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November 19, 2007

EX PARTE SUBMISSION

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

Re: *Ex parte* Contact in *Universal Service Contribution Methodology Federal-State Joint Board on Universal Service 1998 Biennial Regulatory Review*; WC Docket No. 06-122

Dear Ms. Dortch:

Through this submission, the AdHoc Telecommunications Users Committee (AdHoc) updates the record in the above-referenced proceedings regarding the appropriate method for assessing Universal Service Fund (USF) contributions. Once again, AdHoc urges the Commission to replace the existing revenue-based USF contribution assessment methodology with a pure numbers-based methodology. With the passage of time, the record for a pure numbers-based contribution assessment methodology grows stronger.

AdHoc Supports A Pure Numbers-Based Assessment Methodology Even Though The Methodology Would Cause Business Subscribers To Fund A Disproportionate Share Of The USF.

The attachments to this letter update data that AdHoc presented to the Commission on May 18 and August 11, 2006. The new data show that business users would have funded more than fifty percent (50%) of the 2007 USF if a pure numbers-based contribution assessment methodology had been in place for 2007, despite the fact that residential subscribers account for seventy percent (70%) of all non-broadband connections to the public switched network (PSN). This is a slight increase over AdHoc's previous calculation of the USF contributions that business users would have made in 2006 if a pure numbers-

based contribution assessment methodology had been in place for 2006.[1] The current revenue-based assessment scheme results in business subscribers funding about 44-46% of the USF requirements. Under a pure numbers-based methodology, business users shoulder a funding obligation disproportionately higher than their share of PSN connections, because they on average utilize four working telephone numbers for each PSN connection.[2] Accordingly, business users would on average make a $4.00 monthly USF contribution for each PSN connection while residential subscribers, except for low income subscribers who would be exempt from USF payments, pay about $1.00 per month.[3] Business service subscribers on average would pay four times as much as residential subscribers for each PSN connection. Nevertheless, AdHoc supports a pure numbers-based USF assessment methodology.

All Working Telephone Numbers Should Be Assessed Equally.

In the past, and presumably still, the wireless industry has sought and still seeks a fifty percent (50%) discount for working telephone numbers associated with non-primary family plan handsets.[4] Although the wireless industry claims that the fifty percent discount is justified to mitigate the impact of a numbers-based assessment methodology on family plan subscribers, its claims are nothing more than an effort to protect an industry favored marketing plan. Indeed, neither CTIA nor exchange carriers have even attempted to demonstrate that the resulting discrimination would be justified on affordability, rate shock or other legitimate grounds. Perhaps the reason that the wireless industry has not tried to make such showings is that it would be hard pressed to do so given the significant overage charges subscribers face when they exceed the usage limits in their prepaid plans.

Discounting the USF assessments associated with working telephone numbers for wireless family plan non-primary phones would invite discounting for Centrex lines, DID numbers served via PBX trunks and other applications. Exceptions to a uniform assessment per working telephone number could cause the monthly assessment of about $1.00 per working telephone number to

[1] AdHoc, *Ex Parte* Contact in WC Docket No. 06-122, August 11, 2006; *Ex Parte* Contact in CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116 and 98-170, May 18, 2006.
[2] *Id.*
[3] *Id.*
[4] CTIA, The Consumer Benefits of CTIA – The Wireless Association's Numbers-Based Universal Service Contribution Proposal, April 26, 2006

increase. Wireless family plan subscribers, and possibly others, would benefit from such unjustified discrimination while other subscribers would unfairly suffer and service providers utilizing wireline technology would be competitively disadvantaged.

A Numbers-Based Assessment Methodology Should *Not* Include A Connections-Based Assessment.

