

**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 |) | CC Docket No. 98-171 |
| Contributor Reporting Requirements Associated |) | |
| 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

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COMMENTS OF VERIZON¹

I. Introduction and Summary

The Commission is properly reexamining its universal service fund contribution methodology in light of the changes that are occurring and will continue to occur in the telecommunications industry. *See Federal-State Joint Board on Universal Service, Report and Order and Second Further Notice of Proposed Rulemaking, CC Docket No. 96-45, FCC 02-329, (rel. Dec. 13, 2002) (“Report and Order and 2d FNPRM”)*. The current system has generally worked well to ensure that “[e]very telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis” to the universal service fund the Commission establishes, although some inequities remain.² 47 U.S.C. § 254(d). However, the continued evolution of the industry may require adjustments to the universal service contribution mechanism to reflect emerging carriers and services, as well as new technologies and marketing techniques that result in services being offered in new ways.

As a result, the Commission needs to look at how such changes as the growth in bundling of multiple telecommunications services, increased use of Internet protocol (“IP”) technology for voice services, and intermodal competition for broadband services will affect universal service contributions in the future. But in doing so, it needs to ensure that the information on which it will base its determination is fully reliable and complete, that it has been given full public

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 Attachment A. 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 The most egregious inequity is the failure to treat cable television providers and local exchange carriers the same when they offer competing broadband services.

scrutiny, and that the impact on new and anticipated services has been fully explored. For example, the Commission must ensure that any new assessment mechanism does not influence product offerings or consumer purchasing decisions. Those decisions should be governed by the marketplace and should not be made to avoid regulatory costs. An important initial step in this process was the recent release for public comment of a staff impact study of the proposed alternative methodologies.³

Part and parcel of this effort is the need for the Commission to complete other pending proceedings, such as the broadband services inquiry, to determine if broadband services should contribute and how to eliminate the present disparity between treatment of competing service providers, and the investigation into whether certain telephony services that use IP technology should contribute. These decisions will narrow the variables to be modeled and better enable the parties and the Commission to evaluate the impact on consumers and contributors of each of the proposed alternative contribution mechanisms.

The result of this rigorous examination of all the inter-related issues that impact on this proceeding should be a sound contribution mechanism that will serve the industry, as well as the public, in the years to come.

II. The Commission Must Develop and Analyze All Relevant Data, Determine Impact, and Resolve Certain Outstanding Proceedings Before Adopting Any New Contribution Mechanism.

The Commission here is examining what, if any, changes need to be made to the current universal service contribution mechanism “to ensure the continued viability of universal service as the marketplace continues to develop.” Report and Order and 2d FNPRM at ¶ 66. The

³ *Commission Seeks Comment on Staff Study Regarding Alternative Contribution Methodologies*, Public Notice, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, NSD File No. L-00-72, FCC 03-31 (rel. Feb. 25, 2003) (“Staff Study Public Notice”).

Commission invites parties to submit the information needed to develop a comprehensive record and fully analyze the potential impact of each of the alternatives it is considering. It must ensure, however, that the information it receives is made subject to rigorous evaluation, both by other parties and by the Commission, to determine its reliability. Moreover, the Commission needs to make sure that the data it intends to use to substantiate any decision are fully reliable. A valuable initial step in this process was the recent release of the Staff Study Public Notice, which asks for comment on a staff impact analysis and invites commenters to provide their own “estimates, projections and data supporting or refuting the projections.” This will allow the Commission and interested parties to assess independently the reasonableness of the data and the resulting conclusions.

By contrast, where parties fail to place underlying data on the record, as has been the case in earlier phases of this proceeding, neither the Commission nor other interested parties can determine whether the claimed conclusions are as a result of selecting only favorable data for the underlying calculations or whether the data are even reliable. For example, although parties have argued whether or not the existing rules providing for a revenue-based contribution mechanism will be viable in the future, there is strong disagreement as to whether the revenue base for contributions will decline precipitously in the coming years so as to undermine that viability.

