Commission decides what, if any, going-forward changes should be made to the universal service contribution mechanism. The petitioners principally ask the Commission (1) to ensure that they are, in fact, able to recover all of their legitimate universal service contributions (including their administrative costs) and (2) to allow them to avoid the need to make *seriatim* changes to their billing systems. These requests are fully consistent with the Commission's universal service recovery policy. *See Report and Order and Second Further Notice of Proposed Rulemaking*, FCC 02-329, ¶¶ 19-65 (rel. Dec. 13, 2002) ("Report and Order & 2d FNPRM").

USTA, for example, asks that carriers be permitted to average among customers the administrative costs associated with universal service, universal services charges associated with Centrex service, and certain other miscellaneous charges that otherwise could not be recovered from customers under the new requirements.² Petition of the United States Telecom Association

¹ This filing is made on behalf of the Verizon telephone companies and affiliated long distance companies (collectively, "Verizon"). The Verizon telephone companies are the affiliated local telephone companies of Verizon Communications Corp. These companies are listed in the Attachment. The Verizon affiliated long distance companies participating in this filing are Bell Atlantic Communications, Inc., d/b/a Verizon Long Distance, NYNEX Long Distance Company d/b/a Verizon Enterprise Solutions, and Verizon Select Services, Inc.

² Verizon, SBC and BellSouth have also filed a limited waiver to allow them to average certain universal service charges pending reconsideration. Petition for Interim Waiver (filed Feb. 6, 2003).

for Partial Reconsideration and Clarification (filed Jan. 29, 2003) (“USTA”). USTA highlights significant competitive and administrative concerns for Verizon and other incumbent local exchange carriers. As USTA points out, unlike their unregulated competitors, the incumbents are unable to include universal service costs in rates of other services. In addition, they have the unique problem that Centrex would not be competitive with PBXs if Centrex customers were required to bear the full brunt of contribution charges without an “equivalency” adjustment. USTA properly asks the Commission to clarify that it intended to retain that adjustment for Centrex in the revised contribution mechanism that becomes effective on April 1, 2003. Such a clarification would bring the new mechanism into alignment with long-established Commission policy on this issue. As USTA demonstrated, the Commission has found that the equivalency ratio is needed in connection with non-cost contribution charges, including primary interexchange carrier charges, local number portability charges, and universal services, and it has proposed to extend that policy to the new contribution mechanisms that it has put forward in this proceeding. *See* USTA at 9-12. It would be inconsistent not to follow that policy in connection with the new assessment mechanism. Several parties filed informal comments raising similar concerns about the impact of the Report and Order on Centrex customers and asking that the Commission ameliorate that impact.³

In a similar vein, SBC asks the Commission to defer the requirement that no universal service line item may exceed the relevant interstate telecommunications portion of the

³ *See, e.g.*, Letter from John A. Heiden, President, National Centrex Users Group, CC Docket No. 96-45 (filed February 3, 2003); Letter from Ron Lutka, Department Manager – Telecommunications, U.S. Steel Corporation, CC Docket No. 96-45 (filed Feb. 13, 2003); Letter from Brett Young, Director of Engineering and Maintenance, Marquette General Hospital, CC Docket No. 96-45 (filed Feb. 5, 2003); Letter from Vic Federowski, John Crane, Inc., CC Docket No. 96-45 (filed Feb. 4, 2003).

customer's bill times the relevant contribution factor. It proposes instead that the Commission allow carriers to adopt a transitional mechanism to average their universal service costs among customer categories, pending a decision on adoption of a new contribution mechanism. Petition for Reconsideration of SBC Communications Inc. at 5-7 (filed Jan. 29, 2003). This could avoid both under-recovery of the contributions and multiple changes to the carriers' billing systems. Verizon Wireless and Nextel request similar relief for wireless carriers. *See* Verizon Wireless Petition for Reconsideration at 3-5 (filed Jan. 29, 2003), Nextel Petition for Reconsideration or Clarification at 4-7 (filed Jan. 29, 2003) ("Nextel").

While they demonstrate that wireless carriers have some implementation issues that differ from those of wireline carriers, those petitioners want changes only to the mechanism for implementing Commission policy, not to the policy itself, with which they concur. Like the wireline carriers, they simply want to avoid making expensive changes to their billing systems during the interim period while the Commission is considering an alternative mechanism. All of these petitions can reasonably be granted without any injustice to the Commission's policy.

AT&T states that its billing system, like Verizon's and others, is unable to calculate to six decimal places and asks that it be permitted to round the factor upward. AT&T Petition for Expedited Reconsideration and Clarification at 3-5 (filed Jan. 29, 2003).⁴ The billing problems AT&T raises can easily be solved if future contribution factors are limited to no more than three decimal places, in which case AT&T's request becomes moot.

Even on the subject of administrative cost recovery there is general agreement. USTA properly asks that carriers be given the right to average administrative costs as part of the

⁴ AT&T also sought a waiver to round contribution factors to accommodate its billing system pending a ruling on reconsideration. AT&T Petition for Interim, Limited Waiver at 4-5 (filed Feb. 12, 2003).

universal service charge to all customers to avoid incurring the wrath of customers by inserting yet another line item on their bills. *See* USTA at 5-8. Ad Hoc, which also addresses administrative costs, is not concerned about the method of recovery. It argues that carriers should not be allowed to recover more than their legitimate administrative costs and claims that those costs are quite low – no more than one per cent of their universal service contribution. While the analogies that Ad Hoc gives to the cost of collecting sales taxes and excise fees are not entirely on point, because, unlike those assessments, the universal service billing must be adjusted every quarter, Verizon agrees that the ongoing administrative costs of collecting and remitting universal service contributions under the current mechanism are not substantial.

