



January 13, 2015

***Ex Parte Notice***

Ms. Marlene H. Dortch, Secretary  
Federal Communications Commission  
445 12th Street, S.W.  
Washington, D.C. 20554

**RE: *Protecting and Promoting the Open Internet, GN Docket No. 14-28; Universal Service Contribution Methodology, WC Docket No. 06-122***

Dear Ms. Dortch:

On Tuesday, January 13, 2015, the undersigned, on behalf of NTCA–The Rural Broadband Association (“NTCA”), spoke via telephone with Carol Matthey, Deputy Chief of the Wireline Competition Bureau, to discuss issues presented in the above-referenced proceedings.

Specifically, we discussed the need for contributions reform and the effects on the sustainability of universal service programs that are being repositioned to support consumer demands for broadband if such reform does not occur. NTCA addressed a recent presentation in which it estimated the effects on the contribution factor if broadband were included in the contribution base and assuming the universal service programs did not increase above current levels. After further review, NTCA clarifies in the attached that the revised contribution factor under those assumptions would fall from 16.8% to approximately 4.6% on an estimated annualized basis; while somewhat higher than initial estimates (which had been based upon quarterly figures), NTCA noted such reform: (1) would still represent a substantial reduction to the amounts being paid today by consumers procuring services that are subject to assessment, (2) would place no increased burden on American ratepayers as a whole, (3) would ensure more equitable distribution of responsibility for support of universal service programs among all ratepayers, and (4) assuming purchases of broadband will only increase with consumer demand for broadband, should result in a contribution factor that *declines* over time.

Thank you for your attention to this correspondence. Pursuant to Section 1.1206 of the Commission’s rules, a copy of this letter is being filed via ECFS.