Ever willing to shift USF contribution burdens to wireline services but, of course, cognizant of the attractiveness of keeping per number assessments at about $1.00 per month, CTIA apparently would recover at least a significant chunk of the funding shortfall that would be created by its plea for USF assessment discounts for wireless family plans by imposing capacity-based USF assessments on broadband connections.[5] CTIA does not explicitly identify the degree to which it would recover the USF funding shortfall from special access, except to note that it, "[s]upports capacity tiers and multipliers that appropriately reflect how customers of different categories of non-switched connections value the services they purchase." CTIA, however, argues that "[r]esidential broadband services associated with a number would not be separately assessed…."[6]

CTIA's apparent recommendations regarding USF assessments on broadband access would constitute indefensibly bad, anti-business public policy. No logical or economically rational reason justifies transferring higher levels of USF-funding obligations to businesses, non-profits and governmental entities as they use higher bandwidth services – yet this is precisely what would occur with any "weighted" broadband or special access connection assessment plan. Rather than encouraging U.S. businesses to find ways to utilize the most effective, efficient and available technologies to compete in the global marketplace, inflated USF assessments on broadband facilities would discourage business users from using higher bandwidth facilities. It seems that CTIA would have the Commission adopt policies that disserve this country so that its "family plans" enjoy a competitive advantage not available to other technologies.

[5] *Id.* at 5.
[6] *Id* at 5.

Except For Low Income Subscribers, A USF Assessment Methodology Should Not Discriminate Between Residential And Business Consumers.

While AdHoc believes it inappropriate to introduce a connections-based broadband assessment component into a numbers-based USF assessment scheme, if the Commission were to conclude that such a component should be included, the Commission must treat business customers utilizing broadband connections for access to switched services the same as residential customers. The telephone numbers associated with the switched services accessed via such broadband connections should be the only USF assessment on those facilities. The business broadband connections used for such switched services should not also be subjected connections-based capacity USF assessments. If the Commission were wrongly to assess such broadband connections on the basis of capacity *and* telephone numbers, the Commission must assess residential and business broadband connections alike. Requiring capacity-based assessments only on business high capacity broadband connections, given that such connections are used by business and residential customers for access to Internet services as well as switched services, would violate the just, reasonable and affordable requirements of Section 254(b)(1) of the Communications Act, prohibitions on unjust and unreasonable rates and unreasonable discrimination found, respectively, in Sections 201(b) and 202(a)[7] of the Communications Act, the reasoned decision making requirement of the Administrative Procedures Act[8] and the Equal Protection clause of the Constitution.[9]

In the *BWIA Order* the Commission essentially found that wireline broadband services, when used by facility-based providers of broadband wireline Internet access for the purpose of providing Internet access, are not "telecommunications services" and as such, eventually will not be subject to the USF collection mechanism.[10] While the most common LEC residential Internet access service available today is DSL, the *BWIA Order* does not limit its findings to DSL. Verizon's FiOS service, for example, offers a fiber-based broadband Internet access capability at speeds up to 30 MBPS that would fall under the new BWIA rules. FiOS has greater capacity than many special access connections,

[7] See, *Texas Office of Public Utility Counsel v. FCC,* 265 F.3d 313, 425 (5th Cir. 2001).
[8] 5 U.S.C. 551 et seq.
[9] In *Bolling v. Sharpe,* 347 U.S. 497 (1954), (the Supreme Court used the Fifth Amendment's due process guarantees to apply equal protection principle to actions by the federal government.)
[10] *BWIA Order* at paras. 112 and 113.

and certainly will be used for many applications, including voice, data transport, i.e., transport of electronic files, Internet access and entertainment services.

As telecommunications networks become IP networks, applications for residential and business customers will converge on single integrated networks with bundled pricing. Internet access will be one of many applications using these converged networks. Network capacity rather than usage will be sold. Networks will not distinguish between voice packets, video packets, data packets and Internet usage packets, except when class of service ("CoS") markers are attached to real time applications, such as voice, (but not all users will utilize CoS markers), or perhaps when broadband providers want to extract premium rates.[11] Moreover, in any period of time Internet access service will consume more or less of the bandwidth on IP networks, and it will be impossible to determine reasonably how much capacity is consumed by Internet access. Such determinations, however, would be necessary because Internet access service is not subject to USF contributions as a result of the regulatory classification of that service under the *BWIA Order*. The implications of the *BWIA Order* and rapidly emerging network technology make clear that imposing capacity-based USF contributions on broadband connections to which residential customers and businesses subscribe would be anything but visionary.

