June 7, 2007

ELECTRONICALLY FILED
Ms. Marlene H. Dortch
Secretary
Office of the Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

***Ex Parte* Notice**

Re: In the Matter of High-Cost Universal Service Support, WC Docket No. 05-337; and In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45

Dear Ms. Dortch:

On Wednesday, June 6th, 2007, on behalf of the AdHoc Telecommunications Users Committee, the undersigned and Susan M. Gately of Economics and Technology, Inc., met with John Hunter, Senior Legal Advisor to Commissioner McDowell, regarding the matter referenced above. The attachment hereto reflects the matters discussed at the meeting.

Respectfully submitted,

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The Ad Hoc Telecommunications Users Committee

cc: John Hunter, Legal Advisor to Commissioner Tate

Universal Service Briefing

I. Two serious problems threaten Universal Service.
   a. The Universal Service Fund (USF) has grown too large.
   b. The current methodology for assessing and collecting USF contributions is unsustainable.

II. The USF has grown too large
   a. Four components

USF (Billion of Dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007(est)
High cost	1.7	2.2	2.6	2.9	3.3	3.5	3.8	4.1	4.4
Low Income	0.5	0.5	0.6	0.7	0.8	0.8	0.9	0.8	0.7
Sch & Lib	1.0	1.6	1.7	1.6	1.6	1.5	1.6	1.7	1.9
Rural Health	0.1	*	*	*	*	*	*		
Total	**3.3**	**4.0**	**4.9**	**5.1**	**5.6**	**5.7**	**6.5**	**6.6**	**7.5 (est)**

- *means less than $100 Million

   b. RLECs
      i. Rule changes have caused some of the growth in explicit subsidies, but they still are subsidies
      ii. Unaccountable growth
         1. RTF Order
         2. State authorities are conflicted.
         3. FCC seems unwilling to tackle problem.
      iii. Careful scrutiny before throwing more money at the broadband problem
         1. Madison River data
            a. 1Q 2006 10Q: 99% of its lines are broadband capable.
            b. Drew $14.3 million from USF in 2006.
            c. USF draws for the first two quarters of 2007 are at an annualized rate of $11.6 million
         2. To what extent have the RLECs already deployed broadband?
         3. To what extent is broadband available from Cable TV or other providers?

4. Is adoption of broadband service a facilities issue or a price/demand issue?

c. CETCs
   i. Account for a significant portion of USF growth in recent years.
      1. 2003: about $150 million
      2. 2006: just under $1.0-billion
      3. 2006: 98.5% of that $1.0-billion went to wireless carriers
   ii. Policy issue: should USF be used to build to multiple networks?
   iii. Policy issue: should USF be used to subsidize both wireline and wireless service for the same subscriber?

d. Reverse auctions may be the best solution – if policy makers can accept there being only one winner.

III. The Unsustainable USF Assessment/Collection Methodology

a. The current methodology is revenue-based
   i. Revenues declining
      1. Substitutions
      2. Bundling
      3. Declining prices, which will drop much lower after the inevitable reformation of inter-carrier compensation
      4. Increasing the wireless safe harbor and assessing VoIP does not solve the problem.

b. FCC should move to an assessment methodology that is based on assigned working telephone numbers.

c. A pure numbers-based assessment methodology should be applied in a non-discriminatory manner.
   i. Low income consumers will be better-off
   ii. Most residential subscribers will be better off.
   iii. Business users will pay a larger portion of USF funding than under the current revenue-based assessment methodology
      1. Greater than 50% v. 42-46%
      2. Residential subscribers account for about 70% of non-broadband connections.
   iv. All broadband connections should be exempt.
      1. Assessments would still be made on telephone numbers associated with services supported by broadband connections.
      2. Capacity-based assessments on business broadband alone would constitute unreasonable discrimination.