Sincerely,

/s/ Michael R. Romano  
Michael R. Romano  
Senior Vice President – Policy

Enclosure

cc: Carol Matthey

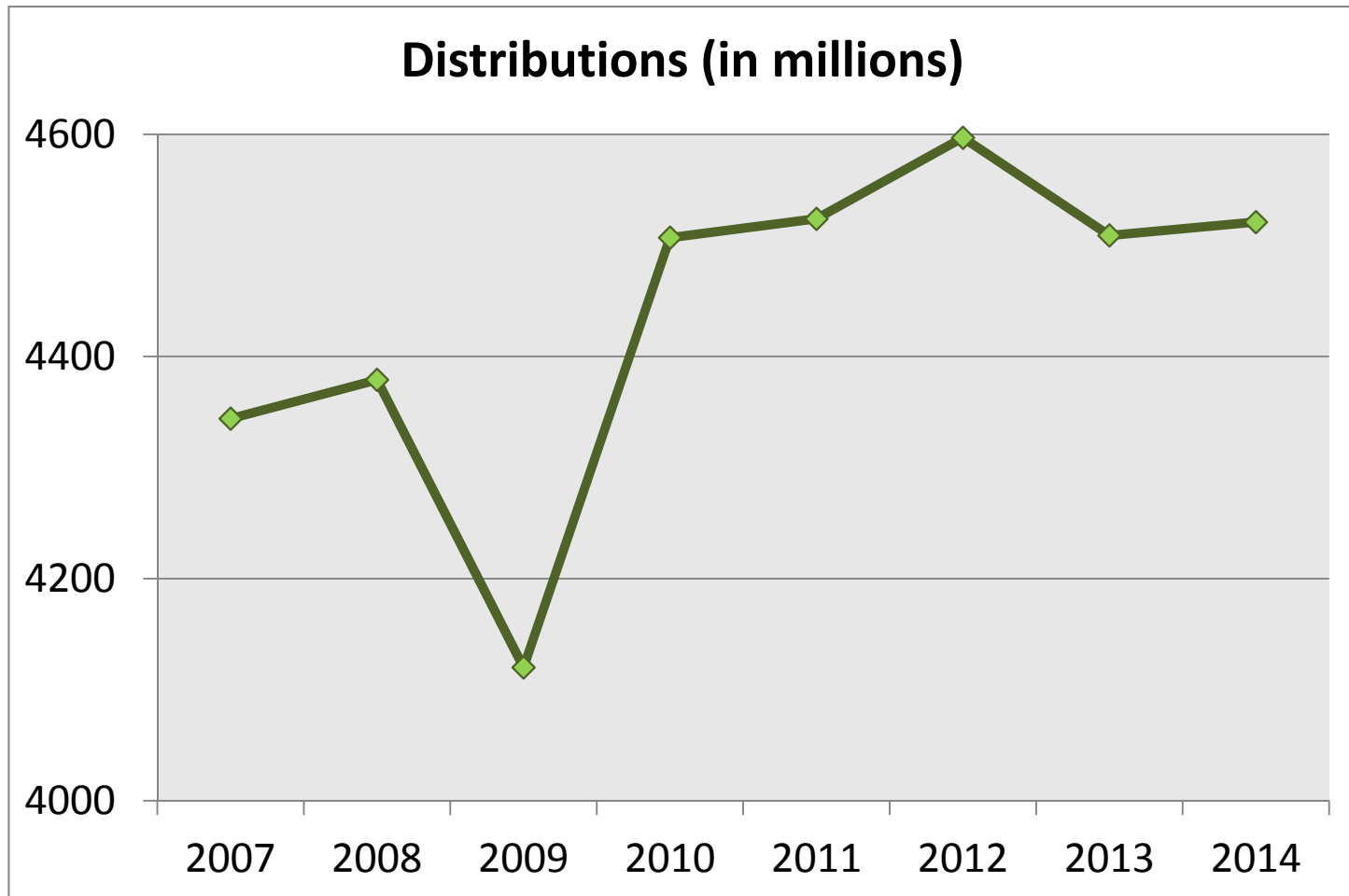


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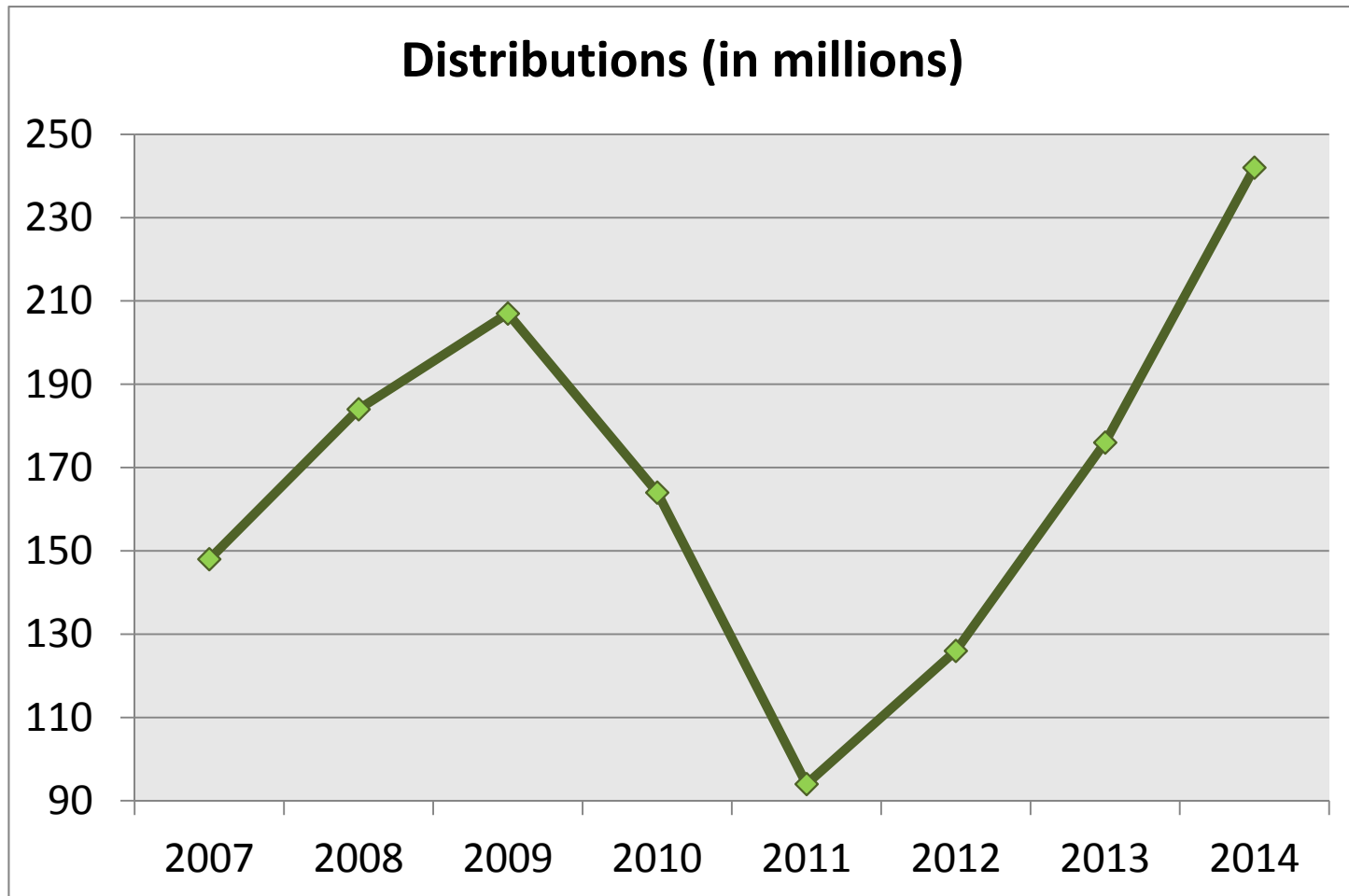
# Perspectives on USF Contributions Reform

