

Kathleen Grillo
Vice President
Federal Regulatory



1300 I Street, NW, Suite 400 West
Washington, DC 20005

Phone 202 515-2533
Fax 202 336-7922
kathleen.m.grillo@verizon.com

November 2, 2007

EX PARTE

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

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

Dear Ms. Dortch:

On November 1 and 2, 2007, Kathleen Grillo and Chris Miller of Verizon met with Scott Bergmann, Senior Legal Advisor to Commissioner Adelstein, Scott Deutchman, Legal Advisor to Commissioner Copps, John Hunter, Senior Legal Advisor to Commissioner McDowell, and Chris Moore, Legal Advisor to Commissioner Tate. In addition, on November 2, 2007, Kathleen Grillo and Ed Shakin of Verizon and John Scott of Verizon Wireless met with Ian Dillner, Legal Advisor to Chairman Martin.

Verizon reemphasized its support for the Joint Board's recommended cap on high cost support to competitive ETCs. The interim cap is vital to the long-term stability of the Universal Service Fund, and its adoption is a necessary step toward meaningful comprehensive reform. Verizon discussed the Joint Board's recommendation to consider abandoning or modifying the identical support rule. Verizon also described its proposal to use competitive bidding or reverse auctions to distribute universal service support. Verizon distributed the attached materials during these meetings.

Marlene H. Dortch
November 2, 2007
Page 2 of 2

Please contact me directly if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Kathleen Grillo". The signature is written in a cursive, slightly slanted style.

Attachment

cc: Scott Bergmann
Scott Deutchman
Ian Dillner
John Hunter
Chris Moore



**Modernizing Universal Service:
Meeting America's Universal Service Goals in a Competitive Future**

- Verizon and Verizon Wireless have filed a detailed, comprehensive reform proposal
- **Verizon's Proposal is a Measured, Balanced Approach**
 - Takes immediate steps to stabilize the fund
 - Introduces auctions gradually, starting where they can do the most good
 - Consumers benefit from lower surcharges, new services
 - Results in a more efficient and sustainable USF
- **Problems With the Current Fund**
 - Growth cannot continue unchecked; total USF now tops \$7 billion; funding for CETCs has grown from \$20 million to almost \$1 billion in five years
 - The current rules do not provide incentives to become efficient; companies who spend more, get more; when ILECs get more, CETCs get more
 - USF money is not being used to build out to unserved areas; a recent study by Criterion Economics shows that 97% of the population covered by subsidized wireless CETCs already has coverage from one or more unsubsidized wireless providers
- **The Necessary First Step to Comprehensive Reform is Adopting the Joint Board's Recommendation for an Interim Cap**
 - There is widespread consensus that the current rules need comprehensive and serious reform
 - Real reform will not occur unless and until the fund's growth is under control; a temporary, interim cap provides the Joint Board and the FCC the breathing room to develop long-term solutions to the fund's problems
- **Long-Term Reform Should Be Based on Auctions or Competitive Bidding**
 - Competitive bidding is the normal way for government to buy products and services
 - Selects the most efficient provider
 - Ensures the best terms for the public
 - Transparent, open process
 - Auctions are the best way to answer the question: "What does universal service cost?"
 - Auctions also answer the question: "What support is sufficient?"

Details of Verizon -Verizon Wireless USF Reform Proposal

- **Step One: Stabilize the Fund**
 - Adopt an interim cap
 - The cap can be modified to take account of specific concerns (GCI's proposal, waivers for unserved areas)
- **Step Two: Adopt a Framework and Auction Design**
 - Take advantage of recent advances in auction design
 - Flat amount of support for the winner
 - Reserves based on capped support
- **Step Three: Phase in Auctions for Wireless and Wireline CETCs**
 - Separate auctions for wireless and wireline providers in areas with multiple ETCs
 - Auction selects a single wireless and wireline provider of universal service in each area
 - Begin with wireless auctions, then move to wireline auctions
- **Step Four: FCC Reviews Auction Experience**
 - Considers changes in market, technology, customer acceptance
 - Considers appropriate next steps, including whether to extend auctions more broadly

What About Unserved Areas?

- Verizon has proposed a framework that would allow areas with unmet needs to be funded using savings made possible by auctions for CETC support, without increasing the size of the fund
- FCC would use auction results to prioritize the areas that would receive new funding

What About Broadband?

- The challenge for policymakers is to combine a commitment to accelerating broadband deployment with a universal service fund that is manageable and sustainable
- The solution is not necessarily to extend the traditional universal service mechanisms to broadband; other solutions may make more sense such as Connected Nation, public-private partnerships