A critical precondition to development of the needed record is resolution of issues that are already before the Commission in separate proceedings. For example, in the Broadband Proceeding, the Commission is examining whether and to what extent broadband services should contribute to universal service.⁴ However it decides that issue, in order to be consistent with the

⁴ See *Comments Sought on Appropriate Framework for Broadband Access to the Internet Over Wireline Facilities; Universal Service Obligations of Broadband Providers*, Notice of Proposed Rulemaking, 17 FCC Rcd 3019 (2002).

statutory standard that contributions to universal service be “equitable and nondiscriminatory,” 47 U.S.C. § 254(d), it must treat all broadband providers and services the same.⁵ Thus the broadband services of cable operators and satellite and fixed wireless providers, including cable modem service, would be treated the same as those of telephone companies, such as digital subscriber line (“DSL”) service. Similarly, on petition of AT&T Corp., the Commission is examining whether certain interstate voice services that use IP telephony technology should contribute to the fund.⁶ These decisions will have a major impact on the size of the funding base. Therefore, until the parties know which services and service providers are going to contribute to the fund, there are simply too many variables that would need to be modeled to allow parties to submit a meaningful analysis of each of the proposed contribution alternatives. Once these proceedings are resolved, the Commission should solicit further comments showing how they impact upon the various contribution mechanisms under consideration.

In a similar vein, the Commission needs to look at the growth of “bundled” service offerings. It should ascertain what form such offerings are currently taking and what can be expected in the future. Then it must determine how readily service providers can isolate the revenue from the interstate portion of such offerings. If that is not always possible, it should examine whether “safe harbor” factors are usable for wireline services in the same way that the Commission has adopted (and, in the Report and Order, revised) such factors for wireless services. *See* Report and Order and 2d FNPRM at ¶¶ 21-22. If the interstate portion of bundled

⁵ Verizon has suggested that the Commission require contributions from broadband services, but only to the schools and libraries portion of the fund, because that portion can be used to purchase broadband services. Comments of Verizon, *Appropriate Framework for Broadband Access to the Internet Over Wireline Facilities; Universal Service Obligations of Broadband Providers*, CC Docket No. 02-3 at 43-45 (filed May 3, 2002).

⁶ *See AT&T Petition for Declaratory Ruling that AT&T’s Phone-To-Phone IP Telephony Services Are Exempt from Access Charges*, Public Notice, 17 FCC Rcd 23556 (2002).

revenues can readily be ascertained, the growth of bundled services should have little effect on the decision of whether a revenue-based mechanism will remain viable.⁷

The Commission must also predict universal service fund requirements, because the projected revenue needs may help determine the most equitable way to collect the needed funds. For example, it needs to decide how the continued evolution of the competitive telecommunications market will affect the size of the high-cost fund. It also must determine whether most schools and libraries have already installed the infrastructure they require, so that the need for this portion of the fund will decline, or whether they need substantial upgrades in the future that will require that part of the fund to remain at current levels. Similarly, the Commission must ascertain the future needs of rural health care providers.

Another issue affecting the decision here is the extent to which the existing rules have influenced product offerings and the public's purchasing decisions. Are services being offered today in a certain manner to avoid or minimize universal service contributions? If so, can or should the existing rules be modified to eliminate that effect, consistent with the statutory "equitable and nondiscriminatory" contribution standard?

By the same token, the Commission should take evidence to determine the impact of each of the alternatives proposed in the Notice on existing services and those that service providers currently intend to offer in the future. It needs to decide whether the proposal will artificially increase the cost of any service and thereby adversely affect demand, and, conversely, whether it will give one service or product an unfair price advantage over other competing services and

⁷ In an earlier submission, Verizon showed how the interstate portion of bundled offering could be identified, based on either actual usage or revenues, or on a market price analysis. *See* Letter from W. Scott Randolph, Verizon, to Marlene H. Dortch, Secretary, FCC, CC Docket No. 96-45 (filed Sept. 6, 2002). The applicable portion of that submission is attached.

products. For example, will it skew the cross-over price between a network service and customer premises equipment that can provide a similar function?

