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August 10, 2010

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

Re: Notice of Oral *Ex Parte* Communication
***Universal Service Contribution Methodology*, WC Docket No. 06-122**

Dear Ms. Dortch:

We submit this notice in compliance with Section 1.1206(b) of the Commission's rules.

On August 10, 2010, S. Derek Turner, Research Director of Free Press met with Vickie Robinson and Carol Pomponio of the Telecommunications Policy Access Division. Claudia Fox, also of TAPD joined via telephone.

We discussed the Commission's open proceeding regarding modifications to the Commission's universal service contribution methodology. Consistent with our earlier filings, Free Press emphasized the following points:

1. Though the rhetoric about the need to reform the contributions methodology is heated, there is in reality no crisis on the contributions side. From 3Q 2005 to 3Q 2010, the assessable contributions base only declined by 4 percent. The steady increases in the contribution factor are driven not by a declining base, but almost entirely by growth in the USF itself.
2. The interstate telecommunications service revenue assessment system is not broke, and the Commission should tread carefully with any attempt to "fix" or stabilize it, especially considering many of the proposed "fixes" may actually exacerbate the supposed problems of contribution unpredictability. Further, though we are not outright opposed to alternative forms of assessment, we are concerned that certain methods could shift the contribution burden disproportionately on consumers, particularly low-volume use consumers.
3. The original justification for a switch to numbers methodology was economic efficiency. But the pricing of long distance services in buckets of minutes today removes much of the relative inefficiency.

4. A Numbers/capacity hybrid assessment is a method discussed to expand the base of contributions and ease concerns about burdens shifting to consumers. However, we are very concerned that due to current consumer price sensitivity for broadband, that any assessment on household Internet connections could result in a net loss of broadband adoption, even if USF is supporting broadband in rural areas and low-income households. We strongly urge the FCC to resist such assessments until demand elasticities decline further such that there are net additions of customers, so as to be in line with Section 254.
5. Though under 254(d) the Commission can certainly assess any and all providers of telecommunications, we are concerned about the questionable authority of expanding the distributions to include broadband connectivity services. Along with our concerns over price sensitivities, we have equity concerns of a fund assessing broadband for contributions, but one that does not support broadband networks and low-income broadband subscribers.

Of all the options discussed for contribution reform, we feel that some modifications to revenues-based assessment are the most prudent and in-line with the directives of Section 254. However, we strongly encourage the Commission to focus on all the goals and objectives of Section 254 when considering contributions reform. If a primary policy goal is to foster universal adoption of broadband services, the Commission must take into account the *net* impact of a USF contributions assessment on residential broadband services, particularly given the fact that the own-price demand elasticity for these services remains relatively high, especially for marginal consumers that have yet to adopt.

Below, we present a simplified model that assumes that in the year 2012, the Connect America Fund distributes $1 billion for the capital construction costs for broadband; that the expanded Low-income program distributes $500 million to subsidize broadband connections for qualifying households (reducing the price to $10); that the Mobility Fund is $500 million; and that the remaining USF programs account for another $7 billion.

We then model two scenarios of own-price demand elasticity, -0.65 and -0.15. The first is in line with recent estimates for the general elasticity of demand for broadband. Under this scenario with the above-mentioned amounts devoted to broadband subsidies, a numbers/connections-based assessment (a fee applied to each phone number or broadband connection) would result in a net loss of nearly 2 million broadband subscribers. The second value is what the demand elasticity would have to be under this scenario of fund allocation in order for the connections-based assessment to not result in a net loss of broadband subscribers.

We offer this example to illustrate the possible impact of a consumer broadband tax. We urge the Commission to conduct its own predictive analysis to assess the likely impact of any consumer broadband assessment, and ask that the agency refrain from any policy changes that will result in a net decline in broadband adoption.

Figure 1:
Possible Decline in Broadband Adoption Resulting from USF Assessment on Consumer Broadband Connections

Modeling The Impact of USF Broadband Taxes on U.S. Residential Broadband Subscribership (estimates for 2012)	Scenario I: Ed = 0.65	Scenario I: Ed = 0.15
Size of Old HCF + Erate + RHC USF (fixed)	$8,000,000,000	$8,000,000,000
Size of CAF fund in 2012 (fixed)	$1,000,000,000	$1,000,000,000
Size of Mobility fund in 2012 (fixed)	$500,000,000	$500,000,000
Size of New Broadband LL/LU Fund (fixed)	$500,000,000	$500,000,000
Number of "Lines" (LEC, Wireless, Broadband)	493,000,000	493,000,000
Per Line/Connection USF Fee ($/mo.)	$1.69	$1.69
BB Demand Elasticity	-0.65	-0.15
Initial BB Price ($/mo.)	$35	$35
Initial Subscribing BB Homes	80,000,000	80,000,000
Tax rate on BB (based on per-line USF fee)	4.83%	4.83%
New BB Price ($/mo.)	$36.69	$36.69
Initial Subscribing BB Homes after New Tax	77,488,651	79,420,458
Initial Subscribing BB Homes Lost	2,511,349	579,542
Monthly LL/LU Subsidy	$26.69	$26.69
Total Homes in BB LL/LU (80%LL/20%LU)	1,248,892	1,248,892
New Homes in BB LL/LU (Year 1)	312,223	312,223
Existing BB Homes supported by LL/LU	936,669	936,669
Average Cost to Wire a Rural Home w/ BB	$2,200	$2,200
New Homes Passed by BB with these Funds	454,545	454,545
Take-Up Rate for these New Homes Passed	60%	60%
New Subscribing Rural Homes Added	272,727	272,727
Net Broadband Subscribing Homes Added	(1,926,399)	5,408

Very truly yours,

_______/s/_____________

S. Derek Turner
Research Director
Free Press