

## DESCRIPTION AND JUSTIFICATION

### 1.0 INTRODUCTION

The Verizon Telephone Companies<sup>1</sup> hereby submit tariff pages and support data for their proposed Federal Universal Service Fund rate changes in Verizon Tariffs FCC No. 1 and FCC No. 11 for Verizon-East and Verizon Tariffs FCC No. 14 and FCC No. 16 for Verizon-West associated with the first quarter 2003 universal service fund (“USF”) obligation. These tariff increases are being filed on 15 days notice for effect January 1, 2003. This filing is in compliance with and includes the necessary support material required by the Commission's Price Cap CALLS Order<sup>2</sup> and Section 61.38 of the Commission's Rules.<sup>3</sup>

The first quarter 2003 FUSF monthly per-line charge is \$0.62 for Verizon-East and \$0.60 for Verizon-West. This represents an increase of \$0.03 per line in the East, and \$0.06 per line in the West. The change in the per-line charges from the fourth quarter 2002 rates is primarily attributed to an increase of the subscriber line charge (SLC), effective July 2, 2002, which increased the primary residential and single line business SLC from \$5.00 to \$6.00 for most states. There was also a small change in the uncollectible factor used to calculate the first quarter 2003 rate.

Compared to fourth quarter 2002, the uncollectible factor increased slightly for Verizon-East

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<sup>1</sup> The Verizon-East Telephone Companies participating in this filing include Verizon Delaware Inc.; Verizon Maryland Inc.; Verizon New England Inc.; Verizon New Jersey Inc.; Verizon New York Inc.; Verizon Pennsylvania Inc.; Verizon Virginia Inc.; Verizon Washington, D.C. Inc.; and Verizon-West Virginia Inc. The Verizon-West Telephone Companies participating in this filing include Verizon California Inc.; Verizon South Inc.; Verizon Hawaii Inc.; Verizon Florida Inc.; Verizon-West Coast Inc.; Verizon Northwest Inc.; Verizon Southwest; Verizon North Inc.; and Micronesia Telecommunications Corp.

<sup>2</sup> In the Matter of Access Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service. Sixth Report and Order in CC Docket Nos. 96-262 and 94-1. Report and Order in CC Docket 99-249. Eleventh Report and Order in CC Docket No. 96-45. Released May 31, 2000. (“CALLS” Order).

(from 1.95% to 2.15%) and decreased in the West (from 2.16% to 2.04%). Overall, the uncollectible change accounts for only a \$77,000 increase in revenue requirements from the fourth quarter 2002. See Appendix B; see also November 1, 2002 letter from Richard T. Ellis to Marlene H. Dortch, with attachments, located at Appendix C (submitting historical uncollectible figures).

## **Federal Universal Service Fund (FUSF) End-User Charge Development**

### **1.1 CALCULATION OF FUSF END-USER CHARGE**

Pursuant to the May 2000 CALLS order,<sup>4</sup> amounts assessed for various universal service support mechanisms are recovered outside of access rates. Starting with the third quarter of 2000, the Common Line amount of the USF obligation is recovered through a per-line charge assessed to end user customers to whom End User Common Line (EUCL) charges apply. The Special Access USF obligation amount is recovered through a FUSF percentage surcharge applied to Interstate End User Special Access revenues. However, in this filing, Verizon is not proposing a change to the FUSF percentage surcharge for Interstate End User Special Access. Below is a description of how the end user FUSF charges are developed.

#### **1.11 End User FUSF Charges**

Verizon's total contribution to the interstate Universal Service Fund is based on the FCC's contribution rate for the first quarter of 2003<sup>5</sup> times Verizon's interstate end-user revenues for the third quarter of 2002 (July through September), plus an adjustment for the removal of universal

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<sup>3</sup> CALLS Order Appendix B, § 61.41 - 61.49.

<sup>4</sup> CALLS Order at paragraph 221.

<sup>5</sup> FCC Public Notice, Proposed First Quarter 2003 Universal Service Contribution Factor, CC Docket No. 96-45, DA 02-3387, released December 9, 2002.

service contributions for the previous quarter to eliminate circularity of assessment.<sup>6</sup> See Appendix A—Section C 1.2.2 for work papers pertaining to the circularity adjustment to the universal service obligation for Verizon-East and West.

