In the Matter of  
Universal Service Contribution Methodology  
WC Docket No. 06-122  

COMMENTS OF VERIZON\(^1\)

By requiring all interconnected VoIP providers to contribute to the universal service fund, the Commission has enhanced the competitive neutrality of the existing universal service contribution mechanism.\(^2\) Even as modified, however, the current, revenue-based approach is not sustainable in the longer term because it relies on allocations of revenues among offerings that defy categorization as purely interstate, intrastate, telecommunications services, or information services. Indeed, the *Notice* highlights these flaws and raises questions that underscore the need to shift as soon as practical to a new, primarily number-based contribution methodology that is more rational, equitable, and sustainable. Concurrently, the Commission should refocus and limit its various support mechanisms in accordance with their core statutory objectives, in order to better reflect Congress’s intent and assure that the universal service fund remains viable in the long term.

\(^1\) The Verizon companies participating in this filing (“Verizon”) are the regulated, wholly owned subsidiaries of Verizon Communications Inc.

\(^2\) *Federal-State Joint Board on Universal Service, Report and Order and Notice of Proposed Rulemaking, FCC 06-94 (June 27, 2006) ("Interim Order" or "Notice").*
I. THE INTERIM ORDER DOES NOT LESSEN THE NEED FOR FUNDAMENTAL REFORM OF THE CONTRIBUTION MECHANISM.

The current contribution mechanism, which assesses interstate and international end user telecommunications service revenues, is fatally flawed. Traditional long distance revenues are shrinking, while multi-service bundles and new technologies that cannot be pigeonholed into jurisdictional and regulatory categories are growing rapidly. The Interim Order addresses one important shortcoming – that interconnected VoIP providers in many cases were not paying their equitable share of universal service support – but it does not and cannot solve the intractable problems associated with a strictly revenue-based contribution mechanism in today’s marketplace.

A. The Interim Modifications to the Revenue-Based Mechanism Are Only A Stop-Gap Measure.

The recent revisions to the revenue-based contribution mechanism are an incremental step toward a system that is equitable and non-discriminatory, as required by Section 254(d). These reforms, however, are not sufficient, and therefore do not lessen the need to move promptly to a different and more rational mechanism. Accordingly, the Commission rightly is "committed to examining more fundamental reform in this proceeding." Interim Order, ¶ 4.

Most notably, the inclusion of VoIP providers in the contribution mechanism does nothing to address the difficult problems associated with allocating revenues among different elements of bundled service packages. The proliferation of bundled offerings, which often combine local and long distance telecommunications services with enhanced applications, makes it difficult to identify “interstate telecommunications revenues” subject to universal service contribution obligations. For example, a bundled offering may include traditional

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3 See Letter from Christine Reilly, counsel for Satellite Industry Association, to Marlene H. Dortch, Secretary, FCC, CC Docket No. 96-45, attachment at 1 (Mar. 16, 2006) (“The current
telecommunications services such as local and long distance, as well as broadband Internet access, video and video-on-demand offerings, and wireless services (which themselves may include both basic communications capabilities and enhanced features such as picture messaging and voice mail). Some or all of these capabilities may be included in a non-usage sensitive combined price, providing no straightforward means by which to determine what percentage of the costs should be associated with interstate telecommunications services. As a result, any division of revenue between the two regulatory classifications and between the two jurisdictions is innately arbitrary. Exacerbating the matter, any revenue-based contribution mechanism inevitably depresses demand for the contributing services by making each additional unit of consumption more expensive.

Moreover, the safe harbors that the Commission adopted as proxies for an equitable portion of VoIP revenues to assess are not tenable in the longer term because they are at best “rough justice,” incomplete solutions to a far deeper problem. A new approach is needed that avoids the uncertainties and arbitrary allocations in the existing system and places the fund on a surer footing for the future.

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system is complicated to administer and ill-suited to a world of convergence”); CTIA, “A Fair Numbers- and Capacity-Based Universal Service Contribution Methodology,” ex parte presentation, CC Docket No. 96-45, at 3 (Jan. 25, 2006) (“Accelerating consumer demand of IP-enabled, broadband, and other information services that operate without regard to jurisdictional boundaries places the current universal service contribution system at risk – especially going forward”); Letter from Robert W. Quinn, Jr., Senior Vice President, AT&T to Marlene H. Dortch, Secretary, FCC, CC Docket No. 96-45, attachment at 2 (Mar. 15, 2006) (“Interstate revenues are increasingly difficult to separate from intrastate,” and “[t]elecommunications revenues are increasingly difficult to separate from non-telecommunications”).
B. A Number-Based Contribution Mechanism Would Better Ensure the Long-Term Sustainability and Fairness of the Universal Service Fund.

