

DESCRIPTION AND JUSTIFICATION
TRANSMITTAL NO. 463

1.0 INTRODUCTION

The Verizon Telephone Companies¹ hereby submit tariff pages and supporting data for proposed changes to the Federal Universal Service Fund rates associated with the third quarter 2004 federal universal service fund (“FUSF”) obligation in Verizon Tariffs FCC No. 1 and FCC No. 11 for Verizon-East, Tariffs FCC No. 14 and FCC No. 16 for Verizon-West, and Tariff FCC No. 20 for advanced services. These tariff changes are being filed on 15 days notice for effect on July 1, 2004. This filing is in compliance with and includes the necessary supporting material required by the Commission's Price Cap CALLS Order,² Section 61.38 of the Commission's Rules,³ Report and Order and Second Further Notice of Proposed Rulemaking⁴ and the Waiver Order released March 14, 2003.⁵

¹ 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.

² *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 (rel. May 31, 2000) (“CALLS” Order).

³ CALLS Order, Appendix B, § 61.41 - 61.49.

⁴ *In the Matter of Federal-State Joint Board on Universal Service*, Report and Order and Second Further Notice of Proposed Rulemaking, FCC 02-329, (rel. December 13, 2002) (“December Order”).

⁵ *In the Matter of Federal-State Joint Board on Universal Service, Order and Second Order on Reconsideration*, FCC 03-58, (rel. March 14, 2003) (“Waiver Order”).

Federal Universal Service Fund End-User Charge Development

1.1 CALCULATION OF FUSF END-USER CHARGE

Pursuant to the May 2000 CALLS order,⁶ amounts assessed for various universal service support mechanisms are recovered directly from end users. Starting with the third quarter of 2000, the Common Line amount of the FUSF obligation is recovered through a per-line charge assessed to end user customers to whom End User Common Line (EUCL) and other interstate charges apply. The contribution and carrier recovery was further explained in the Commission's December Order and subsequent Waiver Order.

Per the December Order, and beginning with the second quarter 2003, with the limited exceptions granted in the Waiver Order, telecommunication carriers are limited to recovering FUSF contribution using monthly end user rates that are equal to the total monthly interstate revenues for a customer times the relevant contribution factor. The Waiver Order preserves the carrier's option to assess the universal service end user charge on Centrex customers on a per-line basis using the "equivalency" relationships established for the multi-line business PICC for Centrex lines as identified in section 69.158 of the Commission rules. The Commission also allows carriers to average among multi-line business customers the net reductions in charges attributed to the use of the PICC equivalency structure. The interstate Special Access and interstate Incidental Revenue FUSF obligation amount is recovered through a FUSF percentage surcharge using the FCC-prescribed rate applied to interstate end-user revenues.

⁶ CALLS Order, paragraph 221.

1.11 End User FUSF Charges

Verizon's preliminary obligation to the interstate Federal Universal Service Fund for the third quarter of 2004⁷ is based on the FCC's contribution rate rounded to the nearest tenth of a percent times Verizon's projected interstate end-user revenues for the third quarter of 2004 (July through September).⁸ Verizon's recovery of this obligation is derived through end user FUSF per-line rates for Switched Access services. These rates are determined in a three-step process.

First, interstate monthly charges that apply to each end user line for EUCLs and line ports are determined for all residential and business lines for each tariff entity. These rates are specified in the appropriate interstate access tariff. The line port charge applies only to digital lines in excess of basic service. Once the tariff rates are identified and summarized for each type of end user service (*e.g.*, single line residential or business, non-primary residence), the next step of the process begins.

Second, the sum of these interstate per-line charges that apply each month for each type of service is multiplied by the third quarter's FCC prescribed contribution rate to determine the FUSF per-line charge. Interstate rates for each type of service require a corresponding and separate per-line FUSF rate in accordance with the Commission's December Order. For example, a separate

⁷ FCC Public Notice, Proposed Third Quarter 2004 Universal Service Contribution Factor, CC Docket No. 96-45, DA 04-1613, released June 7, 2004.

⁸ Waiver Order at paragraphs 22-23.

FUSF rate is required for primary residential (excluding Lifeline) customers, non-primary residential, and various types of multi-line business services.

Third, the product of these individual per-line rates billed on a current basis would recover Verizon's FUSF obligation for the same period. However, the Waiver Order allows Verizon to bill FUSF charges using the PICC equivalency structure for Centrex customers in accordance with existing FCC rules. The net contribution recovery shortfall caused by billing the PICC structure for Centrex customers is then calculated. The net contribution recovery shortfall is divided by the total contribution requirement to determine a rate adjustment factor ("RAF"). Then, this uniform RAF is applied across all multi-line rates to develop FUSF rates that fully recover Verizon's quarterly obligation.

The rate calculations for Verizon-East Companies (Verizon-East) and Verizon-West Companies (Verizon-West) are calculated using the same methodology for each tariff entity. The states of Maine, Massachusetts, New Hampshire, Rhode Island and Vermont have one common access tariff described as New England. All other states have unique tariffs as shown by WP USF-1.

