

The Federal Communications Commission (FCC) is considering replacing the current revenues-based system of collecting universal service fees with a system based on telephone numbers. FCC Chairman Kevin Martin recently indicated that the FCC may adopt an order in the fall of 2007,¹ and numerous parties have filed comments in support of a numbers-based approach.² The comments submitted to the FCC demonstrate that replacing the current revenues-based system with a system based in whole or in part on telephone numbers will reduce distortions in the marketplace, lessen the administrative costs of collecting funds, provide more sustainable funding for the universal service fund, and provide significant benefits to residential telephone consumers.

Nevertheless, some organizations have expressed concern that a numbers-based fee would harm residential consumers. In particular, they have alleged that residential consumers would see a large increase in their universal service payments under a numbers-based plan and that a numbers-based system would harm especially seniors and low-income people.

IDT and others have already rebutted many of these arguments. On January 30, 2007, IDT filed a document released by the USF by the Numbers Coalition entitled “The Consumer Benefits of a Numbers-based Collection Mechanism to Support the Federal Universal Service Fund” (hereinafter “Consumer Benefits Study”).³ This document identified eight separate reasons why a numbers-based approach would benefit residential telephone consumers. For example, the report found that a numbers-based system would be easier for consumers to understand, would result in a fee that is comparable to the fees that residential consumers pay today, would be more predictable, would not punish consumers for times when emergencies require that they make many interstate calls, and would promote overall economic welfare.

The opponents of a numbers-based system continue to attack it, despite the fact that they have not responded to the Consumer Benefits study and, in general, provide no credible analysis or data to support their allegations of significant harm to residential consumers. For example, some opponents of a numbers-based system have focused their attention only on the amount of the per-number fee (which they exaggerate as \$1.50 or \$2.00 per month), while ignoring the amount that residential consumers are currently paying under the revenues-based system.⁴

In order to provide even more detail to explain the benefits of a numbers-based system to residential consumers, IDT contracted with TNS to provide more detailed data concerning residential consumers’ purchase of communications and other services and their current contributions into the USF. TNS is known as the leading analyst of consumers’

¹ See, “Martin Eyes Fall FCC Action on USF Numbers Plan,” *Communications Daily*, May 15.

² See the comments of AT&T, Verizon, CTIA, Ad Hoc Telecommunications Users Association and others in FCC Docket 06-122.

³ See, *Ex Parte Communication* from IDT Corporation, Jan. 30, 2007, Universal Service Contribution Methodology, WC Docket No. 06-122, “The Consumer Benefits of a Numbers-based Collection Mechanism to Support the Federal Universal Service Fund,” available at http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6518723969.

⁴ See, for example, http://keepusffair.org/KeepUSFFair/whats_at_stake.html. The materials put forth by this organization claim that a numbers-based fee would impose a new “tax” on residential consumers and do not appear to recognize that a numbers-based system would be revenue-neutral; it would collect the same amount of funding from consumers for the universal service fund as the current revenues-based system, just in a different manner.

telecommunications services. TNS gathers its data in two ways: it surveys 30 million households each quarter, and it examines 8 million consumers' telephone bills. The following summarizes the TNS data and explains their relevance to a numbers-based system.⁵

1. Residential consumers on the whole will pay about the same or slightly less in USF fees on their wireline telephone service under a numbers-based system than they pay today.

Consumer organizations typically object that a numbers-based system will impose greater costs on residential wireline consumers. (They appear less concerned with wireless consumers or business consumers.) To determine the actual impact of a numbers-based system on residential consumers, IDT asked TNS to determine the amount that residential consumers pay in USF fees today in order to compare that amount with the amount they would pay under a numbers-based system.

TNS Findings:

- The average USF payment for “wired” telephone service per household in 2006 was \$1.37/month. “Wired” service does not include cable modem service, DSL or wireless.⁶
- The average household subscribing to wired telephone service had 1.16 telephone lines in 2006.⁷

Discussion:

Current Revenues-based USF Fees: According to TNS, those households that subscribe to wired telephone service paid an average of \$1.37 per month in USF fees in 2006. This number reflects the total in monthly USF fees on the bill, and thus would include the USF fees on the subscriber line charge, any monthly minimum interstate long distance charge, and usage charges. This average also reflects all the telephone services on the telephone bill from that provider, including multiple phone numbers from that provider.

