NASUCA
NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES

VIA ELECTRONIC DELIVERY

September 30, 2008

Chairman Kevin Martin
Commissioner Jonathan Adelstein
Commissioner Michael Copps
Commissioner Deborah Tate
Commissioner Robert McDowell
Federal Communications Commission (via e-mail)

Re: Ex Parte Communication, WC Dockets Nos. 08-152, 07-135, 06-122, 05-337, 05-195, 04-36, 03-109, and 02-60; CC Dockets Nos. 02-6, 01-92, 00-256, 99-68, 96-262, 96-45, and 80-286

Dear Chairman Martin and Commissioners:

On July 7, 2008, the National Association of State Utility Consumer Advocates ("NASUCA"), at the Federal Communications Commission's ("FCC" or "Commission") invitation,[1] filed comments to update the Commission in a number of the above-listed dockets.[2] Since that time, there has been a flood of filings in those and other dockets, to

[1] "Interim Cap Clears Path for Comprehensive Reform, Commission Poised to Move Forward on Difficult Decisions Necessary to Promote and Advance Affordable Telecommunications for All Americans," FCC Press Release (May 2, 2008) ("Press Release").

[2] *High-Cost Universal Service Support*, WC Docket No 05-337 ("05-337"); *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45 ("96-45"); *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135; *Universal Service Contribution Methodology*, WC Docket No. 06-122 ("06-122"); *Comprehensive Review of the Universal service Fund Management, Administration, and Oversight*, WC Docket No. 05-195; *Lifeline and Link-Up*, WC Docket No. 03-109; *Rural Health Care Support Mechanism*, WC Docket No. 02-60; *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6; *Intercarrier Compensation Reform*, CC Docket No. 01-92 ("01-92"); *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket No. 00-256; *Intercarrier Compensation for IP-Bound Traffic*, CC Docket No. 99-68; *Access Charge Reform*, CC Docket No. 96-262; *Jurisdictional Separations and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, Comments of the National Association of State Utility Consumer Advocates to Refresh the Record (July 7, 2007).

which NASUCA now responds in order that the consumer voice can be heard over the continuing din of industry special pleading.[3] The industry filings address the tightly intertwined issues of intercarrier compensation and universal service.

Most of the filings integrate three crucial but seriously incorrect concepts, which are in fact entirely severable and deserve separate, not unified, response. The first concept is that intercarrier compensation ("ICC") should be unified, for all types of calls, for interstate and intrastate jurisdictions, at $0.0007 per minute.[4] The second concept is that incumbent carriers should be able to recoup any revenues lost as a result of lowering current ICC rates to the $0.0007 level, through a combination of increases to interstate subscriber line charges ("SLCs") and additional receipts from the federal universal service fund ("USF").[5] And the third concept is that these increases in the USF will be made in the context of a USF contribution mechanism that assesses telephone numbers, in place of the current revenue-based mechanism.

Many of the filings refer to the mandamus order issued by the D.C. Circuit Court of Appeals *In re: Core Communications, Inc.,* No 07-1446, 2008 WL 2649636 (DC Cir. July 8, 2008).[6] That order, of course, dealt with the remand of the Commission's rules regarding reciprocal compensation for Internet service provider ("ISP")-bound traffic. That order requires the Commission to justify the rules regarding that traffic, or see them reversed. The D.C. Circuit order does not require the Commission to adopt a global ICC framework by November 2008; the Commission need not do so, and should not attempt to.

A unified rate of $0.0007 is arbitrary and not cost-based.

None of the recent comments make any pretense that the proposed $0.0007 rate has any basis in any carrier's costs of termination or transport, much less the costs of all the carriers who will be subject to the rate. Indeed, the National Exchange Carrier Association ("NECA") recently argued that this rate does not even cover its members' cost of billing, let alone network costs.[7]

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[3] There were 123 filings in 05-337 and 132 filings in 01-92 between July 7, 2008 and September 24, 2008. (Some of those filings may have been made in both dockets.) New filings continue to be made; this response focuses on filings up through September 23, 2008.

[4] *IP-Enabled Services*, WC Docket No. 04-36 ("04-36"), 01-92, letter from AT&T, CompTIA, CTIA – The Wireless Association, Global Crossing, the Information Technology Industry council, National Association of Manufacturers, New Global Telecom, PointOne, Sprint Nextel Corp., the Telecommunications Industry Association, T-Mobile, Verizon and the VON Coalition (August 6, 2008) ("Unified Rate 8/6/08 letter"). The letter itself acknowledges the many policy differences among the signatories; subsequent filings (e.g., the T-Mobile filing of August 27, 2008 in 04-36 and 01-92) show how narrow the agreement was.

[5] See, e.g., 01-92, 96-45, Verizon filing (September 12, 2008) ("Verizon 9/12/08 filing").

[6] See, e.g., 99-68, 01-92, Pac-West ex parte (August 18, 2008).

[7] 96-45, 01-92, 06-122, *In the Matter of Petition of AT&T Inc. for Interim Declaratory Ruling and Limited Waivers Regarding Access Charges and the "ESP Exemption,"* WC Docket No. 08-152, NECA ex parte (September 11, 2008) at [3].

The agreement of the thirteen entities that signed off on the Unified Rate 8/6/08 letter seems to have been driven – for net payors – by the certainty of the low rate, and for net payees, by the assurance that they either do not need the lost revenues or, more likely, have the capability of extracting the losses from their customers or the USF. When the Commission set the $0.0007 rate for transport and termination of ISP-bound traffic there was no inference that such rates were cost-based, even for the largest carriers like AT&T and Verizon.[8] Smaller carriers' costs are higher, making a uniform $0.0007 rate far from cost-based, and likely violative of 47 U.S.C. § 254(g).