For Verizon-East the proposed changes to the FUSF rate for residential, non-primary residential, and single line business can be attributed to the proposed changes to the EUCL rates (where applicable) and the increase in the FCC prescribed contribution factor between the 2nd and 3rd quarter of 2004 from .087 to .089. For Verizon-West, the proposed changes to the FUSF rate for residential, non-primary residential, and single line business can be attributed to the proposed changes to the EUCL rates (where applicable), the increase in the FCC prescribed

contribution factor between the 2nd and 3rd quarter of 2004 from .087 to .089 and the elimination of the charge associated with the recovery of local number portability costs for Verizon Southwest. For both Verizon-East and Verizon-West, the proposed changes to the multi-line rates can be attributed to the proposed changes to EUCL rates (where applicable), updated line counts associated with the multi-line equivalency calculation and the increase in the FCC prescribed contribution factor between the 2nd and 3rd quarter of 2004 from .087 to .089. The actual rate calculations are described in the following two-step process.

STEP 1 – CALCULATE BASE USF LINE RATE

For each type of end user customer (i.e., single line residence and business, non-primary residence, and multi-line business), the third quarter 2004 FUSF factor from the FCC's Public Notice is multiplied by the sum of the end-user tariff charges applicable each month for the subscriber line and the line port (if appropriate) for each tariff entity to calculate the full-rate FUSF per-line charge. This methodology results in actual per-line FUSF charges for primary residential/single-line business and non-primary residential services; whereas, the resulting multi-line rates become the baseline for multi-line averaging as permitted in the Waiver Order. The calculated full-rate (before the Waiver Order) FUSF charge for each element and study area is found in WP USF-2.

STEP 2 – CALCULATE FUSF PER-LINE RATES FOR CENTREX EQUIVALENCY

The baseline multi-line FUSF calculated rates from WP USF-2 are carried forward to WP USF-3 so they will align by tariff entity and type of applicable EUCL. As stated above, the exact state specific FUSF rate applies without modification to all residential primary/single-line business and non-primary residential customers. The rate calculation for multi-line business customers begins with a "full-rate revenue calculation," which is the product of the billing lines for each type of

EUCL times the calculated base FUSF rate. Based on the Waiver Order and pursuant to Section 69.158 of the Commission's rules, the FUSF charge for Centrex is calculated using the equivalency relationships established for the multi-line business PICC. The detailed multi-line calculations and resulting FUSF rates for each element and tariff entity are found in WP USF-3 and WP USF-3a.

The full-rate Centrex amounts are converted to the PICC structure in column (d) of WP USF-3. This is calculated by dividing the FUSF rate by 9 for Centrex systems with 9 lines or greater, dividing the FUSF rate by 8 for Centrex systems with 8, etc. The monthly contribution recovery shortfall caused by using PICC rates for Centrex is then calculated in column (e) of WP USF-3. An adjusted revenue base is then determined for all multi-line EUCLs by multiplying the units times the PICC rate and adding the other unadjusted multi-line revenues to the total. A RAF is then determined by dividing the Centrex shortfall by the adjusted revenue base, i.e., the difference between the full-rate revenues and those adjusted for the Centrex recovery shortfall. A RAF is then applied to all multi-line rates including Centrex, which produces a new per-line FUSF rate that accounts for the Centrex recovery shortfall.

The product of the new adjusted FUSF rates times the billing lines produces the same recovery revenue as the full-rate revenue (before the Centrex PICC structure). Both Verizon-East and Verizon-West reflect the appropriate calculations for each tariff entity as shown on WP USF-3. An additional calculation is required for PBX Trunks with Port Charges for Verizon-East since these trunks cannot be uniquely identified. As a result, the baseline multi-line FUSF charge for only this product as calculated on WP USF-2 is carried forward to WP USF-3a. The baseline rate for PBX

Trunks with Port Charges for each Verizon-East state are then multiplied by the appropriate RAF factor to determine the appropriate rate element.

1.1.2 FUSF CHARGES APPLIED ON A PERCENTAGE BASIS

The Special Access FUSF rate is the same as the percentage factor provided in FCC Public Notice rounded to the nearest tenth of a percent.⁹ The FCC's published factor is applied to each dollar of interstate Special Access end user revenue in Verizon's billing systems.

Second, the FUSF end-user charge applied to incidental types of service is assessed on the same percentage basis as prescribed by the FCC in its Public Notice.¹⁰ Incidental service consists of nonrecurring charges for the Presubscribed Interexchange Carrier (PIC) and the recurring Primary Interexchange Carrier Charge assessed to end users. The FUSF charge will also apply to interexchange carriers that pay the PIC change charge on behalf of the end user customer. The FUSF charge on interstate incidental services will also apply to Lifeline customers.

1.2 WORKPAPERS

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.

⁹ Id at 7.

¹⁰ Id at 7.

1.2.2 INDEX TO WORKPAPERS**Verizon-East/West**

Workpaper USF-1	Summary of 3 rd Qtr 2004 FUSF per-line Charges
Workpaper USF-2	Calculation of Maximum Switched USF per-line before Waiver Order
Workpaper USF-3	Multi-line Ratemaking for FUSF per-line using Centrex Equivalency
Workpaper USF-3A	FUSF Calculation for PBX Trunks with Port Charges (East only)
Workpaper USF-4	Interstate Special Access End User FUSF Charge