One important factor in selecting any new mechanism is the cost of implementation, both up front and on a continuing basis. It is important that service providers, and the public, not be burdened by extraordinary expenses and investment in changing from the present system to a new contribution mechanism. Therefore, the Commission is properly asking for estimates of the administrative costs of implementing each of the alternatives it is proposing. *See Report and Order and 2d FNPRM at ¶ 74.* In any event, all providers, including price cap carriers, should be permitted to recover their costs of implementing the new mechanism and their continuing costs of administering the program.

Likewise, the Commission must determine how much lead time will be required to implement each proposal. For example, what systems will need to be replaced, and what is the lead time to develop new systems? Although providers will need sufficient time to implement any new mechanism, some proposals may require so much time-consuming systems work that they are not practicable. The Commission should provide no less than one year for providers to implement any major change in the contribution mechanism, as it has proposed. *See id.* at ¶ 77.

Other issues that the Commission needs to examine before adopting a connection-based approach include whether the definition of “connection” is workable and all-inclusive. A definition that contains potential loopholes will simply spawn litigation and complaints and should be avoided. Related to that question is whether the four-tier approach to assessing contributions from multi-line businesses properly charges for services of various bandwidths. The answers will assist the Commission in refining its proposals.

III. Any New Mechanism Must Meet the Requirements of Section 254 and Have Minimal Impact on Product and Service Offerings.

In examining whether to replace the existing revenue-based contribution mechanism on a going-forward basis with one based in part on connections to the customer's premises, the Commission must be cognizant of statutory requirements. Section 254(d) requires that "[e]very telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the ... mechanisms established by the Commission to preserve and advance universal service." 47 U.S.C. § 254(d). Any connection mechanism adopted here must ensure that *all* providers of interstate telecommunications provide a nondiscriminatory share of contributions to the fund. This means that a mechanism must ensure that interstate providers that have no connections also contribute their fair share.

The three proposals in the Report and Order and 2d FNPRM contain suggested modifications from a pure connection-based approach that are intended to avoid running afoul of the Act, but the Commission must be confident that the level of contributions by non-connected providers are sufficient. These issues must be fully explored, as discussed below.

In addition, the Commission will need to examine how the Administrator would be able to audit a connection-based mechanism. Currently, the Universal Service Administrative Company ("USAC") can audit revenue-based contributions by comparing a carrier's claimed interstate revenues to other financial reports submitted by that carrier. There is no comparable record with which USAC would be able to compare carriers' connection counts to verify that the carrier paid the proper contribution.

Turning to the three per-connection proposals, the first would impose an initial connection charge of \$1.00 on residential, single-line business, payphone, and mobile wireless

connections, placing all of the residual contribution requirements on multi-line business customers based upon the bandwidth capacity of their telecommunications service (using a four-tier structure – *see* Report and Order and 2d FNPRM at ¶ 81). It would also impose a minimum annual contribution on all telecommunications carriers that provide interstate service, except those with *de minimis* interstate revenues. *See id.* at ¶ 75. This proposal requires several significant changes before the Commission considers adopting it.

First, it would be inequitable for multiline business customers to bear all of the residual costs of universal service, as proposed. *Id.* In adopting the interim contribution mechanism, the Commission took steps to ensure that all end users pay the same proportionate share of their interstate bills into the universal service fund.⁸ As a result, the current Commission policy is that all classes of users should contribute on a comparable basis. The Commission has not provided any justification for deviating from that policy when moving to a per-connection charge, but that could be the result of adopting this proposal. By fixing the single-line connection charge at \$1.00 (or any other specific amount), then placing all remaining costs on multi-line business customers, the Commission would be charging different classes of customers different amounts for their voice-grade equivalent connections. Depending on the size of the fund and number of single-line customers, multi-line customers could pay significantly different amounts than single-line customers for equivalent services.⁹ But, based on its existing policy, those amounts should

⁸ Beginning April 1, 2003, carriers are prohibited from charging any user more than the interstate portion of that user’s bill times the interstate universal service contribution factor then in effect. Report and Order and 2d FNPRM at ¶ 51.