**Mike Romano**  
**Senior Vice President – Policy**  
**NTCA**

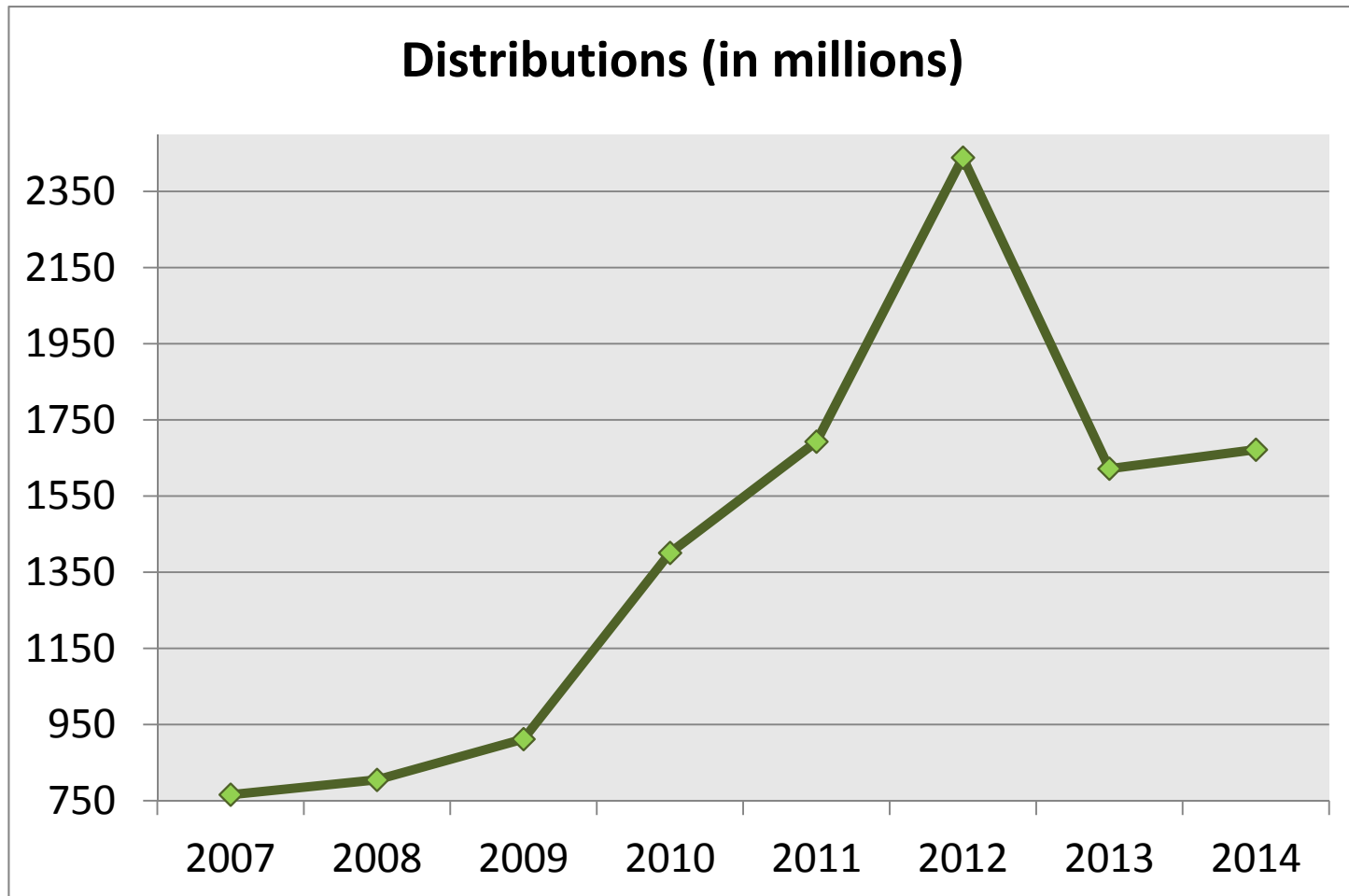
## Demand – High Cost (\$4.5B Cap)