Proposed Numbers-based USF Fees: IDT and the USF by the Numbers Coalition estimate that a per-number USF fee would be in the range of \$1.00 to \$1.20 per month. Assuming that this estimate is accurate, we can estimate the total amount that would have been paid by the average household in USF fees in 2006 by multiplying this amount by the number of telephone numbers per home. TNS records show that, of those households that subscribe to wired telephone service,⁸ the average household has 1.16 wired telephone lines. Multiplying 1.16 by the estimated per-number fee of \$1.00 to \$1.20 means that the average residential household would

⁵ Under the terms of IDT's contract with TNS, IDT is obliged to protect the confidentiality of the underlying tables and spreadsheets that TNS produced. Pursuant to Sections 0.457 and 0.459 of the Commission's Rules, 47 C.F.R. §§ 0.457, 0.459 (1994), IDT is filing these spreadsheets under separate cover as confidential and proprietary.

⁶ See Attachment 1: USF by Service 5-10-07, TOTAL WIRED.

⁷ See Attachment 2: Number of Wired Phone Lines per Household.

⁸ For the purpose of this analysis, we are not including those households that do not subscribe to any wired telephone line, as presumably those consumers would not pay into the USF under either a revenues-based or a numbers-based system.

have paid between \$1.16 and \$1.39 in USF fees if a numbers-based system had been in effect in 2006. Thus, the TNS data support the conclusion that the average household paid about the same or slightly more in USF fees in 2006 (\$1.37) than the amount that they would have paid if the FCC had enforced a numbers-based fee in 2006 (between \$1.16 and \$1.39).

A per-number fee might be even better for residential consumers in 2007 than in 2006 because residential households are probably paying slightly higher USF fees in 2007 than they paid in 2006. The TNS data is based on survey data from 2006, when the average “contribution factor” was 10.2%. As the following table shows, the average contribution factor for the first three quarters of 2007 is higher (10.9%) than in 2006:

a. 1Q 2006: 10.2%	1Q 2007: 9.7%
b. 2Q 2006: 10.9%	2Q 2007: 11.7%
c. 3Q 2006: 10.5%	3Q 2007: 11.3%
d. 4Q 2006: 9.1%	
Ave. 2006 contribution factor: 10.2%	Ave. 2007 Jan-Sept: 10.9%

This means that the average residential household will likely pay significantly more in monthly USF fees in 2007 than they paid in 2006. In comparison, as demonstrated in the Consumer Benefits study, a per-number fee is likely to remain about the same in 2007 as it was in 2006.⁹ Therefore, this evidence supports the view that average residential households are likely to pay more in USF fees under the current revenues-based system in 2007 than they would have paid under a numbers-based system.

Furthermore, if past trends are any indication of the future, a numbers-based fee may be even more beneficial for residential households in years to come. Under the current revenues-based system, the contribution factor has risen from about 5.7% in 2000 to an average of 10.9% in 2007. Should the current system result in a continued increase in the contribution factor, a numbers-based fee is likely to become even more attractive to residential consumers.

Conclusions:

1. In 2006, the average residential household paid about the same or slightly more in USF fees (\$1.37 per month) than it would have paid under a numbers-based system (\$1.16 to \$1.39 per month).
2. In 2007, the average residential household is likely to pay even more in USF fees under the current system than it would pay under a numbers-based system because the

⁹ A numbers-based fee is not likely to increase as much as the current contribution factor because the number of telephone numbers is growing, while the base of interstate and international revenues is declining. See Attachment A of the Consumer Benefits study. See also, *ex parte* filing by James Blaszak on behalf of the Ad Hoc Telecommunications Users Committee (Ad Hoc) in *Federal-State Joint Board on Universal Service 1998 Biennial Regulatory Review*; WC Docket No. 06-122, August 11, 2006. While the Ad Hoc filing uses “assigned” numbers rather than “working” numbers, there is no reason to believe that the growth rates should differ. Ad Hoc states, “[t]he quantity of numbers “assigned” appears to be growing steadily with no signs of growth abating (see Table 2) – meaning that a numbers-based system should also be able to sustain additional growth in the fund itself . . .”

contribution factor for the first three quarters of 2007 is higher than it was in 2006, whereas the per-number fee is likely to be relatively flat.

3. If the contribution factor continues to increase in future years, residential consumers could save significant amounts of money if the FCC switches to a numbers-based system.