⁹ The Commission has proposed a four-tier structure for determining the multiple of the voice-equivalent contribution rate that customers with various bandwidth services would pay. Report and Order and 2d FNPRM at ¶ 81. However, the voice-grade equivalent rate used for these tiers may differ from the rate paid by single-line customers, because it is based on residual contribution requirements.

be similar for similar services.¹⁰ Said another way, the aggregate universal service contribution requirements should be spread over both single- and multi-line customers. This would mean that the per-connection charge for a voice-equivalent should be calculated based on the total contribution need and should not be set in advance at \$1.00 for single-line customers, as proposed.¹¹

In an attempt to avoid running afoul of section 254(d) of the Act, the Commission proposes that providers of interstate telecommunications services that do not provide connections would contribute a minimum percentage of their interstate revenues, such as one percent. Report and Order and 2d FNPRM at ¶ 78. While it is necessary that non-connected providers contribute to the fund, it would appear that this small a percentage would not ensure that all interstate carriers contribute on an “equitable and nondiscriminatory basis,” as required. By paying on a per-connection basis, providers of interstate service that have local connections would pay a far higher percentage of their interstate revenues into the fund – likely at least seven per cent, as is now the case. In order to meet the statutory requirement, providers without connections should pay a percentage of their interstate revenues that is equivalent to that paid by providers with connections.¹²

There is also no justification for requiring providers with higher interstate revenues to pay a higher percentage of those revenues into the fund, as suggested in the Report and Order

¹⁰ The only exceptions should be where, as a matter of policy, the Commission has specifically allowed those charges to differ, as is the case with Centrex service. *See* 47 C.F.R. § 69.158.

¹¹ Any mechanism the Commission adopts should follow this same principle.

¹² One way to accomplish this would be to average the percentage of interstate revenues which providers with connections pay and apply that percentage to providers without connections.

and 2d FNPRM at ¶ 80. Such a proposal would not only run afoul of the statutory requirement for “equitable and nondiscriminatory” contributions, but it would also place some providers at a competitive disadvantage. This is because providers with higher revenues would need to increase their charges to end users in order to recover their contributions. Small providers with lower percentage contribution requirements would be able to undercut their larger competitors, not because of any increased efficiency but simply because of regulatory requirements. There is no valid policy or legal basis for such a result.

Any contribution mechanism should also be neutral, not just with respect to competitors and technology, but also with respect to market structure. For example, a customer who purchases local and long distance service from the same carrier, or affiliates of the same carrier, should be treated no differently from a customer who uses separate carriers for its services. Otherwise, the Commission would be creating artificial incentives for or against vertical integration or bundling.

Another aspect of structural neutrality, which the Commission has addressed previously, relates to the treatment of wholesale transactions. As the Commission points out, basing the minimum contribution on all interstate revenues, wholesale as well as retail, would lead to double-counting, because resellers would pay their share of the contribution in their rates to wholesale carriers and then pay a second contribution on their retail revenues. *See id.* at ¶ 79. This would mean that the resellers would either need to absorb part of their universal service costs or increase their rates to end users, thereby being placed at a competitive disadvantage. Because of these inequities, in the 1997 order establishing the present contribution mechanism,

the Commission rejected basing contributions on wholesale as well as retail revenues.¹³ There is no reason to change that finding here. Therefore, if this alternative is adopted, only retail revenues should continue to be counted in the contribution base.

The third proposal, basing contributions on telephone numbers, also raises several legal and policy concerns. First, unless providers of interstate services that are not assigned telephone numbers also contribute, this proposal would appear to run afoul of section 254(d)'s mandate that contributions come from "[e]very telecommunications carrier that provides interstate telecommunications service." Although the Commission asks whether this problem can be cured through a minimum revenue-based assessment, Report and Order and 2d FNPRM at ¶ 96, as with the first alternative, that assessment would need to be at a similar level as carriers with telephone numbers in order to be "equitable and nondiscriminatory." In addition, this proposal could adversely impact certain services by assessing those services multiple contributions even though they have only one connection. For example, toll-free (800-type) services, as well as 500 and 900 numbers are translated into standard local numbers for call completion. Therefore two numbers are assigned for each such service, and under this proposal they would pay two assessments.¹⁴ As another example, distinctive ringing services operate by assigning different telephone numbers to each family member, even though there is only one telephone connection to the household. If each telephone number pays a universal service contribution, this popular service could become uneconomic.