Which is not to say that a unified rate would not be a good thing; and also not to say that individual carriers might not mutually agree to use such a rate – or a lower one[9] -- for their traffic. But to impose such a rate on all carriers, and to preempt state authority over intrastate ICC, is quite another thing, and must be rejected.

In a White Paper presented to Commission Staff on September 19, 2008, Verizon purported to show how the Commission could "reasonably select $0.0007 per minute as the single, default rate for all traffic routed over the" public switched telephone network ("PSTN").[10] The facts that this is already the default rate for much current traffic,[11] that some intercarrier agreements include this or a lower rate,[12] and that such agreed-upon rates are just and reasonable[13] *for those carriers*, does not mean that such a rate is just and reasonable if imposed on unwilling carriers and unwilling states. Indeed, the imposition of such rates is the antithesis of the "market-based" pricing that Verizon touts.[14] And the fact that applying the $0.0007 rate to all traffic would make arbitrage impossible or unprofitable[15] is not particular to that rate; any uniform rate would serve that purpose.[16]

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[8] See 07-21, 05-342, Ex parte filing of Ad Hoc Telecommunications Users Committee (September 8, 2008).

[9] Such as the zero rate implied by a bill and keep methodology.

[10] 01-92, 04-36, 06-122, Verizon ex parte (September 19, 2008), White Paper ("The Commission Has Legal Authority to Adopt a Single, Default Rate for All Traffic Routed on the PSTN") ("Verizon White Paper"), at 30. The Verizon White Paper also includes (at 14-30) a discussion on the basis for preempting state authority in this area. NASUCA will not specifically address these arguments at this time, other than to note our firm opposition to preemption of state authority over intrastate traffic.

[11] Id. at 30.

[12] Id. at 31.

[13] Id.

[14] Id. at 32.

[15] Id.

[16] There have been other ex partes that indicate discussion with Commission personnel of the purported appropriateness of the preemptive imposition of the $0.0007 rate (see, e.g., 01-92, 05-337, 96-45, 99-68, 07-135, AT&T ex parte (September 23, 2008)) but those do not publicly reveal any of the details of such conversations.

The Commission should not guarantee replacement of lost access charge revenues for carriers.

The central point of the incumbent carriers' proposals is that the revenues lost from reductions in ICC (principally from access charges, but also likely from reciprocal compensation) must, or at least should be, replaced.[17] The replacement would come from various sources, but Embarq's proposal to recover the revenue from other access charges is perhaps unique in not looking to end-user charges for recovery.[18] Most typically, the recovery would come from a combination of SLC increases and draws on the USF. For Verizon, the proposal is a $4.00 increase in the SLC cap (for an unspecified total recovery), and the creation of a new USF sub-fund specifically for access recovery, again in an unspecified amount. In July, AT&T proposed something similar[19]; and the notion of mandated revenue recovery is implicit in the Missoula Plan.[20]

Indeed, Verizon's and AT&T's proposals may be frighteningly similar to the Missoula Plan in another respect. As consistently pointed out by NASUCA **and never rebutted by any carrier**, the Missoula Plan's solution to a $6 billion decrease in ICC[21] was a $7.5 billion drain from customers, including a $4.7 billion increase in subscriber line charges ("SLC")[22] and a $2.8 billion addition to the USF.[23]

None of these plans acknowledge in their revenue recovery proposals, despite claiming that access charge revenues are declining, that any recovery should also be set up to decline as the minutes of use decline. And all of the plans simply assume that there is an entitlement to all of the lost revenues. No such statutory requirement is cited.[24]

The closest they get is in the USF part of the argument, where the claim is made that the revenues are necessary for universal service and for broadband development. There may

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[17] See Verizon 9/12/08 filing; 01-92, 05-337, 96-45, 99-68, *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135 ("07-135"), letter from Robert W. Quinn, Jr. (July 17, 2008) ("AT&T 7/17/08 ICC filing"); Embarq filing.

[18] *In the Matter of Petition for Waiver of Embarq Local Operating Companies of Sections 61.3 and 61,44-61.48 of the Commission's Rules, and Any Associated Rules Necessary to Permit It to Unify Switched Access Charges Between Interstate and Intrastate Jurisdictions*, WC Docket No. 08-160 (filed August 1, 2008).

[19] AT&T 7/17/08 filing at 6.

[20] See 01-92, NASUCA Initial Comments (October 26, 2006) at 2-3 (footnote omitted).

[21] Id. at 36.

[22] Id. at 37.

[23] Id., NASUCA Reply Comments (February 1, 2007) at 13.

[24] Despite NTCA's claim that a $0.0007 rate would be confiscatory (see 01-92, 04-36, NTCA filing (September 12, 2008) at 4), the cases make clear that such an allegation must be viewed in context of a company's entire operations, not just a single rate element. See, e.g., *Duquesne Light Co. v. Barasch*, 488 U.S. 299, 311 (1989).

be such needs, but the connection between these revenues from access charges and the specific investments that will allegedly be harmed by the loss of revenue is never detailed.[25] Specifically, there is no allegation that every dollar of those revenues is necessary to ensure that rural rates and services are reasonably comparable to urban rates and services.[26]

On the other hand, with the SLC, the representation is made that the SLC increases will only provide an "opportunity" to recover the revenues, because competition will prevent SLCs from being placed at the caps.[27] These claims are made in the face of the fact that the supposedly competitive environment has not prevented the current SLCs from being priced at the caps.[28] It should be recalled that the Commission previously found that SLC increases were appropriate when SLCs of $6.50 resulted in an under-recovery of costs from 30% of national access lines, despite the showing that there was an over-recovery from far more lines. If the SLC were to be raised to $10.50, there would be an even greater proportion of lines allowing over-recovery, and an even smaller portion of lines where there might be an under-recovery of costs from the SLC standing on its own.