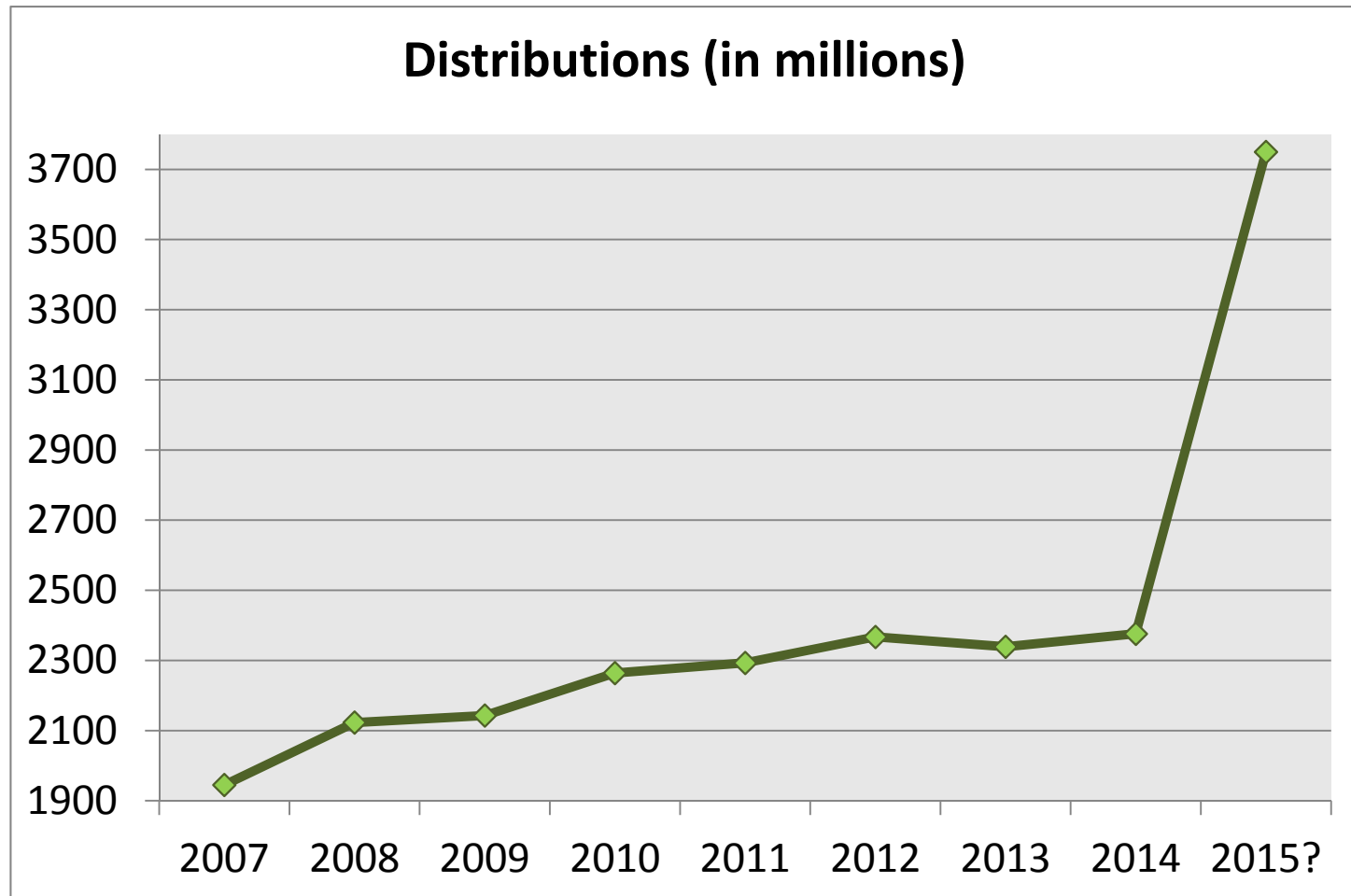
## Demand – Rural Health Care (\$400M Cap)



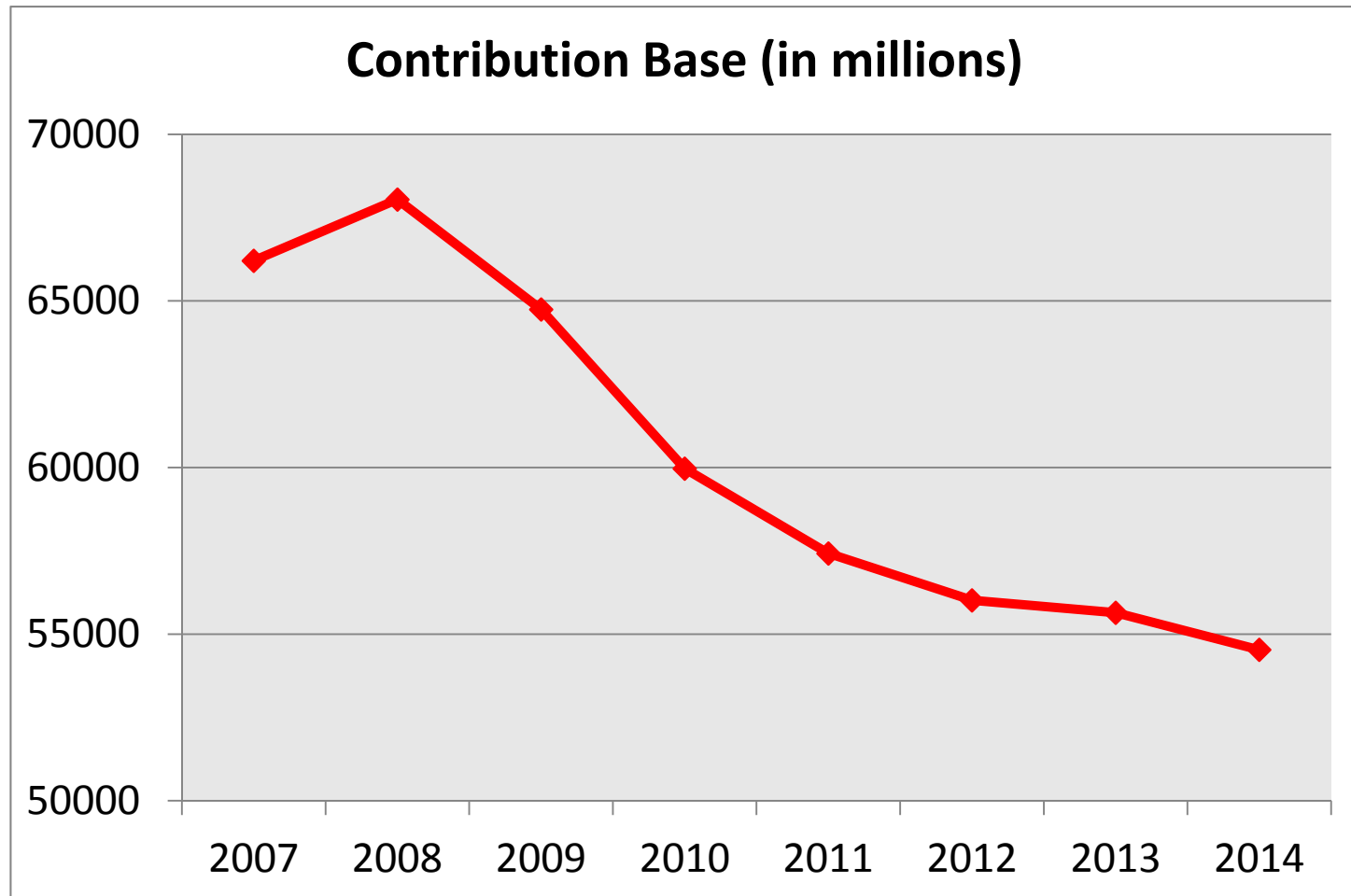
## Demand – Low-Income (No Cap)