¹³ See *Federal-State Joint Board on Universal Service*, Report and Order, 12 FCC Rcd 8776, ¶¶ 843-47 (1997).

¹⁴ This problem could be cured by assessing contributions only on the standard local number.

In addition, it is not clear how “telephone numbers” are to be counted. Are they to be limited to numbers in service or those assigned to carriers but not actually in service? Are they limited to numbers assigned under the North American Numbering Plan or would it include numbers that individual companies assign to their customers?¹⁵ It is also not clear how under this proposal the PBX/Centrex equivalency ratio would be maintained. These decisions could both affect the number of providers and services that contribute and influence the development of new technologies that seek to bypass the traditional telephone numbering system.

¹⁵ For example, a recent article reported on a company that assigns its users five-digit numbers that enable them to communicate using special Internet telephones. *See* Simon Romero, “Phone Calling Over Internet is Attracting More Interest,” *NEW YORK TIMES* (Jan. 6, 2003) at C1. That company recently petitioned the Commission for a declaratory ruling on the regulatory status of its service, and the Commission has requested comments. *See Pleading Cycle Established for Comments on Pulver.com Petition for Declaratory Ruling*, Public Notice, WC Docket No. 03-45, DA 03-439 (rel. Feb. 14, 2003).

IV. Conclusion

In its deliberations considering whether to replace the current universal service contribution mechanism with one based in part on connections, the Commission needs to develop a complete record, ensure that any replacement mechanism assesses all providers of interstate telecommunications services on an equitable and nondiscriminatory basis, minimizes administrative costs, and does not influence the services offered by providers or obtained by the public. It also should complete pending proceedings that impact its decision here.

Respectfully submitted,



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February 28, 2003

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.



How to identify

Interstate revenues in bundled offerings

There are methods the Federal Communications Commission could use to identify the interstate telecommunications revenue portion of service bundles, including studies of actual interstate usage, development of industry-wide or state-wide apportionment factors, and creation of additional "safe harbors."

Verizon favors adoption of a factor approach to avoid the need for periodic studies of actual usage or extensive billing system modifications to capture data on an ongoing basis for actual reporting. A factor that must be used by all firms competing for the same customers with similar service bundles would place them on an equal footing and reduce the need for audits or similar Commission oversight. Any method used, however, should ensure competitive parity.

Below, Verizon identifies two ways that factors could be developed: (1) based on actual usage and revenue, or (2) upon market price analysis.

Developing factors based on actual usage/revenues

There is a great deal of public information both on market prices and average usage levels for local, wireless, information, and long distance services. Many analysts have studied each of these services and published summary data showing average prices, usage statistics, trends, and projections. Plus, the FCC and state commissions already have accumulated a large body of data to regulate traditional telecommunications services.

Some types of data that the FCC may obtain:

1. Firms designing bundles have predictions of usage of the individual components, and track actual usage for marketing adjustments and network planning purposes.
2. Most, if not all, firms offering long distance can provide individual call detail to their customers. Thus, a firm's billing system continues to record originating and terminating telephone numbers on long distance calls. Statistical sampling methods could be used to develop statewide or nationwide averages of intrastate versus interstate usage and revenues.
3. Both ILECs and IXC's have a great deal of data on historical Percent Interstate Usage (PIU) amounts. This data could be used to develop either a statewide or nationwide factor.
4. The underlying data already exists to show the interstate revenue components of ILEC bundled offerings. ILECs providing wireline services are required to file publicly available tariffs for their services. Further, state regulations

generally prohibit any kind of package discounts from applying to local service components. And, because the largest ILECs must offer long distance, wireless, and information services through separate affiliates or under accounting separation, the data exists to separately track revenues from those services.

5. Wireless carriers already have demonstrated their ability to conduct special studies to determine the interstate portion of their revenues. This ability exists because call detail is normally provided to their customers, and the wireless industry has developed methods to classify calls with uncertain jurisdiction.

Developing factors based on market price analysis

Another approach would be to rely upon analysis of market prices to identify an amount representing the interstate portion. Examples of readily available sources of information are sales collateral, tariffs, and advertising, including Internet sites.

