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JUL 29 1992

Federal Communications Commission
Office of the Secretary

July 29, 1992

Ms. Donna Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, D.C. 20554

RE: Ex Parte Meeting
<u>CC Docket No. 92-135</u>

Dear Ms. Searcy:

By this letter, the United States Telephone Association (USTA) notifies the Commission that members of USTA's Workgroup on Small and Mid-sized Telephone Company Regulatory Reform[1] met today with Andrew Mulitz and Daniel Grosh of the Commission's Common Carrier Bureau staff. The purpose of the meeting was to seek clarification of several issues raised in the Commission's Notice of Proposed Rulemaking, FCC 92-258, released July 17, 1992, in the above-referenced proceeding. During the course of the meeting, members of the Workgroup compared certain aspects of the Commission's Notice to USTA's proposal on Small and Mid-size Telephone Company Regulatory Reform. A copy of USTA's Proposal, and the Supplement thereto are attached to this letter for inclusion in the record of this proceeding.

Respectfully submitted,

Linda Kent

Linda Kent
Associate General Counsel

Attachments (3)

cc w/atts.: A. Mulitz
D. Grosh

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1 See attached attendance list.

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Meeting - 7/29

USTA Work Group on Small/Midsize Regulatory Reform

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JUL 29 1992

Federal Communications Commission
Office of the Secretary

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Dan Grosh	FCC		

PROPOSAL

OF THE

UNITED STATES TELEPHONE ASSOCIATION

On

Small and Midsize Telephone Company

Regulatory Reform

March 6, 1992
[Issue 2]

PROPOSAL
OF THE
UNITED STATES TELEPHONE ASSOCIATION

The United States Telephone Association (USTA) submits this Proposal for small and midsize telephone company regulatory reform. USTA is the principal trade association of the exchange carrier industry. Its membership of approximately 1100 local telephone companies represents over 98% of telephone company-provided local access lines.

I. SUMMARY AND BACKGROUND

USTA's Proposal has several parts. Among other recommended changes, the small company filing option contained in Section 61.39 of the Commission's rules is expanded to include common line rates. Additionally, earnings enforcement and tariff filing requirements under the Commission's current rate-of-return rules are modified for non-price cap local exchange carriers (LECs).[1] An optional Alternative Incentive Regulation (AIR) plan provides efficiency incentives and further regulatory streamlining. Finally, USTA's Proposal includes pricing flexibility for AIR plan participants, and a limited ability to reenter the National Exchange Carrier Association (NECA) pools. USTA believes its Proposal will achieve significant benefits for carriers, Commission staff and, most importantly, consumers.

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[1] These proposals provide regulatory streamlining for both pooled and non-pooled LECs; however, no changes to the mechanics of pooling or to the average schedule processes are proposed by USTA at this time.

USTA's current efforts to achieve regulatory reform for small and midsize LECs began in late 1990 when the FCC released its Second Report and Order in the price cap proceeding.[2] That Order required price cap regulation for the 8 largest carriers and offered optional participation for all other LECs. The Commission acknowledged, however, that price cap regulation may not be appropriate for all carriers, especially smaller ones.[3] Further, the Commission stated that it would pursue an investigation of a lower productivity factor and other regulatory options in a separate proceeding for LECs not required to implement price caps.[4]

As of July 1, 1991, LECs operating under price caps, both mandatory and elective, represented over 92% of the nation's access lines constituting over 90% of the industry revenue requirement.[5] Hence, LECs that are still subject to traditional rate-of-return regulation represent less than 10% of the industry.

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2 The seven Regional Bell Operating Companies (RBOCs) and GTE were ordered to adopt price caps effective January 1, 1991. See Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-813, Second Report and Order, 5 FCC Rcd 6786 (1990), recon. 6 FCC Rcd 2637 (1991).

3 See Second Report and Order, 5 FCC Rcd at 6799.

4 Id. at 6827.

5 See Attachment 1.

In light of the FCC's adoption of price caps for the largest carriers, the current rate-of-return rules should be streamlined for the remaining small and midsize LECs. Further, incentive regulation should be extended to carriers for which, as the Commission recognized, price cap regulation may not be appropriate. USTA's Proposal accomplishes these objectives in a manner which mitigates the administrative burdens on both carriers and the Commission, and obviates the need to determine a separate productivity factor for non-price cap LECs.

USTA's Proposal, described in detail below, is based upon the continued application of the unitary rate-of-return. Attachment 2 of this document summarizes the Proposal's changes to the current rules applicable to small and midsize carriers.

II. THE USTA PROPOSAL

A. Including Common Line Tariff Filings Under Section 61.39 is Consistent With the FCC's Objective to Streamline Regulation for Small Telephone Companies.

In an April 1989 Petition for Rulemaking, USTA requested that the Commission expand the Section 61.39 rules to include carrier common line (CCL) and end user common line (EUCL) tariff filings. USTA urges the Commission to include within any forthcoming NPRM the rule changes suggested in its Petition.[6] To

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[6] To help mitigate any incentive to "game" a carrier's election of the Section 61.39 filing option, USTA proposes that any election must include all of the carrier's services not included in any association pool.

facilitate this expansion of Section 61.39, USTA proposes to account for the effect of common line demand growth as further described in Section II.C.5 below.[7]

The existing Section 61.39 rules have unnecessarily circumscribed the benefits of regulatory simplification for small telephone companies. The extension of Section 61.39 to CCL and EUCL filings will reduce administrative burdens on both Commission staff and qualifying LECs by encouraging carriers to elect this streamlined tariff filing option.

