BELLSOUTH

BellSouth D.C., Inc.
Suite 900
1133 21st Street, N.W.
Washington, D.C. 20031-3351

mary.henze@bellsouth.com

Mary L. Henze
Assistant Vice President
Federal Regulatory

202 463 4109
Fax 202 463 4631

December 15, 2004

Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, TW-A325
Washington, DC 20554

Re: Federal State Joint Board on Universal Service, CC Docket 96-45 and Developing Unified Intercarrier Compensation Regime, CC Docket 01-92

Dear Ms. Dortch,

On December 14, the undersigned, John Ruscilli, Rod Deyonker, and Don Barbour of BellSouth met with Lisa Gelb, Rich Lerner, Jeremy Marcus, Cathy Carpino, Rodger Woock, Carol Pomponio, Jim Lande, and Warren Firschein. The purpose of the meeting was to respond to the Universal Service contribution methodology proposal presented by the Intercarrier Compensation Forum (ICF) on December 3, 2004 (See attached *exparte* filing of Richard R. Cameron, Docket 01-92, dated December 6, 2004). BellSouth noted a number of positive features of the ICF telephone number/units based contribution methodology but suggested a number of important modifications in order to make the plan more accurate and equitable. The presentation used for this meeting is attached.

This notice is being filed pursuant to Sec. 1.1206(b)(2) of the Commission's rules. If you have any questions regarding this filing please do not hesitate to contact me.

Sincerely,

Mary L. Henze

Attachments.

cc: L. Gelb, R. Lerner, J. Marcus, C. Carpino, R. Woock, C. Pomponio, J. Lande, W. Firschein

USF Reform under the ICF Plan

BellSouth Ex Parte

December 14, 2004

BELLSOUTH

>> General Points

- The ICF USF Reform plan discusses two proposals:
  - the creation of a new $2.7B annual USF funding requirement (which BellSouth opposes), and,
  - the introduction of a change in USF contribution methodology.
- The proposed ICF USF TN contribution methodology, which is the subject of this ex parte, should be modified.

Positive Attributes of the ICF USF TN Contribution Methodology

- Eliminates competitive disparities in the current mechanism (DSL vs. Cable modems, narrowband voice services vs. VoIP service).
- Broadens the funding base by assessing users of telephone numbers/units who today are not assessed as providers of interstate telecommunications (e.g., cable modem providers, VoIP).
- Telephone numbers, at least for the next several years, are a more stable and predictable base for assessments than are interstate telecom revenues.
- Retains a reasonable contribution obligation on interstate retail non-switched dedicated network connections.

The Proposed ICF USF TN Contribution Methodology Should be Modified

- Contributor assessments must be based on the quantity of unique, working telephone numbers (TNs) to ensure: (1) an accurate charge/TN calculation, and; (2) that contributors can actually recover assessments from customers that cause them.
  - For assessment purposes, carriers should self-report their working TN quantities which would be derived from customer billing records
  - Use of unreliable sources of working TNs (e.g., NRUF reports) will likely overstate the quantity of TNs, thus resulting in an understated charge/TN

The Proposed ICF USF TN Contribution Methodology Should be Modified (Con't.)

- TN 'caps' must be adopted for complex business services to minimize USF rate shock for customers.
  - The following TN caps would retain the current relationship to the quantity of SLCs: 1/9 TN/Centrex, 1 TN/PBX trunk, and 5 TNs/ISDN-PRI
  - Failure to make such adjustments will further understate the appropriate charge/TN
- The above modifications will result in a more accurate charge/TN.
  - The charge/TN under the ICF USF plan could be understated by as much as $0.50/TN

The Proposed ICF USF TN Contribution Methodology Should be Modified (Con't.)

- Long distance services should continue to contribute to Universal Service.
  - Any reasonable transitional obligation methodology for long distance services (interstate revenues, PICC, etc.) may be utilized.
  - The ICF Plan abruptly shifts the USF obligation from traditional providers of long distance services to traditional providers of local services
- There is no basis for phasing-in the unit TNs assigned to second residential household accounts, CMRS carriers, CRTCs and CRTC competitors.

Concluding Thoughts on Timing

- Predictions of wildly accelerating contribution rates under the current contribution mechanism have not been borne out.
- On the other hand, the current methodology perpetuates disparate obligations upon comparable services.
- BellSouth believes the time is ripe for the FCC to update the contribution methodology for the current USF programs as well as any new support programs arising out of the intercarrier compensation proceeding.