Examining a family of bundled offerings by a firm can yield insights into the value of various components the firm expects the market will place on each. For example, the MCI Neighborhood offers one package that does not include long distance and another package that does. The price difference provides strong indication of the average revenues associated with the long distance service that MCI expects will occur. The intra- and interstate portions

If the average long distance revenues could be established using available PIU or statistical data as described above.

Similarly, wireless service plans that include a fixed number of minutes generally offer different calling scope options. Comparison of the price for wireless calling plans that are statewide versus nationwide would provide another indication of the market value of the ability to make interstate calls without additional charges. For example, if a wireless carrier offered a statewide plan with 400 minutes a month for \$40, and a nationwide plan with 400 minutes a month for \$50, it would be logical to assume that the \$10 difference amounts to the interstate portion the wireless carrier expects would occur.

Any method must be adjusted to ensure competitive parity

Any method for allocating costs between inter- and intra-state revenues must be designed to ensure competitive parity, which does not exist in the current system for CLEC Subscriber Line Charge (SLC) or broadband.

Both CLEC and ILEC customers should contribute based upon an assumed interstate revenue amount equivalent to an interstate SLC

Currently, ILECs are required to apply an interstate SLC on all local service customers, to report the SLC revenues as interstate revenues, and to contribute to the federal universal service program based upon those interstate revenues.

For example, Verizon's current contribution is about \$0.55 per month for residential local service customers. CLECs, however, are not required to apply an interstate SLC. Although a few CLECs do charge a SLC and report interstate revenues, many do not. As a result, many CLEC residential local service customers pay approximately \$0.55 per month less to the federal universal service program than an ILEC customer.

Because the business SLC is capped at a much higher level, and since many CLECs have focused their efforts on the business market, the contribution disparity is much greater for business customers.

The CLEC-ILEC customer disparity results not only in less money to the universal service fund, but, all else being equal, also gives CLECs a competitive price advantage purely as a result of FCC rules.

To achieve parity, the FCC could develop either an average SLC revenue on a state- or nationwide basis, and require firms offering residence and business local services that are not subject to the FCC's Part 69 rules to report each month as interstate revenues an amount equal to a state- or nationwide average SLC. Such firms would not be required to charge a SLC, but only to report an interstate revenue amount for contribution purposes that is equivalent to the state- or nationwide SLC revenue amount selected by the Commission.

All broadband providers should contribute equally

Currently, only DSL providers – and not the providers of other broadband services (e.g., cable modem and satellite) – contribute to the universal service fund. This disparate treatment undermines the principles of competitive neutrality and should be remedied.

If the FCC requires all broadband service providers to contribute to the universal service program, and if the FCC were to base such contributions only on the telecommunications portion of the bundled service (the underlying telecommunications used to deliver Internet content), the FCC could readily develop a factor through several alternative methods that would remove the competitive disparity for ILEC-provided broadband service that exists today, solely as a result of traditional regulation applied to ILECs:

1. ILECs offer DSL without content service to both ISP and end user customers. The FCC could gather pricing information from ILEC DSL offerings to identify the state- or nationwide average DSL price. The average state- or nationwide DSL price could be used as a proxy for the telecommunications portion of other broadband services, and all other broadband service providers could be required to contribute each month an amount equal to the USAC contribution percentage times that state- or nationwide average DSL amount.
2. Alternatively, the FCC could gather information on the prices charged for cable modem service (e.g., from websites such as <http://www.cable-modem-internet-access.com/>) and develop a factor based on the portion of the total cable modem service price represented by the average DSL price.
3. A third alternative would be to compare the average prices charged by ISPs who sell their content service bundled with DSL to end users with the DSL transport-only average prices.
4. A fourth alternative would be to compare the average prices charged by cable companies for cable modem service with the average prices charged by cable companies to non-affiliated ISPs that reach end users over the cable network.

◆◆◆◆

CERTIFICATE OF SERVICE

I hereby certify that, on this 27th day of February, 2003, copies of the foregoing
“Comments of Verizon” were sent by first class mail, postage prepaid, to the parties below.



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