And the plans also ignore the sources of other revenues that will offset the lost access charge revenues. For example, there is the revenue from the growing amount of Internet protocol ("IP") traffic that will now be definitively subject to requirements to pay ICC.[29] The plans also ignore the cost savings the carriers will enjoy as a result of paying the reduced access charges on all traffic.[30]

AT&T's and Verizon's plans are explicitly built around AT&T's notion – expressed in a filing made with the Petition addressed in 08-152 – that "comprehensive reform" can only be accomplished in the context of a zero-sum game of only three "interdependent 'dials'" – terminating intercarrier rates, federal SLCs, and universal service support.[31] Under AT&T's proposal, if intercarrier rates are reduced ("dialed down"), then either SLCs or the universal service fund ("USF") – or both – must be increased ("dialed up") to make up the difference.[32] This proposal self-centeredly and simplistically ignores the

[25] This is especially true for the price cap companies, which have – supposedly in the interest of competition – divorced themselves from rate-of-return regulation.

[26] 47 U.S.C. § 254(b)(3).

[27] AT&T 7/17/08 ICC filing at 7.

[28] Indeed, some SLCs are currently above the caps.

[29] 08-152, NASUCA Comments (August 21, 2008) at 11-13.

[30] 01-92, 04-36, NTCA ex parte (September 12, 2008) at 5.

[31] AT&T ICC letter at 4-5; see also id., AT&T filing (July 24, 2008); id., Verizon filing (September 3, 2008).

[32] Id. at 6. Indeed, in a September 17, 2008 filing in 05-337, 96-45 and 01-92, AT&T comes at the issue from a different direction, arguing that if the Commission provides additional USF support to any carrier, the carrier should be required to reduce its switched access charges by an amount equal to the USF received.

full array of services from which AT&T (and other carriers) receive revenues – traditional wireline service, broadband services, and, indeed video and other services. Intercarrier compensation, SLCs and the USF are but three of the numerous spigots from which dollars flow to fill up the telephone companies' revenue buckets. All of these "buckets" must be included when addressing lost revenues.

A numbers-based contribution mechanism is unnecessary, will create new opportunities for arbitrage, and will not benefit consumers.

On September 10, 2008, AT&T and Verizon met with Wireline Competition Bureau staff to present their joint proposal to implement a telephone numbers-based universal service contribution methodology. That meeting was memorialized in an ex parte filing on September 11, 2008 ("AT&T/Verizon 9/11/08 Contribution Mechanism Filing").

The AT&T/Verizon 9/11/08 Contribution Mechanism Filing includes a four-page "Highlights" section. There it is stated that:

> The current contribution methodology is outdated. It was designed for a world where phone companies offered customers separate local and long distance telephone plans and not much else. Today, consumers increasingly choose "all distance" bundled offerings from a variety of providers, which often include video, voice, and data for one price. To report revenues to USAC, providers must distinguish "interstate" revenues from "intrastate" revenues and "telecommunications services" from "information services." New and advanced services like IP and broadband make these distinctions more complex and increase the incentives for companies to "cheat" on their contributions. Thus, companies that compete with each other for the same customers pay into the fund in different ways, skewing the competitive landscape.[33]

The key factor this argument misses is that the basis of contributions to the federal USF is the law, as expressed in 47 U.S.C. § 254(d), which states that

> [e]very telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the … mechanisms established by the Commission to preserve and advance universal service. … Any other provider of interstate telecommunications may be required to contribute to the preservation and advancement of universal service if the public interest so requires.

[33] AT&T/Verizon 9/11/08 Contribution Mechanism Filing, Highlights of a "Direct" Numbers-Based System ("Highlights") at 1.

Hence the emphasis in the current mechanism is on interstate revenues, and revenues from telecommunications services. Indeed, the Commission's early attempts to assess intrastate services for the federal USF were quickly rejected by the courts.[34] The use of telephone numbers as the basis for USF assessment unnecessarily blurs the requirements of the law.

As a further justification for the proposal, the allegation is made that

> **[a]s a consequence of these market changes**, the contribution factor (which determines the USF fee customers pay) is failing to keep pace with the growth of the universal service fund. The contribution factor rose from 5.7% in 2000 to 11.4% in the third quarter of 2008, and will likely rise again in the future.[35]

This rationale is demonstrably false. The growth in the USF contribution factor is almost entirely the result of the growth in the fund requirements, rather than a decline in interstate revenues. Once again, NASUCA presents to the Commission the charts and graphs that show that the interstate revenue base for the USF has been remarkably stable **for the past six years**. And once again, NASUCA notes that, as NASUCA has previously demonstrated, the revenue-based mechanism is actually more robust and equitable than a connection-based mechanism, even when the needs of the fund grow substantially.[36]

Among other benefits attributed to the numbers-based mechanism[37] are that

> [a] numbers-based system, by contrast, will result in a more stable customer USF charge that will not vary as much or as frequently. It will stabilize the universal service fund by capturing all providers of voice services regardless of the technology. It will more equitably distribute the cost of universal service among customers and take into account the technologies that people actually use. And finally, it will eliminate the need to distinguish among different types of revenues, which is increasingly difficult as the industry evolves.[38]

The primary source of the purported stability of the numbers-based mechanism proposed by AT&T and Verizon has little to do with the mechanism itself. Instead, it is the result

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[34] *Texas Office of Public Utility Counsel v. FCC*, 183 F.3d 393, 449 (5th Cir. 1999).

