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CONSUMER ADVOCATE DIVISION
STATE OF WEST VIRGINIA
PUBLIC SERVICE COMMISSION
700 Union Building
723 Kanawha Boulevard, East
Charleston, West Virginia 25301
(304) 558-0526

June 24, 2003

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W., Room TW-A325
Washington, D.C. 20554

RE: In the Matter of the Federal-State Joint Board on Universal Service,
CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170
and NSD File No. L-00-72
Notice of *Ex Parte* Presentation

Dear Ms. Dortch:

Yesterday, Billy Jack Gregg, representing the West Virginia Consumer Advocate Division (WVCAD), met with Commissioner Jonathan Adelstein, Mr. Scott Bergmann, Mr. Daniel Gonzalez, Mr. Matthew Brill, and Ms. Jessica Rosenworcel to discuss the WVCAD's proposal to change the contribution base for the federal universal service fund. The WVCAD's proposal - a hybrid of the current interstate revenue base and the proposal to base contributions on assigned telephone numbers and number equivalents - is called the 50/50 Numbers Method. Material on the 50/50 Numbers Method in the attached issue paper was discussed.

We are attaching the *ex parte* presentation offered in such meetings as an attachment to this letter. Please also note pursuant to FCC Rule 1.1206(b)(1), this Notice of *Ex Parte* Presentation and a copy of the issue paper are being filed electronically for inclusion in the record of the above-referenced proceedings.

Sincerely,

/s/ Patrick Pearlman

Patrick Pearlman
Counsel for West Virginia
Consumer Advocate Division
WV Bar ID# 5755

Attachment
Cc: Hon. Jonathan Adelstein
Matthew Brill

Scott Bergmann
Daniel Gonzalez
Jessica Rosenworcel

Proposal for Determining Federal Universal Service Contributions

50/50 METHOD
USING NUMBERS AND INTERSTATE REVENUES

Problem

- Current contribution methodology based on interstate revenues, which are declining or static.
- Preferred solution is use of total revenues, interstate and intrastate, but prospect of corrective legislation is uncertain.
- No consensus or even majority opinion among various interest groups on how to change contribution methodology under current law.
- In absence of legislative fix, a compromise offers the best hope for a solution.

Proposed 50/50 Method

- Under this proposal, 50% of the demand for total universal service support would be met with an assessment on interstate revenues – the same method currently used - and 50% would be met with an assessment on assigned telephone numbers.
- Assessments would be made on all assigned telephone numbers, and on all tiered number equivalents for non-switched services.
- Under the 50/50 method using numbers and interstate revenues, the USF demand would be divided in half. Assuming a $5.971 billion fund (the same as 2004), $2.985 billion would be recovered using interstate revenues and $2.985 billion would be recovered using numbers. This would result in a 4.4% assessment rate on interstate revenues and a $0.43 monthly charge on assigned numbers and number equivalents.

Advantages of 50/50 Method

- Would address the Section 254(d) problem presented by a pure connections system, and would not require changing the legal basis of the current contribution system.
- Would spread USF responsibility among industry segments approximately the same as use of total revenues.
- Could run numbers-based system in parallel with existing interstate revenue system for several quarters prior to final implementation in order to give experience to carriers and USAC.
- Any future erosion in interstate revenues would be offset by growth in numbers and number equivalents.

Disadvantages of 50/50 Method

- Would be more administratively complex than implementing a system based on a single criterion.
- Would still have to face issues of defining providers of interstate telecommunications services, determining safe harbors, etc.

Share of contribution by industry segment under 50/50 Method

Contributor Responsibility under 50/50 Method

	2002	2003	2004	2005	2006	2007	Total Revenues
IXC	59%	51%	31%	29%	28%	27%	25%
LEC	26%	27%	43%	43%	43%	43%	39%
CMRS	15%	22%	26%	28%	29%	30%	36%
% of fund met from residential assessment	39%	41%	44%	44%	44%	44%	n/a

- The contribution shares for the years 2002 through 2007 are taken from FCC Staff study of contribution methodologies, adjusted for changes in numbers, and assume a 2004 start date for the 50/50 Method. Shares for 2002 and 2003 are the same as under current rules. The estimates for the years 2004 – 2007 are 50/50 averages of the percentages set forth for each method in the Staff study. Shares of total revenue are taken from the most recent FCC report on revenues in the telecommunications industry.[1]

Examples of Impact of the 50/50 Method

- Assuming an **average** monthly residential customer with a $30 local phone bill including a $6 subscriber line charge, a $30 long distance bill and a $30 wireless bill, USF assessments under the current rules and under the 50/50 Method are shown below. (All examples assume that the SLC is the only interstate portion of the local bill, and that wireless assessment is based on 28.5% safe harbor.)