2. Low-income consumers are likely to benefit from a numbers-based system.

Critics of a numbers-based system sometimes allege that a numbers-based USF fee would harm low-income residential consumers because it would be more “regressive” than the current usage-based fee. They allege that the current revenues-based fee is “progressive” because the amount paid in USF fees increases with usage. The assumption behind this argument is that usage varies with income. In other words, these critics assume that lower income households make fewer long distance phone calls today than higher-income households, and thus they pay less today under the current (usage-based) system than they would pay under a numbers-based system that charges every consumer the same amount, regardless of usage.

As IDT and others have already pointed out in the Consumer Benefits study, there are a number of flaws with this argument:

First, the current system is not totally usage-based. Almost every consumer pays a flat, monthly subscriber line charge (“SLC”) that does not vary with usage. This SLC is considered an interstate telecommunications charge that is assessed a universal service fee. The average SLC is \$5.92, which means that residential consumers paid about \$0.60 in USF fees per telephone line even if the household made no long distance phone calls at all. When multiplied by the average number of phone lines per household (1.16), the average household paid about \$0.70 in flat USF fees regardless of usage. In other words, about one-half of every household’s USF fees today is made up of a flat (not usage-based) charge.

Second, the argument improperly focuses on “low-volume” consumers and assumes that low-volume consumers are the same as low-income consumers. (Presumably, the consumer advocates are not concerned with high-income people who are low-volume consumers.) IDT has questioned whether it is fair to use “low-volume” as a proxy for “low-income” consumers, because low-income consumers can make long distance calls.

Nevertheless, to understand more fully the experience of low-income consumers, IDT asked TNS to break down the amount that residential consumers are paying today in USF fees by income to determine how “progressive” the current system is. We then compare the current system to the numbers-based system in relation to household income.

TNS Findings:

- Monthly USF payments under the current system are relatively flat in relation to income.
 - Households making less than \$10,000 per year paid an average of \$1.09/month in USF fees for all wired services.

- Households making between \$20,000 and \$29,999 per year paid an average of \$1.31/month in USF fees for all wired services.
 - Households making between \$40,000 and \$49,999 per year paid an average of \$1.32/month in USF fees for all wired services.
 - Households making between \$70,000 and \$79,999 per year paid an average of \$1.44/month in USF fees for all wired services.
 - Households making between \$100,000 and \$124,000 per year paid an average of \$1.53/month in USF fees for all wired services.¹⁰
- Even low-income consumers appear to make significant use of the telephone network and generate a significant amount of USF fees based on long distance service.
 - Households making less than \$10,000 per year paid an average of \$0.68/month in long distance USF charges;
 - Households making between \$20,000 and \$29,999 per year paid an average of \$0.79/month in long distance USF charges;
 - Households making between \$40,000 and \$49,999 per year paid an average of \$0.80/month in long distance USF charges;
 - Households making between \$70,000 and \$79,999 per year paid an average of \$0.94/month in long distance USF charges; and
 - Households making between \$100,000 and \$124,999 per year paid an average of \$0.99/month in long distance USF charges.¹¹
 - Twelve percent (12%) of households had more than one wired telephone line in 2006.¹²

Discussion:

The current revenues-based system: Contrary to the assumptions behind those who support the current revenues-based system, the current revenues-based USF system is not particularly “progressive” and is actually relatively flat when compared to household income. The above data shows that households that generated between \$100,000 and \$124,999 in yearly income paid only \$0.44 more per month in USF fees than the lowest income households. In other words, households that earned about 1000% more in income paid only 40% more in monthly USF fees for their wired telephone services. This can be illustrated using the five data points cited above as follows:

¹⁰ See Attachment 1: USF by Service 5-10-07, TOTAL WIRED. TNS actually provided more specific data than these averages, but requested that IDT refrain from making the specific data points public for commercial reasons.

¹¹ See Attachment 3: USF by Service 5-10-07, LD WIRED. See previous note for a description of these averages.

¹² See Attachment 2: Number of Wired Phone Lines per Household.

Figure 1 – Comparison of the Increase In Income with USF payments



Opponents of a numbers-based approach often cite the hypothetical low-income grandparent living in a rural area who makes few long distance calls as an example of the type of consumer who would be harmed by paying a flat per-number fee that is unrelated to usage.