[35] Highlights at 1 (emphasis added).

[36] CC Docket No. 96-45, et al., NASUCA Reply Comments on Staff Study (May 16, 2003) at 7-11. No party has, to NASUCA's knowledge, attempted to refute these findings.

[37] See also 06-122, NASUCA ex parte (September 25, 2007), a detailed rebuttal of the proposals for a numbers-based mechanism.

[38] Id. at 1-2.

of calculating the factor only every six months, rather than every quarter.[39] As noted above and shown in the attachment, the variability in the current mechanism is driven much more by the needs of the fund, rather than variations in the revenue base. The current mechanism could probably be rendered more stable with a semi-annual recalculation; similarly, a numbers-based mechanism would likely show substantial variation if calculated on a quarterly basis.

As for the numbers-based mechanism "capturing all providers of voice services regardless of the technology," it is not clear which providers of voice services currently escape being assessed for the USF. And even under a numbers-based mechanism, services such as Skype will continue to avoid assessment.[40] The same holds true for "tak[ing] into account the technologies that people actually use."

As far as "more equitably distributing the cost of universal service among customers" is concerned, the proposal shows nothing of the sort. The one thing the proposal **does** do is to eliminate the need to distinguish among different types of revenues. But the need to distinguish among different types of numbers is substituted.

The AT&T/Verizon proposal would exempt Lifeline customers from USF assessments.[41] It would also exclude numbers used by carriers for administrative or operational functions.[42] It would also exclude prepaid wireless numbers, which would be assessed on a per-minute-of-usage basis.[43] It would also assess wireless family share plan numbers at a reduced rate.[44]

But there are plenty of other types of numbers out there that can make a case for special treatment.[45] As NASUCA previously stated, "Some of these requests for special

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[39] See AT&T/Verizon 9/11/08 Contribution Mechanism Filing, Direct USF Contribution Methodology at 2.

[40] See 06-122, 96-45, Ionary Consulting ex parte (September 19, 2008) at [4].

[41] See 9/11/08 Contribution Mechanism Filing, Direct USF Contribution Methodology at 3. As previously discussed by NASUCA, this also is not a feature inherent in the numbers-based mechanism and also could be applied under the current mechanism. Currently, Lifeline customers are exempt from USF assessment on their SLCs. pursuant to 47 C.F.R. § 69.158.

[42] Id.

[43] Id.

[44] Id. at 4. It is not clear whether these numbers would eventually be subject to a full assessment after a "transition" period. The justification for a reduced assessment is apparently that "the shared allocation of monthly minutes means that family plan subscribers limit each other's use of the network." Highlights at 3. But that is driven more by the size of the family bucket of minutes than by anything else. It also is not clear why a shared plan of 800 minutes with four members should pay less than four individual plans of 200 minutes each.

[45] See 06-122, 05-337, 96-45, NASUCA ex parte (August 5, 2008) at 3-4 (listing some of the requests for special treatment); see also 06-122 NASUCA ex parte (September 25, 2007) at 6-8. See also 06-122, 96-45, Ionary Consulting ex parte (September 19, 2008) at [2, 3-4] (special treatment for Direct Inward Dialing ("DID") numbers).

treatment may well be meritorious, but that merely emphasizes the uneven treatment that would be given to numbers, and the opportunities for arbitrage that would be created."[46] Obviously, to the extent that some numbers are excused from assessment, or receive a reduced assessment, this merely increases the burden on the holders of other numbers.

The AT&T/Verizon proposal estimates that "the per-telephone number charge will be between $1.00 and $1.10 per number under this plan, but the exact charge will depend on how the FCC structures the new contribution system and how many numbers are exempted from the assessable base."[47] Although the 9/11/08 Contribution Mechanism Filing lacked any detail on the calculations, some of that detail seems to have been provided by a subsequent filing.[48] Yet the numbers are still changing: In the 9/11/08 Contribution Mechanism Filing, it was estimated that, under a numbers-based mechanism, residential customers' contributory share of the USF will decrease from what the proposal describes as the current 50% of the fund to 46%.[49] In the Data Review filing, AT&T and Verizon peg the consumer responsibility at 48%, purportedly declining to 42% with the wireless family plan adjustment.[50] Yet the consumer share calculation in the Data Review filing excludes the allocation to prepaid wireless service[51]; if that exclusion is reversed, the true consumer share is much closer to the share under the current mechanism. We would also note that the 2003 Staff Study showed that under the revenue-based mechanism, in 2007 residential customers would be paying 42% of the USF, which would have been 45% under a numbers-based mechanism.[52]

But the overall class share masks the impact on individual users. There can be no doubt that a numbers-based mechanism shifts funding responsibility from high interstate users to those who use few interstate services. AT&T and Verizon note that under the current mechanism, a customer who makes no (interstate) long distance calls pays an assessment of $0.74, based on an 11.4% assessment on a $6.50 SLC.[53] Yet under the numbers-based proposal, that same customer will pay the full $1.00-$1.10 (or higher) projected by the proposal. The Data Review filing includes a table purporting to show benefits to a wide variety of customers, but it is clear even from that table that the highest users benefit the most.[54]

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[46] Id. at 4.

[47] Highlights at 2.

[48] 06-122, 96-45, AT&T/Verizon ex parte (September 23, 2008) ("Data Review").

[49] Highlights at 2.

[50] Date Review, Tables 1 and 2.

[51] Id., Table 2.

[52] 96-45, et al., NASUCA Initial Comments on Staff Study on Contribution Mechanisms and Reply Comments on Contribution Mechanisms (April 18, 2003) at 4.

[53] Highlights at 3.

[54] Data Review, Table 4.

