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July 17, 2009

Via Electronic Submission

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

Re: ***In the Matter of Universal Service Contribution Reform Methodology,***
WC Docket No. 06-122

Dear Ms. Dortch:

Yesterday, in the course of arranging a meeting with Chairman Genachowski's office to discuss AT&T's recent petition requesting immediate action to reform the USF contribution mechanism, I sent the attached to Priya Aiyar, Legal Advisor to Chairman Genachowski.

In accordance with section 1.1206(b) of the Commission's rules, a copy of this letter and the attached are being filed in the above referenced docket via the Commission's ECFS system. Should you have any questions about the above or the attached, please feel free to contact me directly.

Sincerely

Robert W. Quinn, Jr.

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Attachment

The identity of any currently pending Commission proceedings to which your request relates. Please indicate if the proceeding is restricted for ex parte purposes. If it is, please confirm that you have notified the necessary parties of your scheduling request.

06-122 – In the Matter of Universal Service Contribution Reform, not restricted for ex-parte purposes

AT&T filed a petition to urge the Commission to take immediate action to reform the universal service contribution methodology. Effective July 1st, customers are now paying 12.9% of their interstate telecommunications service charges in federal universal service fees. This is the highest contribution factor ever set by the Commission, and all indications are that the factor will see continued upward pressure based on foreseeable revenue assessment as well as demand trends.

On the revenue/assessment side, our entire universal service support system (both explicit and implicit) is modeled around TDM-based interstate voice services and the revenues associated with those services. That business model is eroding faster than anyone could have imagined 10 years ago. Voice service and revenues associated with it are plummeting in the developing packet-based communications industry. Whether we are talking about voice replacements like Skype In, Skype Out (neither of which contributes directly to universal service because the services do not meet the definition of "Interconnected VoIP service"), Google-Voice, or Magic Jack (unlimited calling for $40 in year 1 and $20 annual renewal), or text messaging or social networking, or the coming video communications products, it is clear that the existing, traditional voice-based business model is disappearing and with it will go the universal service support provided by those traditional services today.

Unfortunately, we are faced not only with a continually declining revenue base to support USF, but also with an ever-increasing demand side picture that is actually escalating as a result of the same forces. More and more consumers are disconnecting landline telephones in favor of wireless-only connectivity. This phenomenon has led the FCC and various state commissions to grant Lifeline ETC designations for one pre-paid wireless provider in 18 states, with applications for that carrier pending in 8 other states. And in granting forbearance for another carrier, the FCC has opened the door to additional Lifeline CETC applications in at least 6 states. Thus the demand component associated with Lifeline can be expected to continue to increase. And as consumers disconnect more landline telephones in rural rate-of-return areas, their support shifts from end user SLC revenues to a greater ICLS draw directly from the universal service fund. Those two trends accounted for the bulk of the demand-side increases that we experienced last quarter and neither trend appears to be abating anytime soon. Given that picture, it is readily apparent that the Commission must move from the current revenue-based assessment mechanism. Because it could take as many as 18 months to implement a new contribution mechanism, the FCC should act quickly. Further delay just means that customers will continue to see significant increases in their USF fees.

From a consumer's perspective, AT&T believes a telephone numbers based contribution methodology is superior to the existing methodology. First, it is undoubtedly easier for consumers to understand a steady flat per-number charge than an assessment based on a volatile percentage of interstate telecommunications service revenues (which this year alone has fluctuated 3.4 percentage points (9.5% to 12.9%) from 1Q09 to 3Q09). Second, the percentage of consumer funding (versus business funding) for USF would go from 48% under the current system to 45% under a numbers-only approach. While some have suggested that expanding the revenue-base to include broadband services and intrastate telecommunications service revenues as a solution, it is important to note that both of those solutions would actually increase the percentage of the fund supported by consumers.

From data filed by AT&T last year (9/22/08), the estimated per-number charge would be $1.01 for a numbers-only approach. This means that, on average, most consumers would see a reduction in their USF fees. While it is the case that some narrow consumer segments would pay the same amount or slightly less under a revenues-based mechanism, that outcome will inevitably shift for all customers as the contribution factor continues to increase. Indeed, if the Commission were to go to a numbers-connections hybrid approach as described in our October 20, 2008 Modifications (assessing DS1 and DS3 special access lines in addition to telephone numbers), the percentage supported by consumers (and the per-line charge) would be even lower ($.85/per line and 38% consumer). In any event, the Commission has a sufficient record to adopt any of these approaches now. Given the required implementation lead time, the Commission should act on this request immediately.

Electronic copies of any ex parte letters or handouts that you have recently used in making presentations regarding this issue to other Commission personnel and/or pleadings that best set forth the issues that you wish to discuss with the Chairman's office.

Petition for Immediate Action (Filed on 07/10/2009)
http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=7019808806

AT&T/Verizon Joint Proposal (Filed on 9/11/08)
http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6520067460

AT&T/Verizon Underlying supporting data (Filed on 9/23/08)
http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6520170372

AT&T/Verizon: Modifications/Clarifications to original Joint Proposal (Filed 10/20/08)
http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6520176358

AT&T – Revised per-Connection Capacity Tiers (Filed on 12/18/08)
http://gullfoss2.fcc.gov/prod/ecfs/retrieve.cgi?native_or_pdf=pdf&id_document=6520191434

A brief statement as to whether you have already met with another FCC Bureau or Office on this matter, and the dates of those meetings. Please note that it is the general expectation that parties will meet with the relevant Bureau and/or Office staff in advance of meeting with the Chairman's office.

AT&T and Verizon have jointly met with the various Commissioners' offices as well as with the Telecommunications Access Policy Division. Those meetings are detailed below:

9/22/08 – AT&T and Verizon met with the Telecommunications Access Policy Division

9/29/08 – AT&T and Verizon met with Amy Bender of (then) Chairman Martin's office

10/07/08 – AT&T and Verizon met with Nick Alexander of Comm. McDowell's office

10/10/08 – AT&T and Verizon met with the Telecommunications Access Policy Division

10/14/08 – AT&T and Verizon met with Scott Bergmann of Comm. Adelstein's office

10/16/08 – AT&T and Verizon met with Scott Deutchman of Comm. Copps' Office

Whether the requested meeting relates to funding or policy issues under the Recovery Act, and if so, whether a Federally registered lobbyist will attend. Please note that this information is needed for compliance with Recovery Act requirements.

This meeting does not concern the Recovery Act, and no Federally registered lobbyist will attend the meeting on behalf of AT&T.