The information provided by TNS, however, demonstrates that this hypothetical may not represent low-income consumers accurately. TNS’ data shows that even low-income households tend to generate a significant amount of USF fees.¹³ For instance, even consumers in the lowest income category (below \$10,000) paid about \$0.68 in average long distance USF usage fees per month, indicating (assuming a 10.2% contribution factor) that low-income consumers paid an average of \$6.67 in long distance charges every month. While higher-income households pay slightly more in long-distance fees (\$0.99 for households between \$100,000 and \$124,999), the amount again is not nearly as great as the differential in income.¹⁴ In other words, low-income consumers are not necessarily low-volume consumers.

Perhaps the most significant information provided by TNS is that low-income consumers currently pay an average of \$1.09 in USF fees every month. This means that these low-income consumers would not be harmed by a per-number fee in the range of \$1.00 to \$1.20.

The Numbers-based System: The TNS data supports the view that the per-number fee as proposed by several parties is not “regressive” and in fact is likely to be more progressive than the current system. This is true for several reasons. First, Lifeline consumers would pay less under a numbers-based system than they pay today.¹⁵ Lifeline consumers today pay into the

¹³ This USF charge could be result from making long distance calls or from subscribing to a flat, minimum long distance charge plan.

¹⁴ This relatively small difference in the amounts paid for USF between the lowest income and highest income households probably also results from the fact that high-income residential consumers rely less upon their “wired” phone to make interstate and international telephone calls, and instead use wireless, Internet-based, or other communications services.

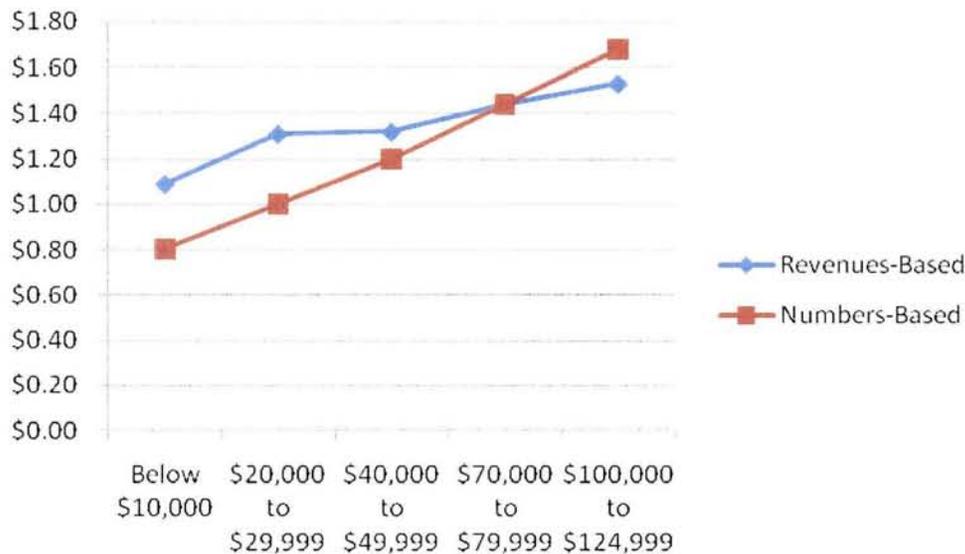
¹⁵ See, for example, the separate comments of AT&T, CTIA-The Wireless Association, the VON Coalition, and

USF based on their “interstate” calls; under the proposed per-number plan, Lifeline consumers would pay nothing.¹⁶

Second, households at the higher end of the income scale will pay more into the USF under a numbers-based system because they are more likely to have multiple wired telephone numbers per household. TNS found that 12% of households have two or more wired telephone lines per household. A family that has one additional wired telephone line will immediately pay double the amount paid by a family that has only a single wired line. Thus, a family with two wired lines will pay 200% of the amount paid by a lower-income family under a numbers-based system, while a family making over \$100,000 pays only 140% of the amount paid by a lower-income family under the current system.

Of course, not every family that is eligible for Lifeline service applies for and receives the Lifeline discount.¹⁷ The most recent FCC data show that approximately one-third of those households eligible for Lifeline actually subscribe to Lifeline service. Furthermore, not every household earning over \$100,000 per year has multiple wired telephone numbers. Nevertheless, making some reasonable estimates of these factors still demonstrates that the “curve” of the proposed per-number system would be more progressive than the current system:

Figure 2 - USF Contribution per Household Under Revenues-Based and Numbers-Based Systems.