Conclusion

Instituting a pure-numbers based USF contribution assessment methodology is long past due. Delay in implementing a pure-numbers-based USF assessment methodology will result in continued loss of consumer welfare.[12] Adulterating this methodology by injecting unjustified discounts for wireless and possibly other services and by imposing capacity-based charges on broadband connections would harm residential and business broadband customers, and certainly would be inconsistent with advancing competitive neutrality.

[11] Nor would the Commission want carriers to attempt to identify the applications embedded in packets (assuming that such identification would be feasible) because (1) peering into the content of customer usage would jeopardize personal privacy and business security interests and (2) would likely impose added costs on service providers that they then would pass onto residential and business subscribers, resulting in the Commission being responsible for more dead weight loss imposed on the economy.

[12] *See* The Regulatory Studies Program of the Mercatus Center in George Mason University, Ex Parte Communication in WC Docket No 06-122, November 2, 2007.

Respectfully submitted,

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Updated 11/13/2007

Table 1

Monthly Per Number Assessment Required to Fund Current Universal Service Program Demand
(Assuming Exemption for Lifeline Customers)

	Number Category	Units	As of:	Source:
(1)	ILEC numbers	300,915,000	30-Jun-2006	FCC *Numbering Resource Utilization in the US,* Aug 2007
(2)	CLEC numbers	64,072,000	30-Jun-2006	FCC *Numbering Resource Utilization in the US,* Aug 2007
(3)	Toll Free numbers	22,709,753	30-Jun-2006	FCC *Numbering Resource Utilization in the US,* Aug 2007
(4)	Paging numbers	7,937,000	30-Jun-2006	FCC *Numbering Resource Utilization in the US,* Aug 2007
(5)	Wireless numbers	243,428,202	30-Jun-2007	http://files.ctia.rog/pdf/CTIA_Survey_Mid_Year_2007.pdf
(6)	TOTAL NUMBERS	639,061,955		Sum of lines (1) - (5)
(7)	Lifeline Connections	6,916,212	30-Jun-2007	USAC Appendix LI08 for 1 Q 2008 at http://www.universalservice.org/about/governance/fcc-filings
(8)	TOTAL NUMBERS-BASED UNITS (ASSUMING LIFELINE EXEMPTION)	632,145,743		Line (6) - Line (7)

	USF Program Demand	Dollars	Estimate as of:	Source:
	USF Program Forecast Demand 4 Q 2007			
(9)	1st Quarter 2007	$ 1,856,590,000	13-Sep-2007	*Public Notice, Proposed 4th Quarter 2007 Universal Service Contribuion Factor* FCC DA 07-3928
(10)	Annualized 2007 Demand	$ 7,426,360,000		Line (9) * 4

	Calculation of Required Per Number Assessment		
(11)	Total Monthly Numbers-based Units	632,145,743	Line (8)
(12)	Annualized Numbers-based Units	7,585,748,916	Line (11) * 12
(13)	**Required Monthly Per Number Assessment**	**$ 0.98**	**Line (10) / Line (12)**

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Table 2

The Quantity of "Assigned" Numbers Continues to Grow

	Wireline			Other			
	ILEC	CLEC	ILEC + CLEC	Wireless	Pagers		TOTAL
	(Numbers are all shown in thousands)						
December, 2000	303,336	24,799	328,135	99,019	24,000	Est**	451,154
June, 2001	305,938	27,942	333,880	111,734	23,621		469,235
December, 2001	305,430	30,941	336,371	128,493	18,001		482,865
June, 2002	Data missing	Data missing	Data missing	Data missing	Data missing		Data missing
December, 2002	297,433	29,892	327,325	141,766	14,111		483,202
June, 2003	304,966	30,169	335,135	151,861	12,641		499,637
December, 2003	299,903	31,699	331,602	160,623	11,208		503,433
June, 2004	308,155	43,779	351,934	169,987	9,260		531,181
December, 2004	305,132	51,112	356,244	183,998	8,469		548,711
June, 2005	302,725	56,932	359,657	197,308	7,999		564,964
December, 2005	299,264	62,433	361,697	211,905	8,251		581,853
June, 2006	300,915	64,072	364,987	225,844	7,937		598,768

Average Annual Growth Rate -- December 2000 to December 2005 6%

Growth Rate - December 2005 to June 2006 - Annualized 6%

Source: FCC *Number Resource Utilization in the United States,* Reports for the periods listed above. Quantity of pager numbers listed in the December 2000 report is inconsistent with other industry data, and estimate is used for that data point instead.