The Commission should promptly transition to a more stable contribution mechanism based on in-use working telephone numbers. A properly structured, number-based mechanism would be more equitable and rational than the current, revenue-based approach, since it would treat all providers of competing services on the same basis without the need for controversial and inexact safe harbors. A number-based mechanism also would avoid the need for arbitrary allocations of revenues, as well as the resulting inequities, uncertainties, and disputes. Further, a number-based mechanism provides a more stable foundation for the contribution mechanism, given the continued decline in traditional interstate revenue sources and the expanding popularity of bundled service offerings.

The new mechanism should require that all providers of number-based services contribute based on in-use, working telephone numbers. The mechanism also should include provisions assuring that Lifeline, wireless family share, and pre-paid wireless customers do not experience rate shock or drop off the network. In particular, numbers provided to Lifeline customers should not be assessed; Lifeline customers today do not pay a universal service surcharge on the SLC (although they do pay a surcharge on any interstate usage), and exempting these numbers from the number-based charge would in many cases make those customers better off than they are under the current mechanism. Likewise, each number after the primary number on a wireless family share plan should bear one-half of the number-based assessment. These lines often provide connectivity to dependent family members and vital emergency access.

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As the *Interim Order* notes, "[c]ommenters generally support[] telephone number-based proposals." *Interim Order*, n. 84.
services, and there is no economic basis for assessing a full number charge on a handset that is directly linked to and limited by its relationship with another line.

Similarly, service providers should have flexibility in recovering contributions from business and institutional users, to assure that particular technologies and users (such as colleges, universities, and state and local government agencies that make disproportionately large use of numbers but have relatively little interstate usage) do not experience rate shock. To this end, the mechanism should permit service providers to recover their contributions from individual business and institutional customers in a manner that minimizes the economic impact and promotes technological neutrality, as long as the providers contribute the total required amount to the fund for all in-use, working business and institutional customer numbers. Broadband services should not be required to contribute separately under the number-based mechanism, but should be assessed like other services to the extent they use numbers. Finally, a supplemental revenue-based contribution from major categories of non-number based services (pre-paid calling card and special access services) would assure compliance with the statutory directive that “every” provider of interstate telecommunications service contribute to the fund.5

II. THE UNIVERSAL SERVICE FUND SHOULD BE REFOCUSED TO ITS CORE STATUTORY PURPOSE.

Contribution reform cannot proceed in a vacuum and will not (and cannot), standing alone, fix all that ails the universal service program. As the Commission recognizes, “[t]here is widespread agreement that the Fund is currently under significant strain.” Interim Order ¶ 17. The total high-cost portion of the fund has more than doubled in the past eight years, from $1.718 billion in 1998 to an estimated $4.147 billion in 2006. Trends in Telephone Service (June 2006).

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Moreover, the share of high-cost funds spent to subsidize duplicative networks in high-cost areas has skyrocketed from 0.1 percent to 9.5 percent over the past five years. Trends in Telephone Service, Table 19.2. This continued rapid growth of the high-cost fund is not only out of line with marketplace realities and statutory directives, but ultimately could threaten the overall affordability of service for many consumers.

Consequently, concurrent with reforming the contribution mechanism, the Commission should refocus the high-cost fund on its core objective of enabling affordable and reasonably comparable service in those very limited areas where such service could not be provided absent universal service support. The Commission should also take a hard look at the other components of the universal service program to assure that they are effectively targeted and efficiently sized. Such reform is not only urgently needed, but, by scaling back the fund to a more rational level, will help to reduce the universal service tax imposed on consumers generally.

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6 See Reply Comments of Verizon, CC Docket No. 96-45 and WC Docket No. 05-337 (May 26, 2006); Comments of Verizon, CC Docket No. 96-45 and WC Docket No. 05-337 (Mar. 27, 2006). As the record in the 10th Circuit Remand proceeding demonstrates, rates in the vast majority of rural areas are not only “reasonably comparable” to urban rates under any rational definition of that term; they are actually lower, on average, than urban rates. See Comments of Sprint Nextel, CC Docket No. 96-45 and WC Docket No. 05-337 (Mar. 27, 2006), at 6 and Att. 1 (“non-urban rates for basic local residential service are significantly lower than the national average urban rate”); Comments of BellSouth, CC Docket No. 96-45 and WC Docket NO. 05-337, at 2-4, Att. A (Mar. 27, 2006) (“the national’s rural residents pay $0.89 less than the nation’s urban residents”); Comments of NASUCA, CC Docket No. 96-45 and WC Docket No. 05-337 (Mar. 27, 2006), at 2, 8, 41.
III. CONCLUSION

For the foregoing reasons, the Commission should expeditiously adopt a number-based
contribution mechanism, while simultaneously refocusing and limiting the universal service
support programs in accordance with their core statutory objectives.

Respectfully submitted,

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