While the total Verizon obligation is based on the quarterly factor and the reported revenues for the third quarter 2002, the net amount Verizon realistically expects to collect from end users will be somewhat less, as a small portion of the “billed revenues” will not become “collected revenues.”

To account for these uncollectible FUSF amounts, in this filing Verizon is including an uncollectible adjustment factor in the rate calculation. The development of the uncollectible factor used in the rate calculation for the End User FUSF charge is explained in detail in Appendix B.

This uncollectible factor is applied to the expected FUSF amount to ensure sufficient recovery of Verizon’s universal service obligation from end users. By adjusting the universal service obligation to allow for uncollectibles, Verizon expects to collect net FUSF revenues more in alignment with the universal service obligation due to USAC. In the supporting workpapers, Verizon uses separate uncollectible factors for the Verizon-East and Verizon-West rate calculations. These factors are based upon the retail uncollectibles booked during the third quarter 2002, which is the same quarter as the revenues upon which the assessment is based. Going forward, the uncollectible factors used in the End User FUSF rate determination also will be for the same quarter as the contribution base.

The End User FUSF contribution amount is then divided by the total number of end user common lines,<sup>7</sup> adjusted for Centrex equivalency and PRI ISDN equivalency, to calculate the FUSF monthly

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<sup>6</sup> FCC Further Notice of Proposed Rulemaking and Report and Order, CC Docket 96-45, released February 26, 2002.

<sup>7</sup> Common lines exclude lifeline and resold basic exchange service.

per-line charge. The rate calculations for Verizon-East Companies (Verizon-East) and Verizon-West Companies (Verizon-West) are performed the same. The first quarter 2003 FUSF monthly per-line charge is \$0.62 for Verizon-East and \$0.60 for Verizon-West.

The change in the per-line charges from the fourth quarter 2002 rates for both Verizon-East and Verizon-West is primarily attributed to an increase of the subscriber line charge (SLC), effective July 2, 2002. This filing increased the primary residential and single line business SLC from \$5.00 to \$6.00 for most states. Net of line erosion, Verizon-East experienced a 4.2 percent increase in interstate retail revenue as compared to the previous quarter. Verizon-West showed a 10.2 percent increase in interstate retail revenues over the previous quarter as a result of the SLC increase. The difference in percentage change between Verizon-East and Verizon-West is attributed to the additional line erosion experienced for Verizon-East companies. The entire calculation methodology is described in the following six-step process.

#### **STEP 1 – CALCULATE USF OBLIGATION TO BE RECOVERED**

The calculation of Verizon's USF obligation is determined using current factors times Verizon's contribution base. The first quarter 2003 FUSF factor from the FCC's Public Notice<sup>8</sup> is multiplied by Verizon's contribution base (July through September 2002 total interstate end user revenues less adjustments) to determine the USF contribution to be recovered for first quarter 2003. These revenues are determined from Form 499-Q filed November 1, 2002 as shown on Workpaper USF-2. Interstate End User Switched revenues, less Interexchange End User revenues, are multiplied by the quarter's assessment to determine the expected recovery. The expected End User FUSF obligation

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<sup>8</sup> Id at 5.

is grossed up by the actual uncollectibles experienced. As indicated, a separate factor is determined for the East and West for the quarter ending, September 30, 2002.

The total obligation amount, including an expected uncollectible amount, is then divided by the total number of forecasted end user common lines<sup>9</sup> for the midpoint of the first quarter 2003 (February 15, 2003) to develop the per-line rate as shown on Workpaper USF-1. Interstate End User Special Access revenues, derived from the same 499-Q data, are multiplied by the FCC first quarter's 2003 contribution rate to determine the expected recovery, as shown on Workpaper USF-7 for both Verizon-East and Verizon-West.

## **STEP 2 – EUCL DEMAND MINUS LIFELINE**

The demand used is forecasted midpoint first quarter 2003 (February 15, 2003) EUCL data. Since Verizon's FUSF per-line rate is not charged to Lifeline customers, the demand units for Lifeline are removed from the calculation. These calculations are shown on Workpaper USF-3.