Verizon in WC Docket 06-122, August 9, 2006. See also the Consumer Benefits Study.

¹⁶ Under the FCC’s rules, a household may apply for Lifeline certification if it makes less than 135% of the federal poverty guidelines. The poverty threshold for a four person family or household is \$27,878.

¹⁷ See *Lifeline and Link-Up*, WC Docket No. 03-109, Report and Order and Further Notice of Proposed Rulemaking, 18 FCC Rcd 8302, para. 1 (2004).

	Revenues-Based	Numbers-Based
Below \$10,000	\$1.09	\$0.80
\$20,000 to \$29,999	\$1.31	\$1.00
\$40,000 to \$49,999	\$1.32	\$1.20
\$70,000 to \$79,999	\$1.44	\$1.44
\$100,000 to \$124,999	\$1.53	\$1.68

(NOTE: The numbers-based estimate depends on the following: 1. All of the families earning below \$10,000 in income are eligible for Lifeline and one-third of them actually subscribe to Lifeline; 2. One-half of families with incomes between \$20,000 and \$29,999 are eligible for Lifeline, and one-third of those that are eligible for Lifeline actually subscribe to Lifeline; 3. Households with incomes below \$49,999 have one wired phone per household; households with income between \$70,000 and \$79,999 have 1.2 wired phones per household; and households with income between \$100,000 and \$124,999 have 1.4 wired phones per household).

It is logical to believe that wired telephone service (numbers) would show a higher correlation with income than telephone usage because of the pricing trends over the past few years. Prices for interstate long distance services have declined dramatically over the past 15 years. The FCC's data show that the average revenue per minute for an interstate call has dropped from \$0.15 in 1992 to \$0.06 in 2004.¹⁸ Simply put, long distance calls are much less expensive than they used to be, and these lower prices allow even low-income consumers to make more long distance calls than 15 years ago. By comparison, the average monthly charge for a basic (wired) telephone connection has risen from \$17.70 per month in 1986 to \$24.74 per month in 2005.¹⁹ The cost of a second telephone line is likely to be cost-prohibitive for lowest-income consumers, but well within the budgets of highest-income consumers. For these reasons, a USF fee based on telephone numbers is likely to correlate more with income, and thus be more "progressive," than the current usage-based USF fee.

Conclusions:

1. A numbers-based USF system is likely to be more progressive than the current revenues-based system, even when the analysis is restricted to residential wired telephones (e.g. not including wireless or Internet).
2. Consumers in the lowest-income category paid an average of \$1.09 in USF fees on their wired telephone bill. Thus a per-number fee in the range of \$1.00 to \$1.20 is unlikely to harm these low-income consumers.
3. Even low-income consumers make a significant number of long distance calls and pay into the USF. According to TNS, even the lowest income category of residences paid an average of \$0.68/month in long distance USF charges. In other words, low-income consumers are not necessarily low-volume consumers.

¹⁸ Universal Service Monitoring Report, CC Docket No. 98-202, December 2006; Prepared by Federal and State Staff for the Federal-State Joint Board on Universal Service in CC Docket No. 96-45, Table 7.8 - Average Revenue per Minute.

¹⁹ Monitoring Report, Table 7.6 - Average Residential Rates for Local Service in Urban Areas

3. The growth of bundling makes it even more difficult to enforce the current revenues-based system.

One of the reasons that the revenues-based system needs to be replaced is that it no longer matches the marketplace. The FCC's current regime requires only a subset of all communications revenues to contribute into the USF – only interstate and international, end user, telecommunications services are assessed a USF fee. This means that intrastate services, carrier's carrier or wholesale services, and information services are generally not assessed a USF fee.

While separating communications revenue into these categories may have been relatively straightforward ten years ago when the current system was adopted, that is not the case today. Today, firms are selling, and consumers are purchasing, bundled packages of services that include intrastate services and information services (that are not assessed a USF fee) along with their assessed services. The bundling of these assessable and non-assessable services into a single package, sometimes at a flat rate, makes it extremely difficult to determine accurately the proper USF payment that the provider must make. The growth of bundled or packaged services thus threatens the ability of the government to enforce the current system, which means that some companies (and consumers) are paying more than they should, and others are paying less. The current system inevitably leads to mistakes, mis-reporting, and arbitrariness in decision-making. Furthermore, it is difficult for consumers to understand which portion of their bundled package of services must contribute into the USF and which portion does not.

