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August 20, 2007

Via Electronic Submission

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
The Portals
445 12th Street, SW
Washington, D.C. 20554

Re: CC Docket Nos. 96-45 and 06-122, Written *Ex Parte* Presentation

Dear Ms. Dortch,

AT&T has long advocated fundamental reform of the nation's universal service high-cost support mechanisms. Our advocacy for reform has always included both the contribution and distribution sides of the equation. The current contribution mechanism which is based on a percentage of interstate end-user telecommunications revenues, is unsustainable. Reform must include replacing the existing contribution mechanism with a telephone numbers/connections-based system. AT&T has previously made detailed proposals for shifting to a telephone numbers/connections-based contribution mechanism.¹ Such a mechanism would eliminate the increasingly complex task of classifying and segregating services and their associated revenues as either assessable (interstate, telecommunications service) or non-assessable (intrastate, non-telecommunications service).

TracFone recently submitted a "Prepaid Wireless 'By the Minute' USF Contribution Proposal".² Under TracFone's proposal, USF contributions for providers of "pay as you go" prepaid wireless service³ would be calculated based on their minutes of use, rather than on assessable telephone numbers, if in the future the Commission implements a numbers-/connections-based contribution methodology. Under TracFone's proposal a separate contribution factor would be calculated for prepaid wireless service. This contribution factor would be calculated by dividing the average industry-wide wireless customer's monthly usage by the monthly per-number USF contribution charge. The contribution factor would be then multiplied by each prepaid

¹ See Comments of AT&T, WC Docket No. 06-122 (filed Aug. 9, 2006); Comments of SBC Communications Inc., CC Docket No. 01-92 (filed May 25, 2005).

² See TracFone's Notice of *Ex Parte* Presentation, CC Docket No. 96-45, WC Docket No. 05-337 (filed July 12, 2007).

³ TracFone's proposal would only apply to "pay as you go" prepaid wireless service for which the provider has no direct, monthly billing relationship with the end user customer. This letter will refer to "pay as you go" prepaid wireless services simply as "prepaid" wireless services.

provider's actual minutes of usage to calculate each such provider's monthly USF contribution associated with prepaid wireless service.⁴

TracFone's proposal would create an exception to the telephone numbers/connections methodology for prepaid wireless customers by essentially prorating the per-number contribution rate based on prepaid customers' wireless service usage.⁵ The Keep USF Fair Coalition notes in its July 10, 2007 letter to the Commission that such an exception is appropriate because prepaid wireless service is the only option for affordable wireless phone service for many of its constituent members. As support for its position, the Keep USF Fair Coalition highlights the fact that Tracfone has estimated that 15 percent of its customers have annual household incomes under \$10,000 and that 49 percent of its customers have annual household incomes under \$25,000. The Seniors Coalition also supported Tracfone's proposal on the basis that millions of seniors and others with low and fixed incomes rely upon prepaid wireless service for affordable telecommunications as compared to postpaid services.⁶ While AT&T has historically resisted exceptions to its proposal to simplify and stabilize the federal universal service funding base through a telephone numbers/connections contribution methodology, it nevertheless supports the Tracfone exception for the limited purpose of addressing the low income and fixed income issues identified by the Keep USF Fair Coalition and the Seniors Coalition.

Pursuant to Section 1.1206 of the Commission's rules, this notice is being filed electronically in the above-referenced docket. Please feel free to contact me if there are any questions regarding this matter.

Sincerely,

/s/ Henry G. Hultquist

cc: T. Navin
J. Marcus

⁴ Although not explicitly noted in the proposal, AT&T observes that the average wireless monthly usage and the provider's reported prepaid wireless service minutes would need to exclude *intrastate* minutes of use in light of the Commission's jurisdictional limitations contained in Section 2(b) of the Communications Act. *See Texas Office of Public Utility Counsel v. FCC*, 183 F.3d 393, 446-48 (5th Cir. 1999) (subsequent case history omitted as irrelevant to this issue). For prepaid wireless services, therefore, the proposed methodology may thus retain at least some of the complexities of the existing interstate revenue-based system. If this presents a barrier we note that other, potentially simpler, options exist for addressing the issues Tracfone raises in a numbers-/connections-based contribution system.

⁵ As we understand it, the Tracfone methodology would apply only when a provider's average minutes of use per telephone number per month are less than the industry-wide average monthly wireless usage. In order to best target the methodology to the services upon which customers with low and fixed incomes rely, AT&T suggests that the prepaid contribution factor be updated regularly to ensure it reflects current usage trends.

⁶ *See* The Seniors Coalition *Ex Parte* Presentation, CC Docket No. 96-45 (attached to TracFone's Notice of Ex Parte Presentation, CC Docket No. 96-45, WC Docket No. 05-337 (filed July 12, 2007)).