Ad Hoc ignores, however, the most significant administrative costs associated with universal service. Those involve establishing and revising the billing and other systems needed to implement each *change* to the recovery mechanism. The changes adopted in the Report and Order, for example, require carriers to revamp their method of calculating universal service assessments, using projected revenues rather than booked past revenues but with subsequent true-ups against actual revenues. They also require contribution calculations to be made on each customer's interstate charges rather than being averaged within customer classes. The one-time costs of implementing these changes are not trivial – Verizon estimates they will take some 5,100 person-hours to accomplish – and carriers should have the right to recover those costs.

Moreover, the Commission is proposing to revamp the assessment mechanism completely to base contributions, at least in part, on connections rather than revenues. Report and Order & 2d FNPRM at ¶¶ 66-100. The systems work and other costs of changing to any

such new mechanism could be very substantial. Carriers should be able to recover those costs as well.⁵

By amortizing these one-time costs, carriers could recover them without significantly increasing universal service assessments. As USTA suggested, carriers could add an increment (such as 2%) to each customer's universal service assessment for a period of time until that carrier's implementation costs have been recovered. After that, the amount of the increment would drop to cover just the ongoing administrative expenses. *See* USTA at n.18.

The Commission has changed the base upon which contributions are assessed from past revenues to projected revenues, with an annual true-up. Report and Order & 2d FNPRM at ¶¶ 29-37. No party disagrees with use of projected revenues as the contribution base. NECA asks that the true-ups be performed each quarter, rather than annually, to limit the impact of what it terms the inevitable errors in forecasting. National Exchange Carrier Association, Petition for Reconsideration at 3-4 (filed Jan. 29, 2003) ("NECA"). The Commission should grant that request.

As NECA points out, annual true-ups may have been reasonable when contributions were based on actual accrued revenues, but forecasts will always be less accurate than actual revenues. *See id.* at 3. Given those inherent inaccuracies, waiting a full year before truing up projections will magnify the effect of forecasting errors. In addition, quarterly true-ups will provide a "more stable cash flow for universal service funding programs than a single annual true-up." *Id.* at 4. Quarterly true-ups will also help address concerns regarding the potential volatility of basing contributions on projected revenues. In addition, as NECA proposes, the Commission should

⁵ Depending on the mechanism the Commission adopts, ongoing administrative expenses could be higher than at present.

still retain annual true-ups based on actuals as reported on Form 499-A “to encourage contributors to continue to report actual revenue accurately.” *Id.*⁶

Use of quarterly true-ups will not impose any additional reporting requirements on carriers. This is because the carriers already must report actual historical revenue for each quarter on Form 499-Q. Such true-ups would, however, benefit the carriers by reducing the possible penalty they would incur after a full year of compounding any significant errors in their quarterly forecasts. It can reasonably be expected that the sum of the revenues reported on Form 499-Q would approximate that on Form 499-A, so any annual true-up amounts would be insubstantial.

The Commission should, however, deny AT&T’s requests for special relief in connection with what it terms “unbillables.” AT&T at 3-5. The Commission already addressed and denied AT&T’s request in the Report and Order & 2d FNPRM at ¶¶ 56-59, and AT&T has not provided any additional arguments that would warrant reconsideration. The fact is that billing and collection charges are unregulated, but are instead governed by inter-carrier agreements. If the carriers have a dispute regarding charges under those agreements, they should be resolved under the dispute resolution procedures in those agreements, not by regulatory action. Just because AT&T is unable to resolve disputes with certain carriers to its satisfaction does not make the charges amounts “unbillable,” as AT&T claims.

⁶ WorldCom asks that the first annual true-up not include the first quarter of 2003, because that quarter’s contributions are based on historical revenues, not projections. WorldCom, Inc., Petition for Reconsideration at 2-4 (filed Jan. 29, 2003). Grant of NECA’s petition that asks for quarterly true-ups would moot that request. In the event the Commission retains only annual true-ups, however, WorldCom’s request is valid and should be granted.

Accordingly, the Commission should grant the reconsideration petitions to the extent discussed herein but deny AT&T's request for relief for "unbillables."

Respectfully submitted,



Lawrence W. Katz
c/o Verizon
1515 North Court House Road
Suite 500
Arlington, Virginia 22201-2909
(703) 351-3175

Counsel for Verizon

Michael E. Glover
Edward Shakin
Of Counsel

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THE VERIZON TELEPHONE COMPANIES

The Verizon telephone companies are the local exchange carriers affiliated with Verizon Communications Inc. These are:

Contel of the South, Inc. d/b/a Verizon Mid-States
GTE Midwest Incorporated d/b/a Verizon Midwest
GTE Southwest Incorporated d/b/a Verizon Southwest
The Micronesian Telecommunications Corporation
Verizon California Inc.
Verizon Delaware Inc.
Verizon Florida Inc.
Verizon Hawaii Inc.
Verizon Maryland Inc.
Verizon New England Inc.
Verizon New Jersey Inc.
Verizon New York Inc.
Verizon North Inc.
Verizon Northwest Inc.
Verizon Pennsylvania Inc.
Verizon South Inc.
Verizon Virginia Inc.
Verizon Washington, DC Inc.
Verizon West Coast Inc.
Verizon West Virginia Inc.