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May 20, 2010

VIA ELECTRONIC MAIL

Joel Gurin, Chief – Consumer Governmental Affairs Bureau
Federal Communications Commission
445 12st Street SW
Washington, D.C. 20554

RE: Follow Up to May 14 Meeting

Dear Mr. Gurin,

This letter is a follow up to the meeting we had on May 14, 2010. As the meeting closed you asked us for a recommendation on temporary rate that is both fair and defensible without representing a change in methodology. We have submitted an ex parte to the docket on our May 14 meeting as required by Commission rules and are hereby responding to your inquiry. A copy of this letter will likewise be filed to the docket as an ex parte.

CSDVRS submitted its Comments to the April 30, 2010 Public Notice on May 10. In the Comments, there is a slight change to calculation of capital called "hybrid-capital." CSDVRS believes that following the existing method with the hybrid-capital calculation would provide both an expedient and fair resolution for setting an interim rate for the upcoming fund year.

As you already have the data to support this method (provided by VRS providers in the Relay Services Data Request), neither the Commission nor NECA would have to spend additional time and expense gathering additional data. As shown in Figure 1 below and on page 18 of NECA's April 30, 2010 TRS Rate Filing, NECA submissions calculated the 2009 actual cost of interpreting labor and related call center, telephony and platform costs at $2.7878 per minute.

Figure 1 Components of Hybrid Capital

		2007 Actual		2008 Actual		2009 Actual
A. Annual Recurring Fixed Expenses	$	0.2260	$	0.2427	$	0.2487
B1 + E3 Interpreter Costs	$	2.1070	$	2.1175	$	2.0742
B. Relay Center other than Interpreter	$	0.4118	$	0.4514	$	0.4649
	$	2.7448	$	2.8116	$	2.7878

The FCC and NECA are well aware that VRS is a labor intensive industry and not a capital intensive industry. In the hybrid-capital calculation, the 11.25% allowed return would apply to the $2.7878 plus the net book value of depreciable assets as already provided. Figure 2 below illustrates what the total pre-tax return would be on a per minute basis based on 2009 actual costs, and CSDVRS believes it merely redefines capital, and, accordingly, is not a departure from current methodology.

Figure 2 Return on Hybrid Capital

		2009 Industry Avg.
A. Annual Recurring Fixed Expenses	$	0.2487
B1+E3 Interpreter Costs	$	2.0742
B Relay Center other Than Interpreter	$	0.4649
Hybrid Capital Costs Per Minute	$	2.7878
11.25 % Return on Hybrid Capital(1)	$	0.6433
F Return on Investment(2)	$	0.0855
Total Pre-Tax Return per Minute	**$**	**0.7288**

(1) Pre-tax return is 18.75% assumed a 40% tax effect utilizing NECA's methods

(2) NECA defines Return on Investment as a return on net book value of depreciable assets

CSDVRS also believes it is appropriate to adjust the Working Cost of Capital to reflect the actual time between provision of service and payment from NECA, and to use a more comprehensive reimbursement for expenses related to numbering costs/911. These two adjustments would result in an equitable final rate without a departure from current methodology.

Finally, CSDVRS believes that the FCC should change the tiers at a minimum to coincide with the market growth. The market growth over 3 years is approximately 50%. At a minimum that would move Tier 1 to 75,000, Tier 2 to 750,000 and Tier 3 to anything above 750,000. Again this is highly defensible as it follows the growth of the fund.

Figure 3 below contains the suggestions previously mentioned. As you can see, this methodology is fiscally responsible for those that fund VRS while at the same time reducing the funding requirements by approximately $91M based on the proposed tiers and 98M minutes. This methodology also provides fair and reasonable operating returns for all VRS providers across all tiers. CSDVRS believes the results are a viable and defensible way to set the temporary rate while the Commission looks for a longer term solution and considers other factors in VRS compensation methodologies.

Figure 3 Hybrid Capital Calculations

	Tier 1	Tier 2	Tier 3
Start (minutes)	-	75,001	750,001
Finish (minutes)	75,000	750,000	Infinity
NECA Proposed Rates	$ 5.7754	$ 6.0318	$ 3.8963
Less Working Capital (1.6%) [(a)]	(0.0924)	(0.0965)	(0.0623)
Less Return on NBV Depreciable Assets [(b)]	(0.0855)	(0.0855)	(0.0855)
Less E911/Numbering Reimbursement [(c)]	(0.0083)	(0.0083)	(0.0083)
Actual Costs before Adjustments	**$ 5.5892**	**$ 5.8415**	**$ 3.7402**
Corrected Adjustments with Return on Hybrid			
Working Capital (3.39%) [(d)]	0.1895	0.1980	0.1268
Return on "Hybrid Capital" [(e)]	0.7288	0.7288	0.7288
True E911/Numbering Reimbursement [(f)]	0.0895	0.0895	0.0895
Proposed Per Minute Rate	**$ 6.5970**	**$ 6.8579**	**$ 4.6853**

	Tier 1	Tier 2	Tier 3	**Total**
MINUTES	**6,224,826**	**25,159,864**	**66,772,292**	**98,156,982**
FUND EXPENSES WITH 09-10 RATES AND TIERS	$ 29,657,396	$115,575,317	$472,606,940	$ 617,839,653
PROPOSED FUND EXPENSES WITH HYBRID CAPITAL	$ 41,065,213	$172,542,730	$312,847,489	$ 526,455,432
			SAVINGS UTILIZING HYBRID CAPITAL	**$ 91,384,221**

(a) Per CG Docket 03-123, April 30, 2010, Page 15, Footnote 31

(b) Per CG Docket 03-123, April 30, 2010, Page 18, Figure 1

(c) Per CG Docket 03-123, April 30, 2010, Page 19

(d) Same methodology as (a) but taking into account the longer payment period of 65 days on average from date of service provided

(e) As shown in Figure 1

(f) CSDVRS estimate of actual costs per minute of supporting E911/Numbering- CSDVRS respinse to CG Docket No. 03-123 and 10-51, Figure 6

(g) Minutes distribution based upon projected activity for the twelve months ended June 2011, as idendified in Exhibit 3-7d adjusted for the assumption that there are six Tier 1 providers and three Tier 2 providers

Sincerely Yours,

William Banks
General Counsel