Service	Monthly Bill	USF 8.8% interstate	50% inter state revenue	50% Numbers	Total 50/50	Difference
Local	$30.00	$0.53	$0.27	$0.43	$0.70	$0.17
Long Distance	$30.00	$2.64	$1.32	$0.00	$1.32	-$1.32
Wireless	$30.00	$0.75	$0.38	$0.43	$0.81	$0.06
TOTAL	$90.00	$3.92	$1.97	$0.86	$2.83	-$1.09

- Assuming a customer with **low** long distance usage and no wireless phone, the impact would be as follows:

Service	Monthly Bill	USF 8.8% interstate	50% inter state revenue	50% Numbers	Total 50/50	Difference
Local	$30.00	$0.53	$0.27	$0.43	$0.70	$0.17
Long Distance	$ 4.00	$0.35	$0.18	$0.00	$0.18	-$0.17
TOTAL	$34.00	$0.88	$0.45	$0.43	$0.88	$0.00

[1] See, *Trends in Telephone Service*, FCC Wireline Competition Bureau, IATD (May 2004), Table 15.1.

- Assuming a customer with **high** long distance usage and high wireless usage, the impact would be as follows:

Service	Monthly Bill	USF 8.8% interstate	50% inter state revenue	50% Numbers	Total 50/50	Difference
Local	$30.00	$0.53	$0.27	$0.43	$0.70	$0.17
Long Distance	$60.00	$5.28	$2.64	$0.00	$2.64	-$2.64
Wireless	$60.00	$1.50	$0.75	$0.43	$1.18	-$0.32
TOTAL	$150.00	$7.31	$3.66	$0.86	$4.52	-$2.79

- Assuming a customer with **high** local usage (including intrastate toll) and low long distance usage, the impact would be as follows:

Service	Monthly Bill	USF 8.8% interstate	50% inter state revenue	50% Numbers	Total 50/50	Difference
Local	$60.00	$0.53	$0.27	$0.43	$0.70	$0.17
Long Distance	$ 4.00	$0.35	$0.18	$0.00	$0.18	-$0.17
Wireless	$30.00	$0.75	$0.38	$0.43	$0.81	$0.06
TOTAL	$94.00	$1.63	$0.83	$0.86	$1.69	$0.06

- Under the 50/50 method there is still a shift in contribution responsibility from users of interstate long distance to local users. However, the impact on local users is very small and many residential customers would see an overall reduction in monthly contributions.

Examples of Impact of the 50/50 Method - 2007

- In order to test the impact of the 50/50 Method on residential customers in the last year modeled under Staff's Study – 2007 – USF assessments under the current interstate revenue base were compared to assessments under the 50/50 Method. It is assumed that the local phone bill includes a $6.50 subscriber line charge; that the SLC is the only interstate portion of the local bill; and that wireless assessment is based on 28.5% safe harbor. Based on the Staff Study, the interstate revenue assessment factor for 2007 is 11.4%, and the residential per connection rate is $1.05.