Fundamentally, it has not been shown that the switch to a numbers-based contribution mechanism is necessary. And it has not been shown that this change will benefit consumers, particularly if one considers the cost of switching to a new mechanism even with the limited exemptions and adjustments proposed in the AT&T/Verizon filings.[55]

CONCLUSION

As demonstrated here and in many other pleadings, there is no justification for 1) moving to a uniform $0.007 ICC rate; 2) allowing carriers to recoup lost ICC revenues through increased SLCs and the USF; or 3) moving to a numbers-based USF contribution mechanism. The FCC must reject the various proposals that would allow such unreasonable actions, particularly the proposals of the two largest carriers in the Nation.

Respectfully submitted,

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[55] NASUCA's September 25, 2007 ex parte in 06-122 provides an extensive review of the reasons against adopting a numbers-based mechanism.

USF Contribution Calculation

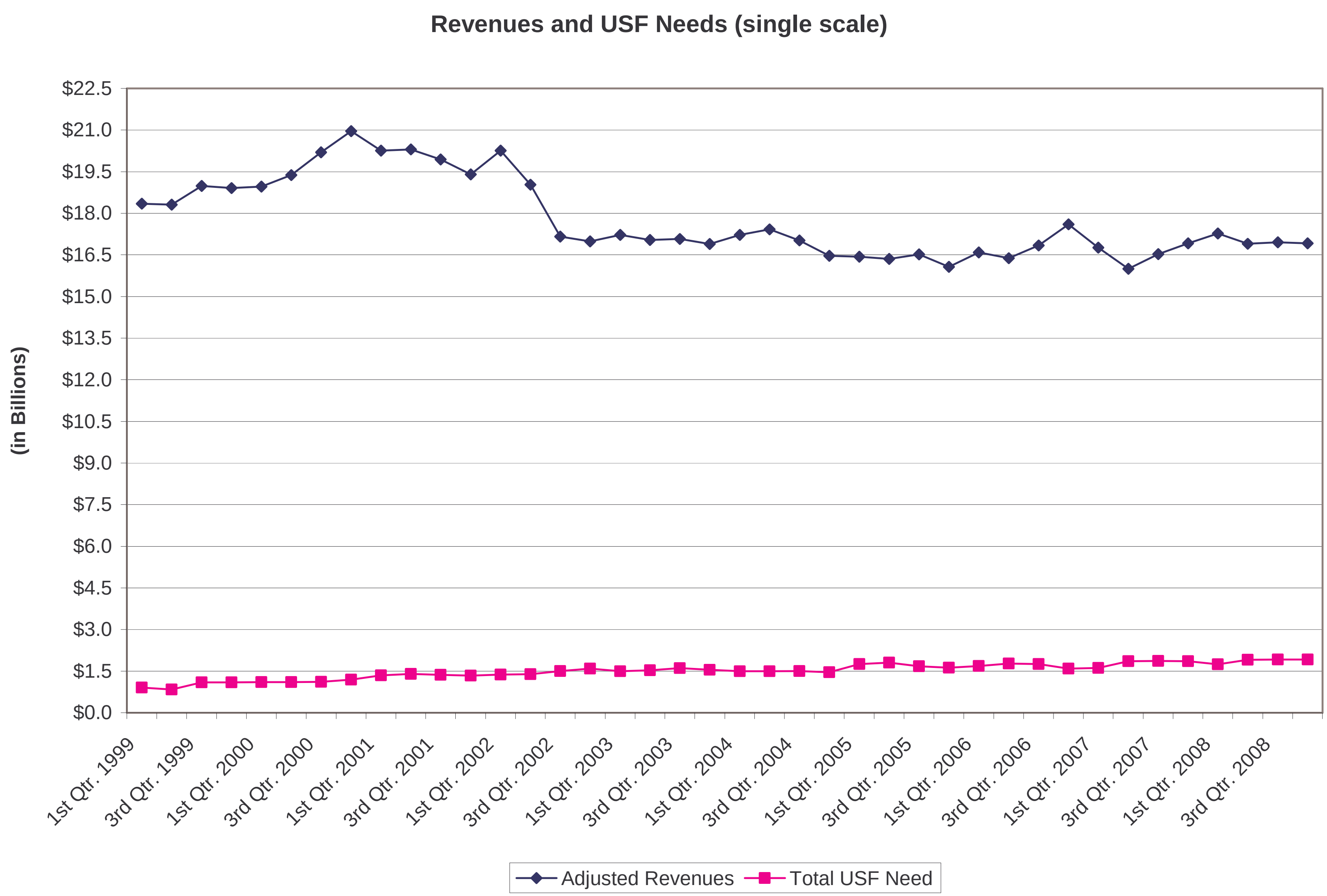
	Unadjusted Revenues	Adjusted Revenues	Total USF Need	Contribution Factor	
1st Qtr. 1999	18.35	18.35	0.91	0.050	
2nd Qtr. 1999	18.31	18.31	0.84	0.046	
3rd Qtr. 1999	18.99	18.99	1.10	0.058	
4th Qtr. 1999	18.91	18.91	1.10	0.058	
1st Qtr. 2000	18.96	18.96	1.11	0.059	
2nd Qtr. 2000	19.38	19.38	1.11	0.057	
3rd Qtr. 2000	20.20	20.20	1.12	0.055	
4th Qtr. 2000	20.96	20.96	1.19	0.057	
1st Qtr. 2001	20.26	20.26	1.35	0.067	
2nd Qtr. 2001	20.30	20.30	1.40	0.069	(a)
3rd Qtr. 2001	20.14	19.94	1.37	0.069	
4th Qtr. 2001	19.60	19.40	1.34	0.069	
1st Qtr. 2002	20.45	20.26	1.38	0.068	
2nd Qtr. 2002	19.22	19.03	1.39	0.073	
3rd Qtr. 2002	18.68	17.16	1.51	0.088	(b)
4th Qtr. 2002	18.49	16.99	1.59	0.093	(b)
1st Qtr. 2003	18.89	17.22	1.50	0.087	(b)
2nd Qtr. 2003	18.74	17.04	1.53	0.091	(c)
3rd Qtr. 2003	18.84	17.07	1.61	0.095	
4th Qtr. 2003	18.61	16.89	1.55	0.092	
1st Qtr. 2004	18.89	17.22	1.50	0.087	
2nd Qtr. 2004	19.10	17.42	1.50	0.087	
3rd Qtr. 2004	18.71	17.02	1.51	0.089	
4th Qtr. 2004	18.10	16.47	1.46	0.089	
1st Qtr. 2005	18.35	16.43	1.76	0.107	
2nd Qtr. 2005	18.33	16.36	1.81	0.111	
3rd Qtr. 2005	18.37	16.52	1.68	0.102	
4th Qtr. 2005	18.36	16.07	1.63	0.102	(d)
1st Qtr. 2006	18.45	16.59	1.69	0.102	
2nd Qtr. 2006	18.32	16.38	1.77	0.109	
3rd Qtr. 2006	18.77	16.84	1.76	0.105	
4th Qtr. 2006	19.36	17.60	1.59	0.091	
1st Qtr. 2007	18.55	16.76	1.62	0.097	
2nd Qtr. 2007	18.01	16.00	1.86	0.117	
3rd Qtr. 2007	18.57	16.53	1.87	0.113	
4th Qtr. 2007	18.95	16.92	1.86	0.110	
1st Qtr. 2008	19.19	17.27	1.75	0.102	
2nd Qtr. 2008	18.98	16.90	1.91	0.113	
3rd Qtr. 2008	19.04	16.95	1.92	0.114	
4th Qtr. 2008	19.01	16.92	1.92	0.114	