Richard Cameron
(202) 637-2225
richard.cameron@lw.com

555 Eleventh Street, N.W., Suite 1000
Washington, D.C. 20004-1304
Tel: (202) 637-2200 Fax: (202) 637-2201
www.lw.com

LATHAM & WATKINS LLP

FIRM / AFFILIATE OFFICES

Boston	New Jersey
Brussels	New York
Chicago	Northern Virginia
Frankfurt	Orange County
Hamburg	Paris
Hong Kong	San Diego
London	San Francisco
Los Angeles	Silicon Valley
Milan	Singapore
Moscow	Tokyo
	Washington, D.C.

December 6, 2004

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: ***Ex Parte* Communication, *Developing Unified Intercarrier Compensation Regime*, CC Docket 01-92**

Dear Ms. Dortch:

On Friday, December 3, 2004, Richard R. Cameron of Latham & Watkins LLP, counsel for the Intercarrier Compensation Forum ("ICF"), together with Eric Einhorn of SBC Communications Inc., Ed Krachmer of Iowa Telecom, Jeff Lindsey of Sprint Corporation, Joel Lubin of AT&T Corp., and John Nakahata of Harris, Wiltshire & Grannis LLP (on behalf of General Communication, Inc. and Level 3 Communications, LLC), met with Lisa Gelb, Rich Lerner, Robert Tanner, Rodger Woock, Jim Lande, Narda Jones, Cathy Carpino, Jeremy Marcus, Ted Burmeister, Jim Eisner, Carol Pomponio, Warren Firschein, Steve Morris, and Jay Atkinson of the Wireline Competition Bureau.

At the meeting, we used the materials attached to this letter as the basis for a discussion of the universal service contribution methodology proposed in the ICF's Intercarrier Compensation and Universal Service Reform Plan, filed with the Commission on October 5, 2004.

Please direct any questions concerning this matter to me at (202) 637-2225.

Very truly yours,

/s/ Richard Cameron

Richard R. Cameron

Intercarrier Compensation Forum

Universal Service Reform under the ICF Intercarrier Compensation and Universal Service Reform Plan

December 3, 2004

LATHAM & WATKINS LLP

Key Features of the ICF Plan

- Uniform Network Interconnection
- Uniform Rate Structure
- Uniform Rate Level
- Universal Service

Universal Service Benefits of the ICF Plan

- The Plan promotes universal service by:
  - Replacing support implicit in access charges with new, explicit support.
  - Keeping rates affordable and reasonably comparable between urban and rural areas.
  - Providing specific protections for low income, Lifeline consumers.
- The Plan achieves lasting universal service contribution reform by:
  - Stabilizing and broadening the universal service funding base, and making contribution amounts more predictable.
  - Eliminating disparities in the current system that result in dissimilar treatment of service substitutes (*e.g.*, DSL/cable modem, TDM/VoIP).
- The Plan protects the 1996 Act's rate integration mandate.

Contribution Methodology

- Single contribution methodology used to collect funding for all existing and new universal service support mechanisms.
- "Unit-based" assessment of unique working telephone numbers and non-switched, high-speed, dedicated network connections.
- Carriers recover contribution amounts from end users that cause the assessments.

Contribution Methodology (cont'd)

- Unit assessments:
  - Telephone Numbers:
    - Each unique working telephone number: 1 unit
    - For additional numbers in a residential household account, CMRS carriers (nationwide), CRTCs, and CRTC competitors may phase-in these contributions as follows:
      - Year 1: 1/2 unit
      - Year 2: 2/3 unit
      - Year 3: 3/4 unit
      - Year 4+: 1 unit
  - Residential:
    - DSL, cable modem and other high-speed, non-circuit-switched connections assessed 1 unit.
    - Contribution obligations of DSL and cable modem services harmonized.

Contribution Methodology (cont'd)

- Unit assessments: (cont'd)
  - Business:
    - Non-switched, dedicated network connections with capacity of less than 1.5mbps assessed 1 unit.
    - Non-switched, dedicated network connections with capacity of at least 1.5mbps but less than 45mbps assessed 5 units.
    - Non-switched, dedicated network connections with capacity of at least 45mbps but less than 200mbps assessed 40 units.
    - Non-switched, dedicated network connections with capacity of 200mps or greater assessed 100 units.
    - At least triennially, FCC to examine whether these thresholds are commercially reasonable in light of advances in technology.

