Universal Service
Contribution Methodology Proceeding
(CC Docket No. 96-45)

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by
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Overview

- A Declining Revenue Base Is Not the Primary Cause for Increasing Contribution Factors.
- Certain Key Principles Should Guide the FCC’s Choice of Contribution Methodology.
- The FCC Should Modify, Not Abandon the Interstate Revenue-Based Contribution System.
- If the FCC Instead Opts for a Connections-/Numbers-Based System, It Must Address Certain Issues.

A Declining Revenue Base is not the Primary Cause for Increasing Contribution Factors

- From 2000 through 2004, the FCC's universal service programs grew by approx. 23.7%.
  - During that same period, the FCC's <u>high-cost</u> universal service programs grew by approx. 56%.
    - From 2000 through 2004, incumbent LECs received 96% of all high-cost funding.
- From 2000 through 2004, the revenue base used for universal service contributions declined by approx 6%.
- In the 2 ½ years since the contribution methodology 2nd FNPRM, the contribution revenue base has remained stable, while the overall size of universal service funding continues to grow.

Contribution Methodology Reform Principles

- Consistent with section 254(d) of the Act, the FCC's universal service contribution methodology should:
  - Ensure that <u>all</u> providers of interstate telecommunications contribute on an equitable and nondiscriminatory basis;
  - Ensure that individual consumer groups do not bear an unreasonable and unfair share of contribution obligations;
  - Minimize opportunities for telecommunications providers to avoid contribution obligations; and
  - Minimize administrative burdens and/or costs for contributors.

Benefits of the Revenue-Based System

- Interstate revenues are the fairest measure of how consumers value the services they purchase and automatically adjusts to how those preferences change over time.
- USAC now has seven years experience administering the revenue-based system and auditing contributor revenues.
- Contributors have extensive experience tracking and reporting revenues.
- The revenue-based system has been endorsed by the courts, and enjoys the broad support of consumer groups.

The FCC Should Not Abandon the Revenue-Based System

- The FCC should be concerned about migration of revenues to services that are not subject to contribution obligations, but the answer is not to abandon the interstate revenue-based system.
- Weighing all the alternatives (revenues, connections, numbers), a revenues-based system that assesses contributions from as wide a revenue base as possible comes closest to satisfying the principles described above.
- There is no compelling reason to abandon the current system for a new and uncertain connections- or numbers-based system.

The Universal Service Contribution Revenue Base Should Be Expanded

- The revenue-based system can be improved by broadening the base of contributors to ensure that all providers of interstate telecommunications contribute to universal service and enforce existing rules.
- The revenue base should be expanded/clarified to include, for example:
  - Interstate telecommunications revenues from IP-enabled services;
  - Prepaid calling card revenues;
  - CLEC interstate end-user charges (*i.e.*, the subscriber line charge or its equivalent); and
  - Broadcasters, cable leased access providers, and OVS providers selling telecommunications to others.
- As the mobile wireless industry's experience shows, interstate telecommunications revenues can be identified for bundled/hybrid services.

Any Numbers/Connections-Based System Must Be Fair to Carriers and Consumers

- If the FCC nonetheless believes that a numbers- or connections-based system is preferable, it should make sure that the system achieves the goals listed above and actually stops contribution base declines.
- Assessments for residential, single line-businesses, and mobile wireless connections/numbers:
  - Should be capped for some period of time (*i.e.*, not fluctuate from quarter to quarter);
  - Should address the concerns of low revenue per unit customers (*e.g.*, family share plans, prepaid customers, low volume users);
- Assessments for multi-line business numbers and non-switched connections:
  - Should not be regressive, *i.e.*, capacity tiers and multipliers should not provide unfair advantages for purchasers of higher-capacity connections;
  - Should not provide special, unjustified discounts to certain categories of connections, *e.g.*, centrex connections/numbers should not be provided discounts.
- Only actual subscriber telephone numbers (*i.e.*, “working” numbers) or functional equivalents should be assessed.