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Table 3

Businesses Use (on average) Four Numbers for Each Switched Access Connection

	Line Category	Units	As of:	Source:
(1)	ILEC Residential Switched Access Lines	92,414,935	30-Jun-2006	FCC *Local Telephone Competition,* 01/07, Table 2
(2)	CLEC Residential Switched Access Lines	12,372,950	30-Jun-2006	FCC *Local Telephone Competition,* 01/07, Table 2
(3)	ILEC Business Switched Access Lines	49,834,733	30-Jun-2006	FCC *Local Telephone Competition,* 01/07, Table 2
(4)	CLEC Business Switched Access Lines	17,409,291	30-Jun-2006	FCC *Local Telephone Competition,* 01/07, Table 2
(5)	Total Res. Switched Access Lines	104,787,885	30-Jun-2006	Line (1) + Line (2)
(6)	Total Bus. Switched Access Lines	67,244,024	30-Jun-2006	Line (3) + Line (4)

	Number Category	Units	As of:	Source:
(7)	ILEC numbers	300,915,000	30-Jun-2006	FCC *Numbering Resource Utilization in the US,* Aug 07
(8)	CLEC numbers	64,072,000	30-Jun-2006	FCC *Numbering Resource Utilization in the US,* Aug 07
(9)	Toll Free numbers	22,709,753	30-Jun-2006	FCC *Numbering Resource Utilization in the US,* Aug 07
(10)	Total Landline Numbers	387,696,753		

Calculation of Average Quantity of Numbers Used Per Business Switched Access Line

(11)	Assumed Quantity of Numbers Per Residential Switched Access Line	1.1	Generous assumption based upon study of residential number utilization
(12)	Assumed Total Numbers Used by Residential Switched Access Lines	115,266,674	Line (5) * Line (11)
(13)	Assumed Total Numbers Used by Business Switched Access Lines	272,430,080	Line (10) - Line (12)
(14)	Estimated Quantity of Numbers Used Per Business Switched Access Line	4.05	Line (13) / Line (6)

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Table 4

Business Users Will Pay Half of All USF Assessments Under a Numbers-Based Plan

	Number Category	Units	Source:
(1)	Assumed Total Wireline Numbers Used by Business Switched Access Lines	272,430,080	Table 3, Line (13)
(2)	Total Wireless Numbers	243,428,202	http://files.ctia.rog/pdf/CTIA_Survey_Mid_Year_2007.pdf
(3)	Estimated Business % of Wireless numbers	25%	*FCC Eleventh CMRS Report, at Footnote 555.*
(4)	Estimated Business Wireless numbers	60,857,051	Line (2) * Line (3)
(5)	Total Paging Numbers	7,937,000	FCC *Numbering Resource Utilization in the US,* Aug 2007
(6)	Estimated Business % of Wireless numbers	100%	Assumption
(7)	Estimated Business Wireless numbers	7,937,000	Line (5) * Line (6)
(8)	Total Estimated Numbers Utilized by Business Users	341,224,130	Line (1) + Line (4) + Line (7)
	Calculation of Portion of Total Universal Service Funding that Would Be Collected From Business Users Under a Pure Numbers Based Plan		
(9)	Total Numbers-Based Units (Assuming Lifeline Exemption)	632,145,743	Table 1, Line (8)
(10)	Percentage of Total Universal Service Program Demand Funded by Business Subscribers	54%	Line (8) / Line (9)