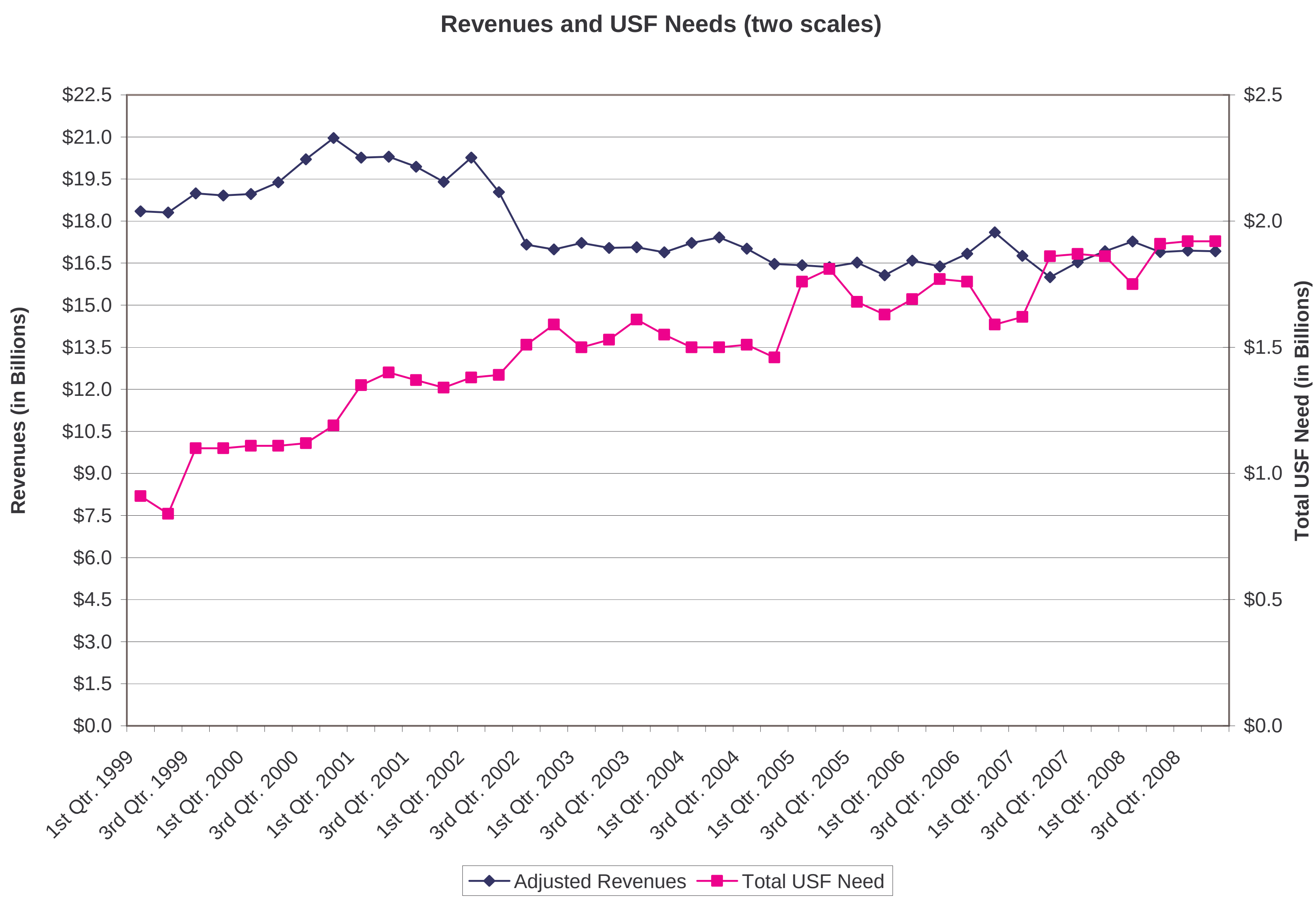
Source: Contribution Factor Public Notices.

