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FCC TAKES NEXT STEP TO REFORM UNIVERSAL SERVICE FUND CONTRIBUTION SYSTEM

Comments Sought on Connection-Based System to Provide Certainty, Reduce Administrative Costs and Avoid Marketplace Distortions

Washington, D.C. – Today, the Federal Communications Commission (FCC) took further steps toward reform of the system for assessment and recovery of universal service fund (USF) contributions. Specifically, the FCC adopted a *Further Notice of Proposed Rulemaking* (*Further Notice*), which, among other things, seeks comment on whether to assess contributions on carriers based on the number and capacity of connections they provide to customers, rather than on the interstate revenues they earn. The Commission also invited commenters to supplement the record with any new arguments or data regarding proposals to retain or modify the existing revenue-based system.

The *Further Notice* also seeks comment on measures to ensure that carriers recover the cost of their contributions – which are often represented in a line item on a customer's phone bill – fairly, accurately, and equitably from their customers.

In light of emerging market trends, the FCC released a *Notice of Proposed Rulemaking* (*Notice*) in May 2001 to seek comment on measures to ensure that providers of telecommunications services continue to contribute to the universal service fund on an equitable and nondiscriminatory basis. The Commission noted the following market trends, which are having an impact on the current USF contribution system:

- **New Entrants / Increased Competition** –To date, Regional Bell Operating Companies (RBOCs) have authority to provide in-region long distance service in nine states. Additionally, for the first time, interstate telecommunications revenues declined in 2000.
- **Wireless Sector Growth / Technology Migration** – Subscribership to mobile services has increased from 55.3 million in 1997 to 109.5 million in 2001, and minutes of use have increased from 117 minutes per month to 255 minutes per month over the same time period.
- **Bundled Services** – Bundling, such as local and long distance, and telecommunications and non-telecommunications services, has implications for carriers' ability to distinguish and allocate revenue from these different services.

In response to the *Notice* issued last year, commenters submitted a wide range of proposals of how the current assessment and recovery of USF contributions should be modified. With today's action, the Commission seeks to focus and further develop the record on these proposals. The goals of this *Further Notice* are 1) to ensure the stability and sufficiency of the USF as the marketplace evolves; 2) to ensure that contributors continue to be assessed in an equitable and nondiscriminatory manner; 3) to provide certainty to market participants and to minimize the regulatory costs of complying with universal service obligations; and 4) to ensure that the recovery process is fair, reasonable and readily understood by consumers. To achieve these goals, the Commission is seeking comment on, among other measures, the following:

1. Whether to assess USF contributions based on the number and capacity of connections, rather than on the interstate revenues they earn. Under this proposal, local exchange carriers, interexchange carriers, and wireless providers would contribute $1 per month for each connection to a public network for residential users (paging providers would contribute 25 cents per connection). Business connection assessments would be based on the maximum available capacity, or bandwidth, of a connection.
2. Whether to require carriers that choose to recover their USF contributions through a line item on their customers' bills to make the line item uniform for all their customers; to ensure that the carrier collects its contributions in a non-discriminatory manner.
3. Whether to prohibit carriers from recovering amounts in excess of their actual USF contributions. Under such a proposal, carriers would not be permitted to mark-up their line items to recover administrative costs, uncollectibles, or other contribution-related expenses.

Additionally, the Commission today adopted a *Report and Order*, which makes certain modifications to the current USF contribution system. The *Report and Order*'s modifications will streamline and improve the current system without undue disruption while the Commission considers the more fundamental and substantial reforms. The modifications include 1) eliminating the "circularity" in the current assessment methodology by excluding universal service contributions from the revenue base on which contributions are assessed, 2) permitting affiliated contributors that function as a single unit to report revenue data on a consolidated basis and 3) increasing the threshold for our limited international revenue exception from eight to 12 percent.

<u>Background on USF</u>

Under the current universal service rules, carriers' contributions are assessed as a percentage of their interstate and international end-user telecommunications revenues. Currently, wireline interexchange companies contribute 63% of the universal service fund, with the remainder coming from local exchange companies and wireless companies. Carriers currently decide for themselves whether, how, and how much to recover these costs from their customers. Most carriers recover USF contribution costs through line items on customer telephone bills.

The USF is the support mechanism established by the Commission to ensure that high quality, affordable telecommunications service is available to all Americans. The USF provides support and discounts for: 1) telecommunications services for consumers who live in high-cost and rural areas; 2) telecommunications services for low-income consumers; 3) telecommunications services, Internet access and internal connections for schools and libraries; and 4) telecommunications services for rural health care providers.

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CC Docket Nos.: 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, and 98-170.

Action by the Commission February 14, 2002, by Further Notice of Proposed Rulemaking and Report and Order (FCC 02-43). Chairman Powell, Commissioners Abernathy, Copps and Martin, with Commissioner Martin issuing a separate statement.

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