Benefits of the ICF Contribution Methodology

- Contribution amounts under the ICF Plan will be more stable and predictable than the escalating contribution amounts required under today's mechanism
- Contribution amounts will be lower in many cases than they would be under the existing mechanism.
  - The ICF Plan significantly broadens the base on which USF contributions are assessed.
  - Today's interstate revenue base is shrinking, causing the contribution factor to rise.
  - The broader base allows increases in explicit support under the ICF Plan without causing dramatic increases in the contribution burden.

Preliminary Estimates of the ICF Plan Additional Universal Service Support

		Estimates @Step 1			
$ Millions	**Base Period Access Revenue**	**Remaining Intercarrier Payments * ****	**Cumulative Access Shift**	**Enduser Revenue (Delta SLC)**	**TNRM / ICRM Support**
Non-CRTC	**$ 7,194**	**$ 5,560**	**$ 1,634**	**$ 1,228**	**$ 406**
CRTC	**$ 2,384**	**$ 1,932**	**$ 453**	**$ 117**	**$ 336**
TOTAL	**$ 9,578**	**$ 7,492**	**$ 2,087**	**$ 1,345**	**$ 742**
Increase in High Cost Fund From Changes in Existing High Cost Mechanisms					**$ 300**
Lifeline Increases From Higher Primary Residential SLC Rates					**$ 46**
Net Settlements -- Not Included In The Base					**$ 38**
Grand Total	**$ 9,578**	**$ 7,492**	**$ 2,087**	**$ 1,345**	**$ 1,126**

*Remaining Intercarrier Payments for CRTC are understated as EAS / Wireless terminating MOUs are not included in this model

**Includes Interconnection Transport, Transit Service Revenue, Termination Rate Revenue, and for CRTC only Terminating Transport Charges.

Preliminary Estimates of the ICF Plan Additional Universal Service Support

		Estimates @Step 5			
$ Millions	Base Period Access Revenue	Remaining Intercarrier Payments * **	Cumulative Access Shift	Enduser Revenue (Delta SLC)	TNRM / ICRM Support
Non-CRTC	$ 7,194	$ 659	$ 6,536	$ 5,778	$ 757
CRTC	$ 2,384	$ 573	$ 1,811	$ 566	$ 1,246
TOTAL	$ 9,578	$ 1,232	$ 8,347	$ 6,344	$ 2,003
Increase in High Cost Fund From Changes in Existing High Cost Mechanisms					$ 300
Lifeline Increases From Higher Primary Residential SLC Rates					$ 216
Net Settlements -- Not Included In The Base					$ 150
Grand Total	$ 9,578	$ 1,232	$ 8,347	$ 6,344	$ 2,669

*Remaining Intercarrier Payments for CRTC are understated as EAS / Wireless terminating MOUs are not included in this model

**Includes Interconnection Transport, Transit Service Revenue, Termination Rate Revenue, and for CRTC only Terminating Transport Charges.

Preliminary Estimates of USF per unit

	2004	Step 1	Step 5
Assessment Per Unit Per Month	**$ 1.05**	**$ 1.23**	**$ 1.34**
Revenue ($ Thousands)			
Baseline --USF	$ 6,521,269	$ 6,521,269	$ 6,521,269
Overlay from the lifting of rural cap	$ -	$ 300,000	$ 300,000
Overlay from Lifeline due to increase in SLC	$ -	$ 46,484	$ 215,893
Net Settlements Not in the base		$ 37,500	$ 150,000
ICF Increase to the USF	$ -	$ 741,647	$ 2,002,616
Total USF	**$ 6,521,269**	**$ 7,646,900**	**$ 9,189,778**
	Units		
Category	**Dec-03 ***	**Step 1**	**Step 5**
ILEC **	298,903,000	298,903,000	299,903,000
ILEC Lifeline Subscribers	5,907,789	5,907,789	5,907,789
CLEC	31,699,000	31,699,000	31,699,000
Cellular/PCS ***	107,438,041	107,438,041	157,042,082
Pager Lines	11,208,000	11,208,000	11,208,000
Toll Free Numbers	22,050,182	22,050,182	22,050,182
Special access +	20,814,774	20,814,774	20,814,774
Total Broadband	27,260,834	27,260,834	27,260,834
Total units available (w/o Lifeline)	**519,373,831**	**519,373,831**	**569,977,872**

* For this analysis, Step 1 Units are used for Dec-03.

** Rural ILEC primary line is a full unit. Additional lines are phased in 1/2, 2/3, 3/4, 1.00 over four steps.

*** Primary subscriber is a full unit. Additional subscribers are phased in 1/2, 2/3, 3/4, 1.00 over four steps.

+ Special Access units are weighted (weights are 1, 5, 40, 100 for Tier 1,2,3 and 4, respectively)