Service	Monthly Bill	USF 11.4% interstate	50% inter state revenue	50% Numbers	Total 50/50	Difference
Local	$30.00	$0.74	$0.37	$0.53	$0.90	$0.16
Long Distance	$30.00	$3.42	$1.71	$0.00	$1.71	-$1.71
Wireless	$30.00	$0.97	$0.49	$0.53	$1.02	$0.05
TOTAL	$90.00	$5.13	$2.57	$1.06	$3.63	-$1.50

- Assuming a customer with **low** long distance usage and no wireless phone, the impact would be as follows:

Service	Monthly Bill	USF 11.4% interstate	50% inter state revenue	50% Numbers	Total 50/50	Difference
Local	$30.00	$0.74	$0.37	$0.53	$0.90	$0.16
Long Distance	$ 4.00	$0.46	$0.23	$0.00	$0.23	-$0.23
TOTAL	$34.00	$1.20	$0.60	$0.53	$1.13	-$0.07

- Assuming a customer with **high** long distance usage and high wireless usage, the impact would be as follows:

Service	Monthly Bill	USF 11.4% interstate	50% inter state revenue	50% Numbers	Total 50/50	Difference
Local	$30.00	$0.74	$0.37	$0.53	$0.90	$0.16
Long Distance	$60.00	$6.84	$3.42	$0.00	$3.42	-$3.42
Wireless	$60.00	$1.95	$0.98	$0.53	$1.51	-$0.44
TOTAL	$150.00	$9.53	$4.77	$1.06	$5.83	-$3.70

- Assuming a customer with **high** local usage (including intrastate toll) and low long distance usage, the impact would be as follows:

Service	Monthly Bill	USF 11.4% interstate	50% inter state revenue	50% Numbers	Total 50/50	Difference
Local	$60.00	$0.74	$0.37	$0.53	$0.90	$0.16
Long Distance	$ 4.00	$0.46	$0.23	$0.00	$0.23	-$0.23
Wireless	$30.00	$0.97	$0.49	$0.53	$1.02	$0.05
TOTAL	$94.00	$2.17	$1.09	$1.06	$2.15	-$0.02

- Under the examples modeled, it appears that the 50/50 Method produces better results for residential customers in 2007 than the current interstate revenue base. Nevertheless, there still would be a shift in contribution responsibility from users of long distance to local users. However, use of the 50/50 Method appears to mitigate any negative impact on low volume users. Moreover, the 50/50 Method mitigates shifts in USF responsibility among industry segments.

USF ASSESSMENTS BASED ON ASSIGNED NUMBERS AND INTERSTATE REVENUES

	Actual				Estimated		
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Total USF Assessments	$5,468,700	$5,855,500	$6,185,900	$5,971,269	$6,851,000	$7,109,000	$7,368,000
Total Assigned Numbers (000)	482,865	483,212	503,433	509,476	510,167	511,352	512,537
Assigned Toll Free Numbers (000)	22,453	22,496	21,109	20,000	20,000	20,000	20,000
Special Access & Capacity Based Numbers (000)	46,400	46,400	47,600	48,900	50,300	51,800	53,300
Total Assessable Numbers	551,718	552,108	572,142	578,376	580,467	583,152	585,837
Assessment per Assigned Number	$0.83	$0.88	$0.90	$0.86	$0.98	$1.02	$1.05
Responsibility of Each Industy Segment Based on Numbers Assessment							
LECs	63%	61%	59%	58%	57%	56%	55%
IXCs	14%	14%	14%	14%	13%	12%	12%
Wireless	23%	25%	27%	28%	30%	32%	33%
Interstate Revenue Base ($000)	$79,900,920	$73,416,500	$68,223,000	$68,138,116	$67,000,000	$66,000,000	$65,000,000
Assessment Rate on Interstate Revenue	6.84%	7.98%	9.07%	8.76%	10.23%	10.77%	11.34%
Responsibility of Each Industy Segment Based on Revenue Assessment							
LECs	25%	26%	27%	28%	29%	30%	32%
IXCs	60%	59%	51%	48%	45%	43%	41%
Wireless	15%	15%	22%	24%	25%	26%	27%
Responsibility of Each Industy Segment Based on 50/50 Assessment	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
LECs	44%	44%	43%	43%	43%	43%	43%
IXCs	37%	37%	33%	31%	29%	28%	27%
Wireless	19%	20%	24%	26%	28%	29%	30%

NOTES:

Special Access and Industry Responsibility taken from FCC Staff Contribution Study 2/25/03.

Historical numbers taken from FCC Number Utilization Reports.

Growth in numbers based on estimates and FCC Staff Contribution Study.

Growth in revenue base based on estimates.