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April 30, 2010

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

JUN 18 2010

Federal Communications Commission
Office of the Secretary

RE: Prepaid Calling Card Universal Service Contributions; Universal Service Contribution Methodology, WC Docket No. 06-122; Federal-State Joint Board on Universal Service, CC Docket No. 96-45

Dear Ms. Dortch:

Yesterday, Christopher Miller and the undersigned, both of Verizon, met with Vickie Robinson, Claudia Fox, and Carol Pomponio, of the Wireline Competition Bureau. The purpose of the meeting was to discuss Verizon's universal service contributions on its prepaid calling card revenues. At the meeting, we indicated that for this year and in future years Verizon will report in its assessable base of universal service revenues only those revenues that Verizon actually receives from selling prepaid calling cards – not the ultimate retail price of those cards when they are resold. In other words, consistent with AT&T's announcement that it is adopting this approach for its prepaid calling card contributions, Verizon likewise intends to cease contributing on the basis of its non-contributing resellers' revenues (or our best estimate of those revenues). See Letter from Jaime M. Tan, AT&T, to Marlene H. Dortch, FCC (Dec. 18, 2009).¹

Line 411 of FCC Form 499-A, the universal service revenue reporting form, indicates that carriers should include in their assessable base of universal service revenues the "face value" of prepaid calling cards. Telecommunications Reporting Worksheet, FCC Form 499-A (Reporting Calendar 2008 Revenues), at 6. This reference to the face value of prepaid calling cards, as well as

¹ Like AT&T, if Verizon receives a "reseller certification" from a reselling prepaid calling card customer we will report such revenues as non-assessable carrier's carrier revenues. In addition, this practice does not apply to revenue from customers that "recharge" their cards directly with Verizon, the interstate and international portion of which Verizon will continue to treat as assessable.

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the related Worksheet Instructions for Line 411, have caused significant confusion in the prepaid calling card industry over the last several years² and prompted the Universal Service Administrative Company (USAC) to request that the Bureau issue guidance. *See* Letter from Richard A. Belden, USAC, to Julie Veach, FCC, at 1 (Aug.19, 2009) (“USAC Letter”); *see also* Telecommunications Reporting Worksheet, FCC Form 499-A (revised 2009), Instructions for Completing the Worksheet for Filing Contributions to Telecommunications Relay Service, Universal Service, Number Administration, and Local Number Portability Support Mechanisms, at 27 (“Gross billed [prepaid calling card] revenues should represent the amounts actually paid by end user customers and not the amounts paid by distributors or retailers, and should not be reduced or adjusted for discounts provided to distributors or retail establishments.”).

The USAC Letter requested that the Bureau resolve a conflict between calling card contribution language on the Form 499-A and a reference in the Worksheet Instructions to carrier contributions on revenues generated from customers. USAC Letter at 1. The Commission’s more general universal service contribution rules also expressly require that carriers contribute to universal service based only on the end-user revenues carriers actually receive – not the ultimate sales price of a service. 47 C.F.R. § 54.706(b) (a carrier “shall contribute on the basis of its projected *collected interstate and international end-user telecommunications revenues*. . .”) (emphasis added). In addition, USAC requested guidance as to what amount wholesale calling card providers should report as assessable in the many situations where a card does not have a “face value” and/or the wholesale card provider does not know the ultimate sales price charged by retailers or other resellers. USAC Letter at 1.

In comments on USAC’s request for guidance on this issue, Verizon supported proposals to include only those prepaid calling card revenues actually received from end-user customers in a carrier’s assessable base. Reply Comments of Verizon and Verizon Wireless, at 5 (Nov. 12, 2009). This approach is consistent with section 54.706(b) of the Commission’s rules and makes sense as a practical matter because wholesale calling card providers frequently do not know what a retailer or distributor may ultimately charge for a calling card. Alternatively, Verizon suggested that the Commission adopt a “safe harbor” approach and allow wholesale card providers to assume a percentage mark-up on prepaid calling cards and report that amount as the “face value” of the card in situations where the carrier does not know the retail sales price. Comments of Verizon and Verizon Wireless, at 7-9 (Oct. 28, 2009). The Commission could not, however, continue to stay silent on this matter. Competition for what remains of the once-robust prepaid calling card business is intense, and different interpretations of ambiguous universal service contribution requirements distort the market and unfairly reward some providers while penalizing others. Such distortions are exacerbated by the ballooning universal service contribution factor, which is at an all-time high this quarter of more than 15 percent.

It is Verizon’s preference that the Commission issue an order or guidance resolving this matter. Given the reality of the prepaid calling card market, however, Verizon now has little choice. To avoid an untenable competitive disadvantage in 2010 and future years, absent

² AT&T filed an appeal in 2006 of related prepaid calling card audit findings by USAC.

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intervening Commission action, like AT&T, we also intend to contribute only on the prepaid calling card revenue Verizon actually receives, not the ultimate retail sales price of those prepaid calling cards that Verizon sells to non-contributing resellers. This approach is most consistent with the text of Section § 54.706(b).

Moreover, we once again urge the Commission to move forward with badly needed, fundamental reform of the universal service contribution system. The Commission should replace the current revenue-based contribution system with a more practical mechanism, such as a system based on a small, flat-rate charge per phone number.

Should you have any questions, please contact me.

Sincerely,

/s/ Alan Buzacott

cc: Jennifer McKee
Vickie Robinson
Claudia Fox
Carol Pomponio