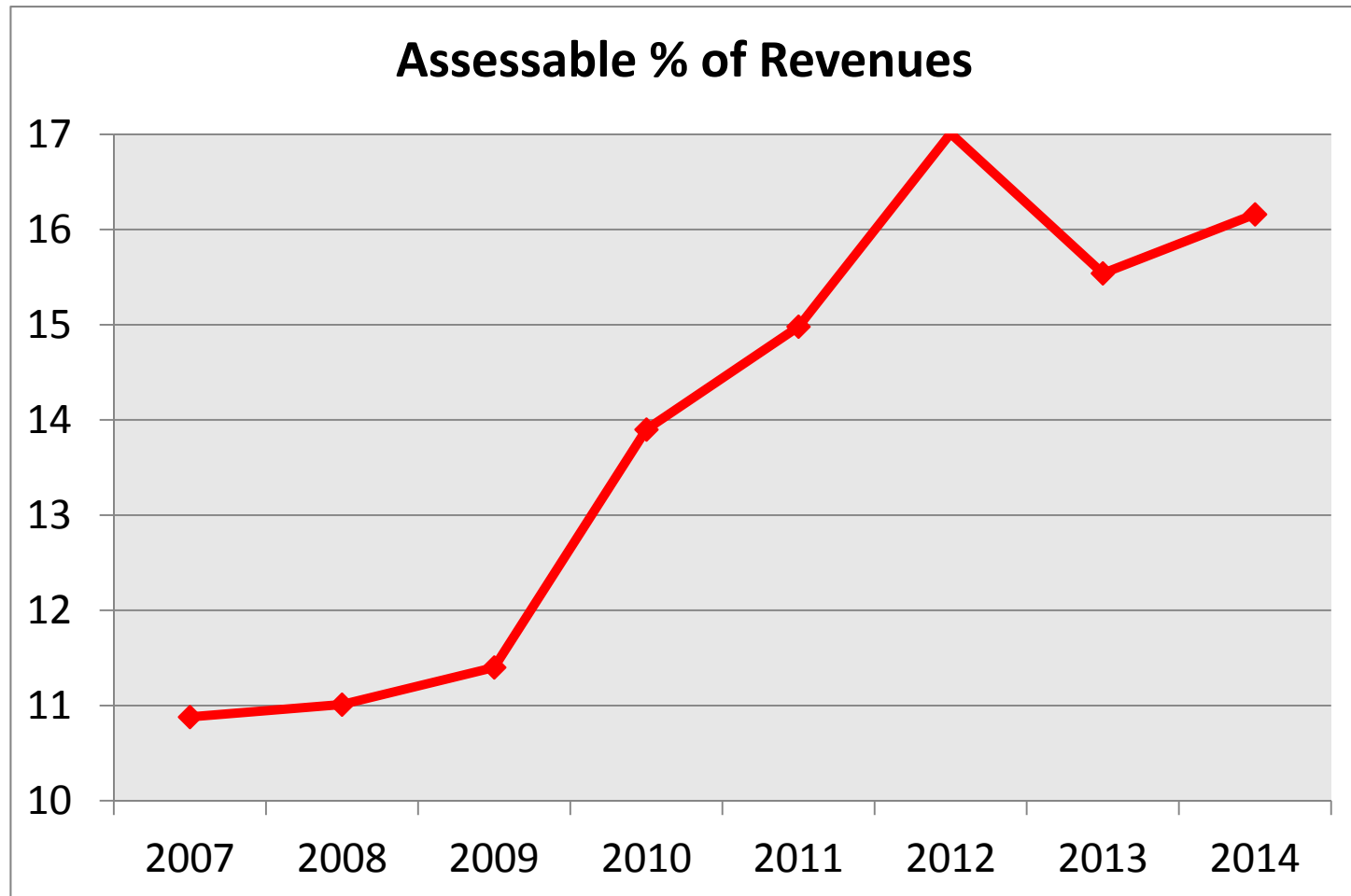
## Demand – E-rate (\$3.75B Cap + inflation index)