Table 5

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Results of Analysis of Percentage of USF Revenue Collected from Business Under Present Revenue-Based Mechanism

	Estimation Method 1	Consumer	Business	As of:	Source:
(1)	Wireline Revenues -- 2006 Forecast	$ 56,686,050,000	$69,282,950,000	Prelim 2006	Based upon 499 Q Data throuugh 11/06 and Investor Briefings. See Note 1
(2)	Wireless Revenues -- 2005	$ 99,669,750,000	$33,223,250,000	30-Jun-2007	CTIA Semi-Annual Wireless Survey Summary, p.2 . See Note 2.
(3)	Wireline Interstate Factor	43%	43%	30-Jun-2007	See Factors Development below
(4)	Wireless Interstate Factor	23%	23%	30-Jun-2007	See Factors Development below
(5)	Estimated USF Revenue Base	$ 47,299,044,000	$37,433,016,000		(Line 1 * Line 3) + (Line 2 * Line 4)
(6)	**Estimtated Business % of USF Contribution**		**44%**		**Lline 5 "business" revs / (Line 5 "consumer" revs + Line 5 "business" revs)**

	Estimation Method 2	USF Revenue Base	Estimated "Business" Market Share	As of:	Source:
(7)	ILECS	$ 16,843,000,000		30-Dec-2005	www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/telrev05.zip
(8)	CLECS	$ 4,837,000,000		30-Dec-2005	www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/telrev05.zip
(9)	IXCs	$ 23,249,000,000		30-Dec-2005	www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/telrev05.zip
(10)	Wireless	$ 25,732,000,000		30-Dec-2005	www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/telrev05.zip
(11)	ILECS		40%	1st Quarter 2006	See Factors Development below
(12)	CLECS		65%	1st Quarter 2006	See Factors Development below
(13)	IXCs		60%	1st Quarter 2006	See Factors Development below
(14)	Wireless		25%	1st Quarter 2006	See Factors Development below
(15)	Estimated "Business" Portion of USF Base	$ 30,263,650,000			(Line 7 * Line 11) + (Line 8 * Line 12)+(Line 9 * Line 13) + (Line 10 * Line 114)
(16)	**Estimtated Business % of USF Base**		**43%**		**Line 6 / (sum of lines 7 through 10)**

"Factors" Development

Line (3)	Wireline Interstate Factor	Ratio of Interstate/Int'l Revenue to Total Revenues for all services EXCEPT Mobile. Data from FCC website www.fcc.gov/Common_Carrier_Reports/FCC-State_Link/IAD/telrev05.zip, Table 6.
Line (4)	Wireless Interstate Factor	Ratio of Interstate/Int'l Revenue to Total Revenues for all Mobile services. Data from FCC website www.fcc.gov/Common_Carrier_Reports/FCC-State_Link/IAD/telrev05.zip, Table 6.
Line (11)	"Business" Share of ILEC USF Revenue Base	Ratio based upon estimates developed using reported SLC revenues as proxy for all surchargeable local service revenues
Line (12)	"Business" Share of CLEC USF Revenue Base	Ratio developed using same SLC revenue proxy used for ILEC revenues applied to CLEC line counts
Line (13)	"Business" Share of IXC USF Revenue Base	Ratio developed based upon analysis reported in AT&T, Verizon and Sprint annual reports.
Line (14)	"Business" Share of Wireless USF Revenue Base	FCC Eleventh CMRS Report, at Footnote 555.

NOTES

Note 1	Annualized Wireline Revenue based upon 499Q reports wireline services through 11/06. Consumer/Business split based upon Verizon, AT&T Inc. and Qwest taken from 3 Q 2007 Investor Briefing Reports, found at carrier websites accessed on November 13, 2007 in "Investor Relations" sections. "Business" category contains revenues for both "business" and "enterprise" categories for those carriers that break it out separately.
Note 2	Total Wireless Industry Revenues for 2007 of $132.8-Billion. Revenues were split between "consumer" and "business" based upon estimate used by the FCC in the Tenth CMRS Report (footnote 487) that 25% of wireless revenues are attributable to business customers.