IDT and others have argued that the number of households that purchase these packages is growing larger, and the enforceability of the current system is becoming more difficult over time. To see whether this argument has merit, IDT asked TNS to provide information concerning the percentage of households that are purchasing packages or bundles of services.

TNS Findings:

- The percentage of households that purchase a bundled package of services has grown from 48% in the 1st quarter of 2005 to 56% in the 4th quarter of 2006.
- Of those households that purchased some form of bundled service package, 42% of them purchase a service in addition to local and long distance telephone service.
 - The percentage of households that purchase a service in addition to local and long distance telephone service has grown from 27% in the first quarter of 2005 to 42% at the end of 2006.
 - The most common service that households bundle with their telephone service is high-speed Internet service. At the end of 2006, 36% of consumers who purchase a package of local and long distance service also purchase high-speed Internet access as a part of that package.²⁰

²⁰ See Attachment 4: Wired Line Spending and Bundle Combinations 5-08-07.

Discussion:

The data provided by TNS supports the notion that bundling of services is becoming increasingly attractive to consumers and increasingly popular in the marketplace. Over half of U.S. households purchased a package of interstate and intrastate communications services from the same provider in 2006. This means that consumers are increasingly bundling non-assessable intrastate services together with assessable interstate services. Furthermore, an increasing number of consumers are adding high-speed Internet into the mix, which introduces its own complexity. In 2005, the FCC reached the decision to treat “broadband” services as a type of “information services,” and ruled that these broadband services would no longer be assessed a USF fee. As consumers choose to bundle their non-assessable broadband services into their mix of non-assessable intrastate and assessable interstate services, companies are facing the growing prospect of paying into the USF based on estimates of their interstate telecommunications end user revenue, rather than the exact amount. This uncertainty distorts the marketplace, causes some companies to pay more and others less than their proper share, and jeopardizes the integrity of the entire USF program.

A numbers-based fee, in contrast, is relatively easy to administer no matter whether the consumer purchases a single stand-alone local telephone service or a bundled package of multiple services. A numbers-based fee would provide clarity to consumers and a level playing field for providers of service.

Conclusions:

- The TNS data show that the current revenues-based system is increasingly difficult to enforce, as more consumers are purchasing bundled packages of services.
- Over 50% of households now purchase a package of local and long distance service.
- An increasing percentage of households are purchasing high-speed Internet access (broadband) and other services with their telephone service, making future enforcement of the current revenues-based system even more difficult.

4. Conclusion: The data supplied by TNS confirms that a numbers-based system would benefit residential consumers.

The data provided by TNS confirms that residential consumers would be better off if the FCC replaces its current revenues-based system for USF with a system based in whole or in part on working telephone numbers. The evidence supports the following conclusions:

- a. Residential consumers, on the whole, pay higher USF fees today and will pay more in the future than they would pay under a numbers-based system.
- b. A numbers-based system is not “regressive”; in fact, a numbers-based system would be more “progressive” in relation to income than the current revenues-based system.

- c. Lower income consumers are not necessarily “low-volume” consumers; low-income households purchase a significant amount of long distance calling and would pay about the same USF fee or less under a numbers-based system than they pay today.
- d. Residential consumers are increasingly purchasing bundled packages of services that include assessable and non-assessable services. The current system is harder to enforce and leads to inaccuracies in reporting the correct amount of USF payments. The result is that some residential consumers are paying more than their fair share of USF fees.

A numbers-based solution avoids many of the difficulties associated with a revenues-based system. A numbers-based solution is simpler to administer, easier for consumers to understand, and provides greater certainty. Based on the TNS data, it appears that a numbers-based system would provide significant benefits to residential consumers, including a reduction in the amount of fees that households must pay to support the federal universal service fund.

Attachment 1

USF by Service 5-10-07, TOTAL WIRED

REDACTED -- PROPRIETARY AND CONFIDENTIAL

Attachment 2:

Number of Wired Phone Lines per Household

REDACTED -- PROPRIETARY AND CONFIDENTIAL

Attachment 3:

USF by Service 5-10-07, LD WIRED

REDACTED -- PROPRIETARY AND CONFIDENTIAL