# Supply



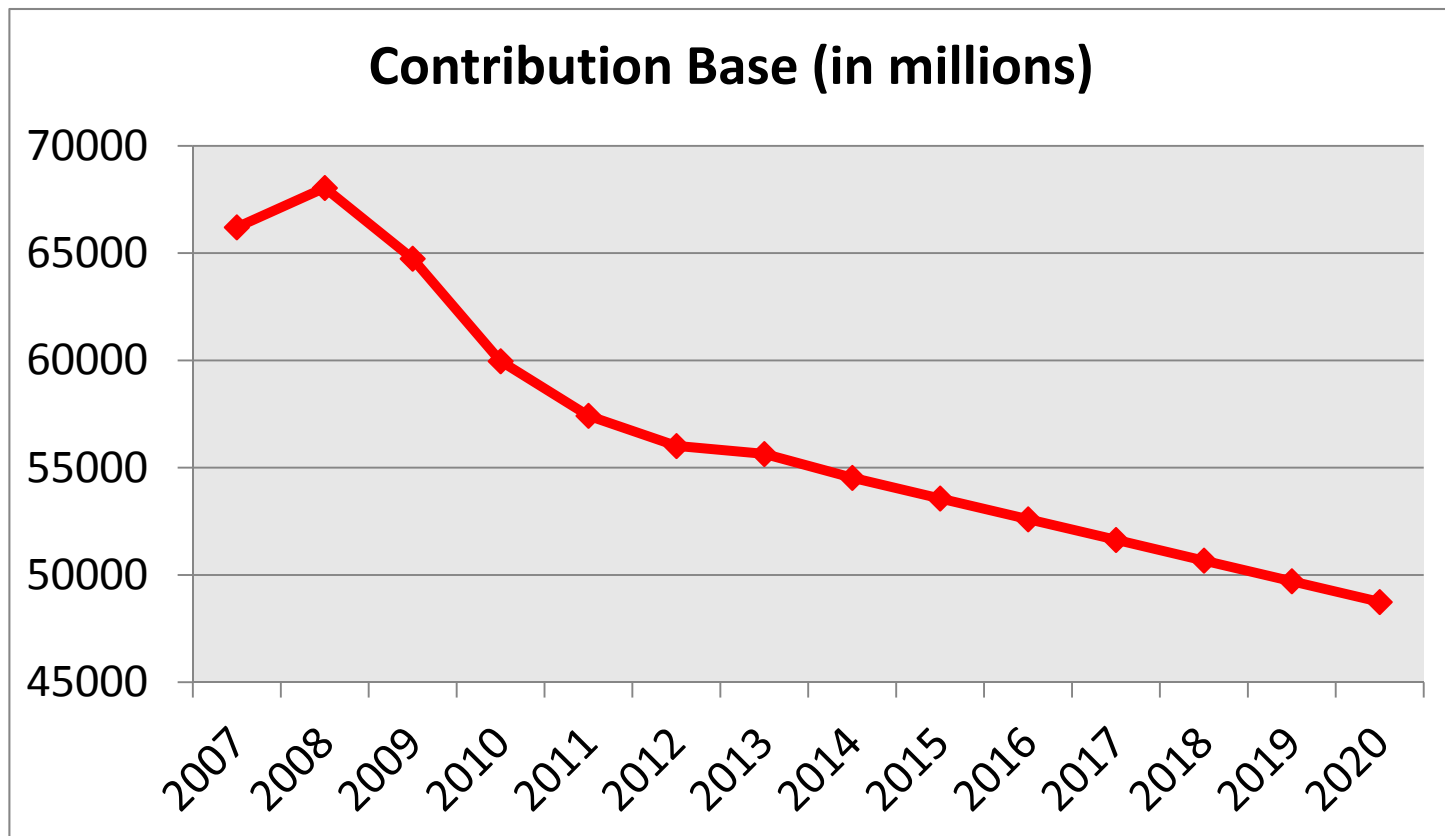
# Contribution Factor





# Supply without Reform Going Forward

(assumes avg. of last 3 years as continued annual reduction)