Notes:

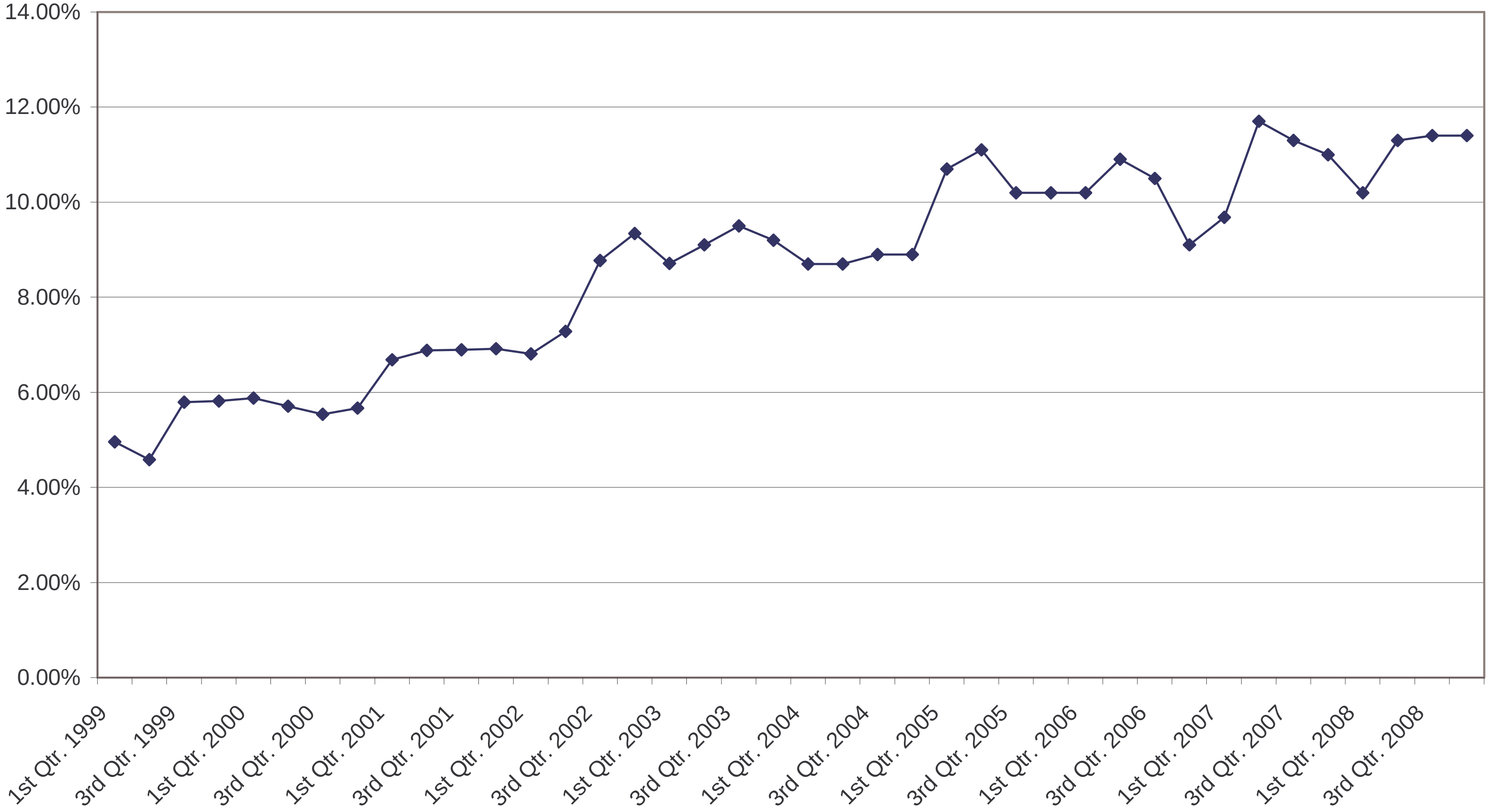
(a) Prior to 2Q01, the quarterly numbers were calculated using a 6-month base, so there is no comparable figure for unadjusted revenues.