## **STEP 3 – ADJUST EUCL DEMAND FOR CENTREX EQUIVALENCY STRUCTURE**

Pursuant to section 69.158, the FUSF charge is calculated using the equivalency relationships established for the multi-line business PICC<sup>10</sup> for ISDN PRI and Centrex lines. The calculations for the Centrex EUCL's using the PICC structures are shown on Workpaper USF-4 for both Verizon-East and Verizon-West.

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<sup>9</sup> Id at 6.

<sup>10</sup> Code of Federal Regulations, Part 69.158.

#### **STEP 4 - ADJUST EUCL DEMAND FOR ISDN PRI AND CENTREX EQUIVALENCIES**

To develop total adjusted ISDN PRI demand, the ISDN PRI demand is multiplied by 5. Adjusted Centrex demand is developed by taking each demand amount and dividing it by the number of Centrex lines in each line-size grouping for both Verizon-East and Verizon-West. For example, the Centrex 2-line demand is divided by 2, the 3-line demand is divided by 3, and so on. For 9 lines and greater, the demand is divided by 9. The product of these calculations, along with the unadjusted EUCL demand, produces the total USF per-line adjusted demand with ISDN PRI and Centrex equivalencies. These calculations are shown on Workpaper USF-5 for both Verizon-East and Verizon-West.

#### **STEP 5 – CALCULATE BASIC FUSF PER LINE RATE**

The Verizon USF obligation recovered in Step 1 is divided by the adjusted USF demand in Step 4 to produce the basic FUSF per-line charge of \$0.62 for Verizon-East and \$0.60 for Verizon-West. These calculations are shown on Workpaper USF-1. All per-line recovery amounts are shown on Workpaper USF-6 for both Verizon-East and Verizon-West.

#### **STEP 6 – CALCULATE FUSF CHARGE FOR ISDN PRI AND CENTREX**

The ISDN PRI and Centrex rates are adjusted to ensure that no more than one FUSF per-line charge is applied for each Centrex service billed; whereas, five basic FUSF charges are applied to PRI customers. The basic rate developed in Step 5 is multiplied by 5 for ISDN PRI. Likewise, the per-line rate for Centrex 2-line service is the rate developed in Step 5 divided by 2, the rate for 3-line service is divided by 3, etc. The per-line rate for Centrex 9-line and greater is divided by 9. These

calculations are shown in Column B of Workpaper USF-5 for Verizon-East and Verizon-West.

This is consistent with the ISDN PRI and Centrex PICC methodology currently in the FCC rules.<sup>11</sup>

### **C 1.1.2 SPECIAL ACCESS END USER FUSF CHARGE**

The Special Access FUSF charge is a factor assessed to the retail (end user) interstate special access revenues. This Special Access FUSF rate is the same as the percentage factor provided in FCC Public Notice.<sup>12</sup> The expected quarterly and Annual Special Access USF recovery amounts are found on Workpaper USF-7 for both Verizon-East and Verizon-West. Because of the nature of the customer base to which the Special Access FUSF rate is applied, there is no adjustment to the factor for uncollectible amounts. The FCC's published factor is the applicable percentage applied.

## **C 1.2 WORKPAPERS**

### **C 1.2.1 Introduction**

Verizon has provided the necessary detail to support the calculations of the FUSF per-line charge.

The following is the index of such Workpapers.

### **C 1.2.2 INDEX TO WORKPAPERS**

	<u><b>Verizon-East/West</b></u>
<b>Workpaper USF-1</b>	Calculation of FUSF per-line Charge
<b>Workpaper USF-2</b>	Calculation of Switched USF Contribution
<b>Workpaper USF-2a</b>	Circularity Elimination Detail
<b>Workpaper USF-3</b>	Unadjusted EUCL Demand
<b>Workpaper USF-4</b>	Conversion of CTX EUCL Lines to PICC Structure
<b>Workpaper USF-5</b>	ISDN PRI and CTX Equivalency
<b>Workpaper USF-6</b>	Ratemaking for FUSF per Line, ISDN PRI, and Centrex Equivalency
<b>Workpaper USF-7</b>	Interstate Special Access End User FUSF Charge

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<sup>11</sup> See C.F.R. 69.153 (d) and (e)

<sup>12</sup> Id at 5