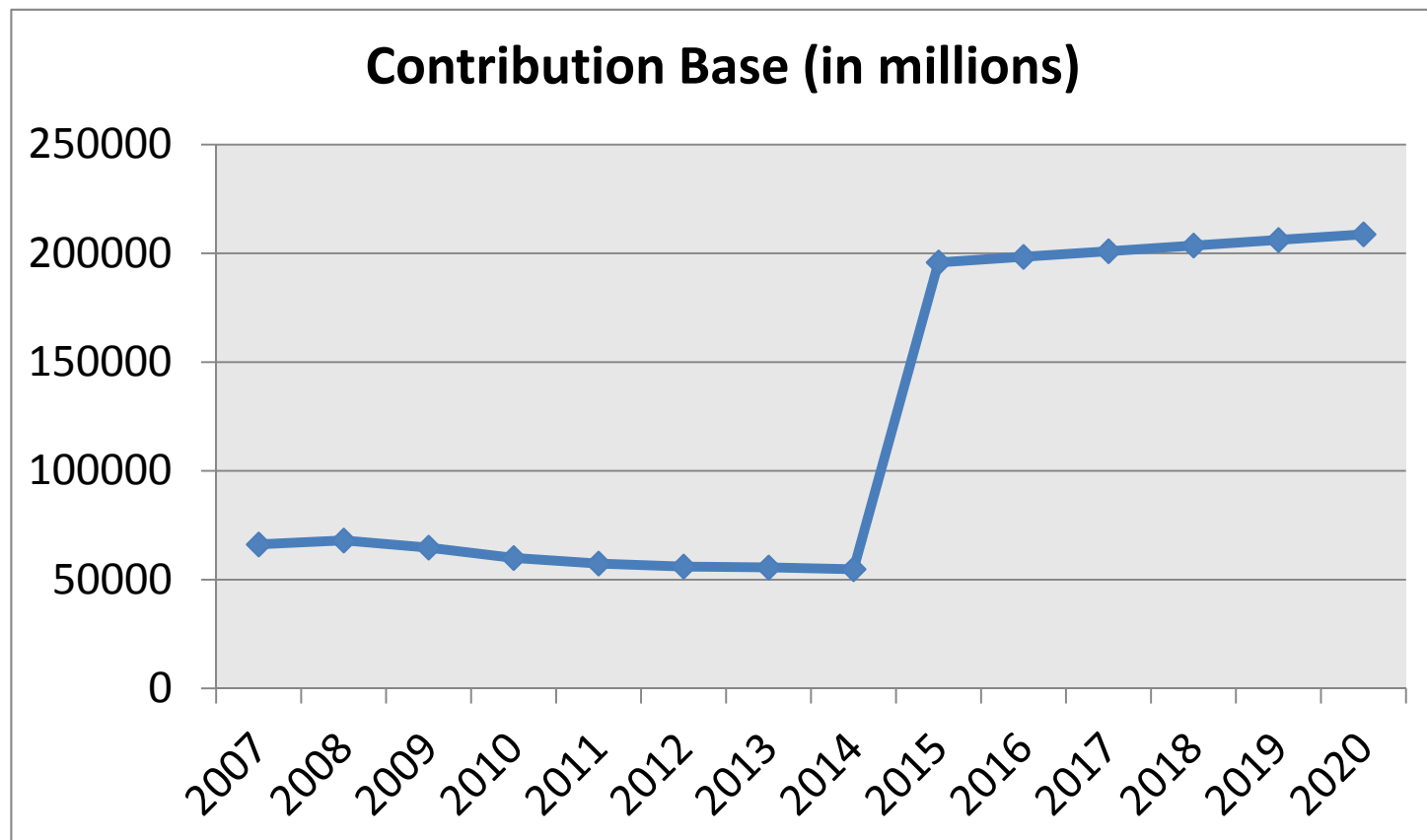


# Fixing USF Supply

- We can dramatically improve the Supply equation – effective immediately – by expanding the Contribution Base just to include:
  - Fixed & Mobile Retail Broadband Internet Access Revenues – Est. \$122B Market combined in 2012\*
  - Texting Revenues – Est. \$20B Billion Market\*\*
  - Non-Interconnected (1-way) VoIP Service Revenues

## Supply with Reform Going Forward

(assumes avg. of last 3 years as continued annual reduction, plus inclusion of new revenues as of 2015 with 2.5% annual increase thereafter)