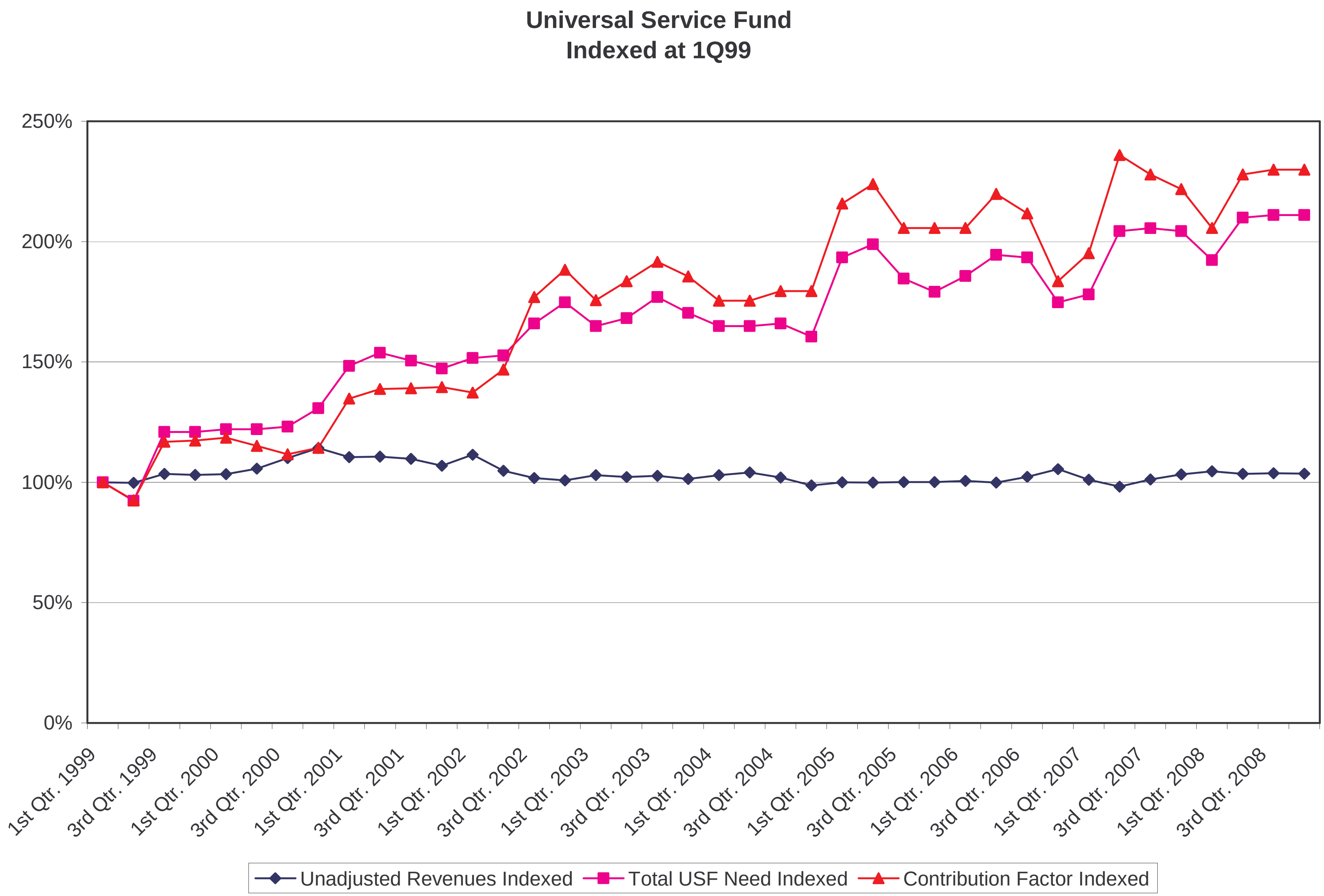
(b) For 3Q02, 4Q02 and 1Q03, the FCC adjusted the contribution factor. The factor shown here is the
unadjusted (calculated) factor.
(c) Beginning 2Q03, a circularity factor was applied that increased the
adjustment.
(d) For 4Q05, because of the impact of Hurricane Katrina, the FCC adjusted the contribution base to $17.87 billion to maintain the contribution factor at 10.2%.


Revenues and USF Needs (single scale)
(in Billions)
$22.5
$21.0
$19.5
$18.0
$16.5
$15.0
$13.5
$12.0
$10.5
$9.0
$7.5
$6.0
$4.5
$3.0
$1.5
$0.0
1st Qtr. 1999
3rd Qtr. 1999
1st Qtr. 2000
3rd Qtr. 2000
1st Qtr. 2001
3rd Qtr. 2001
1st Qtr. 2002
3rd Qtr. 2002
1st Qtr. 2003
3rd Qtr. 2003
1st Qtr. 2004
3rd Qtr. 2004
1st Qtr. 2005
3rd Qtr. 2005
1st Qtr. 2006
3rd Qtr. 2006
1st Qtr. 2007
3rd Qtr. 2007
1st Qtr. 2008
3rd Qtr. 2008
Adjusted Revenues
Total USF Need


Revenues and USF Needs (two scales)
Revenues (in Billions)
Total USF Need (in Billions)
$22.5
$21.0
$19.5
$18.0
$16.5
$15.0
$13.5
$12.0
$10.5
$9.0
$7.5
$6.0
$4.5
$3.0
$1.5
$0.0
$2.5
$2.0
$1.5
$1.0
$0.5
$0.0
1st Qtr. 1999
3rd Qtr. 1999
1st Qtr. 2000
3rd Qtr. 2000
1st Qtr. 2001
3rd Qtr. 2001
1st Qtr. 2002
3rd Qtr. 2002
1st Qtr. 2003
3rd Qtr. 2003
1st Qtr. 2004
3rd Qtr. 2004
1st Qtr. 2005
3rd Qtr. 2005
1st Qtr. 2006
3rd Qtr. 2006
1st Qtr. 2007
3rd Qtr. 2007
1st Qtr. 2008
3rd Qtr. 2008
Adjusted Revenues
Total USF Need

Universal Service Fund
Contribution Factor




Universal Service Fund
Indexed at 1Q99
250%
200%
150%
100%
50%
0%
1st Qtr. 1999
3rd Qtr. 1999
1st Qtr. 2000
3rd Qtr. 2000
1st Qtr. 2001
3rd Qtr. 2001
1st Qtr. 2002
3rd Qtr. 2002
1st Qtr. 2003
3rd Qtr. 2003
1st Qtr. 2004
3rd Qtr. 2004
1st Qtr. 2005
3rd Qtr. 2005
1st Qtr. 2006
3rd Qtr. 2006
1st Qtr. 2007
3rd Qtr. 2007
1st Qtr. 2008
3rd Qtr. 2008
Unadjusted Revenues Indexed
Total USF Need Indexed
Contribution Factor Indexed