# Broadening the Base Has To Mean Something

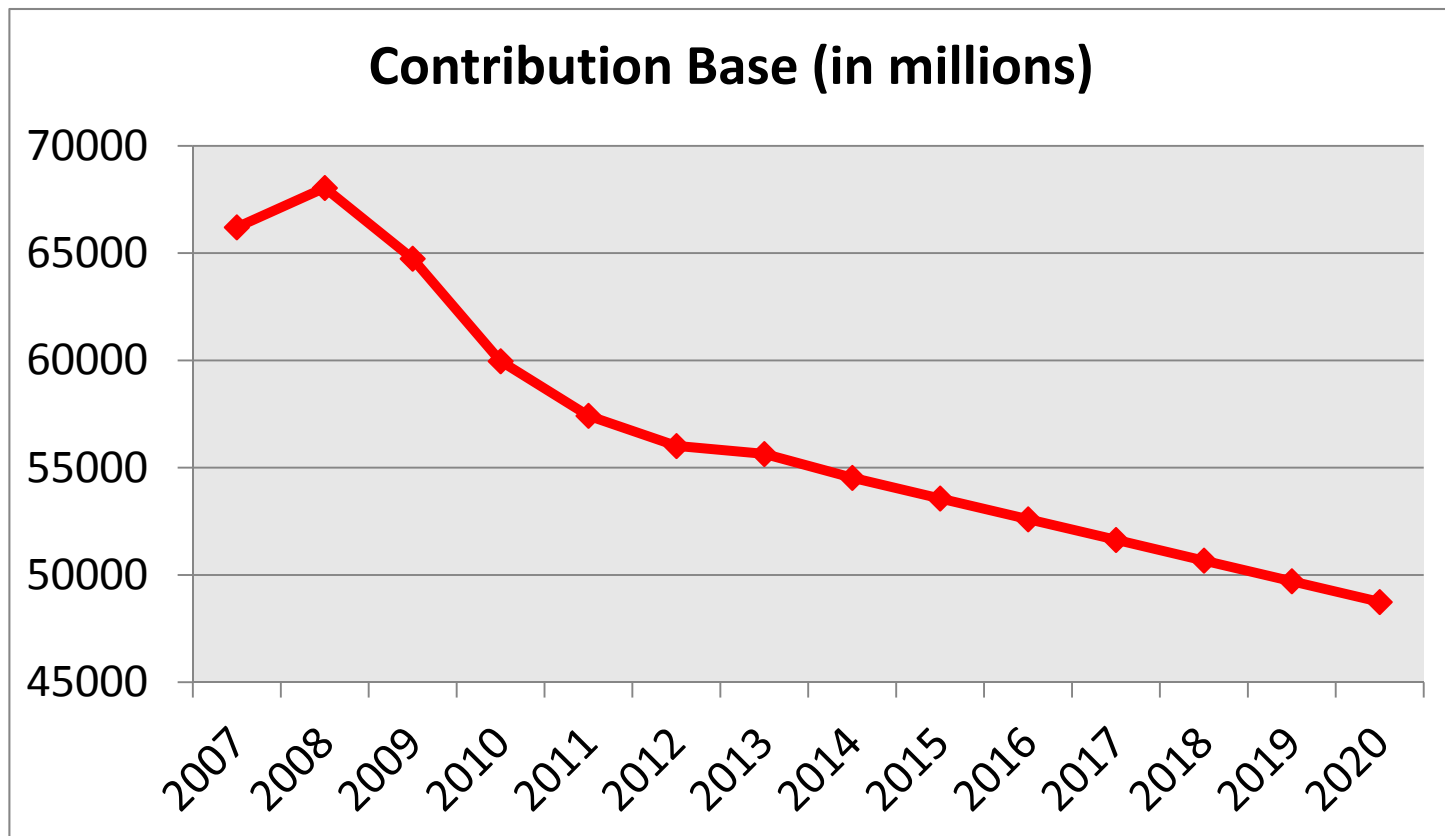
- Quarterly factors have fluctuated wildly – between 12.9% and 17.8% just since 2010
- Sends bad signals to purchasers of services and unsustainable as a matter of policy
- If we had Supply with Reform tomorrow, and assumed no increase in USF distributions, the Quarterly Contribution Factor for Q1 2015 could be ~ **4.6%** rather than **16.8%**.
- Average customer's broadband assessment could equal:
  - For 10/1 = ~ \$3.14 (100GB usage); ~ \$3.93/mo (unlimited)
  - For 4/1 = ~ \$2.63 (100GB usage); ~ \$3.42/mo (unlimited)
- Meanwhile, average customer's voice assessment could be reduced from more than \$3 to less than \$1
- More equitable distribution among ratepayers, and presumed growth (vs decline) in broadband should lead to *reduced* contribution factors over time

# What Now?

- Joint Board
  - 2012 repeat or something more?
- Industry Politics
  - Telecom segments
  - Net-centric businesses
  - Consumer groups
- What Can't Happen – Nothing . . .

# Supply without Reform Going Forward

(assumes avg. of last 3 years as continued annual reduction)



# So What are the Options (Other than Nothing)?

- Revenues
  - Pros: Simple to administer; builds upon existing system
  - Cons: Politics; builds upon existing system . . .
- Connections
  - Pros: Gets to heart of network use
  - Cons: Not as easy to administer – speed, capacity, intercarrier?
- Numbers
  - Pros: Really simple to administer
  - Cons: Backward-looking, especially in an IP/BB world
- Hybrids?