B. USTA Proposes Several Modifications to Baseline Rate-of-Return Regulation.

The second part of USTA's Proposal (the "baseline plan") achieves regulatory streamlining for non-price cap LECs by (1) increasing the interval between full tariff filings; (2) expanding the maximum allowable earnings range above the unitary rate-of-return, and basing earnings enforcement on total interstate access; (3) simplifying requirements for the pricing of new services; and (4) codifying tariff review plan requirements. Each of these proposals, described more fully below, is designed

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7 Under USTA's Proposal, a LEC must also show that its calculation of EUCL charges complies with the requirements of the Part 69 rules.

to streamline the tariff process while providing sufficient safeguards to ensure reasonable rates.[8]

1. Tariff Period.

Current rules generally require rate-of-return LECs to make comprehensive annual access tariff filings.[9] USTA suggests modifying the current rules to allow a carrier, in lieu of filing a new tariff, to certify that rates in effect at the end of a tariff period are not likely to result, during the subsequent tariff period, in earnings above the maximum allowable return.[10] This modification would eliminate the requirement that a carrier file an annual tariff, but would not preclude a carrier from doing so, or from filing appropriate mid-course adjustments.[11]

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[8] USTA believes that continuation of prospective ratemaking for carriers not electing price caps, the AIR plan, or the Section 61.39 filing option, is necessary to give LECs the ability to fully recover their costs during periods of inflation. For this reason, USTA would strongly oppose any suggestion that rates under the baseline plan be calculated from historical cost and demand data.

[9] See 47 CFR §§ 61.38 and 69.3(a). LECs electing the Section 61.39 filing option for their traffic sensitive tariffs already have simpler biennial filing requirements. See 47 CFR §§ 61.39 and 69.3(f).

[10] A recommended form for this certification is appended hereto as Attachment 3. Certification has precedent in the Part 69 rules which state that average schedule formulas must be revised annually or the association can certify that revisions are not warranted for a subsequent year. See 47 CFR § 69.606(b).

[11] USTA also proposes to increase the gross annual revenue threshold for filing tariff support, specified in § 61.38(a), to $2,000,000. The current $500,000 level was adopted in 1984, nearly 8 years ago. See Amendment

2. Earnings Enforcement.

Current Part 65 rules require enforcement of LEC earnings at both the total interstate access and access service category levels.[12] As a streamlining measure, USTA proposes that earnings enforcement be applied only at the total interstate access level for rate-of-return companies. In addition, USTA proposes that the maximum allowable earnings be 100 basis points above the authorized unitary rate-of-return. This change would reduce the number of LECs which must make full annual filings by encouraging certification of projected earnings in lieu of such filings.[13] It would also provide flexibility for smaller rate-of-return LECs whose earnings tend to be volatile.

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of the Commission's Rules with Regard to Tariffs, CC Docket No. 83-992, FCC 84-353, 49 FR 40858 (October 18, 1984). USTA believes that in view of inflation since that time, and the Commission's experience under the access charge rules, a $2,000,000 would ease the administrative burdens on the smallest LECs desiring to file their own tariffs without undermining the Commission's regulatory objectives. The Commission could, of course, request a carrier to submit supporting information as may be necessary to review a tariff filing. See id. at ¶ 18.

12 47 CFR § 65.700.

13 USTA also proposes a change in the start of the earnings monitoring period to coincide with the start of the tariff period. Earnings would still be reviewed over a two-year period.

3. New Service Pricing.

Current rules require a 12 month prospective cost study to support initial rates for new services.[14] USTA proposes to eliminate the cost support showing for a new service filing so long as the annualized projected revenues of the service during the tariff period will be less than 2% of the LEC's total test period interstate revenues, or $200,000, whichever is greater. The LEC would also have to show that the rate(s) for the new service is no greater than a rate(s) on file with the Commission for a comparable service offered by another LEC, if such service exists.

Initial rates for new services that meet this <u>de minimis</u> standard would be filed on 45 days' notice and would be considered presumptively lawful.[15] Such rates could be extended to subsequent tariff periods without a cost support showing if the service continues to meet the <u>de minimis</u> standard. For services that do not meet this test, current rules as herein modified would apply. This rule change should help encourage new service deployment in rural areas,

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[14] 47 CFR § 61.38(b)(2).

[15] For companies filing under Section 61.39, the rates for new services are already considered presumptively lawful. <u>See</u> <u>Regulation of Small Telephone Companies</u>, 2 FCC Rcd at 3814.

and ease administrative burdens on both LECs and Commission staff.[16]

4. Codifying and Simplifying Tariff Review Plan (TRP) Requirements.

Under current procedures, the TRP requirements are set each year through a notice and comment proceeding. This process creates uncertainty and places unnecessary burdens on both Commission staff and carriers. Therefore, USTA proposes that the Commission codify and simplify TRP requirements. USTA stands ready to assist the Commission in this endeavor.

C. The Optional Alternative Incentive Regulation (AIR) Plan Combines Efficiency Incentives With Additional Regulatory Streamlining Measures.

The optional AIR plan incorporates some of the incentive and pricing flexibility aspects of price caps with the administrative benefits of streamlined regulation. The AIR plan would compliment many of the streamlining proposals addressed above including earnings enforcement, new service introduction, and TRP simplification.

The AIR plan differs from the above-described baseline modifications, however, with regard to plan election, tariff filing period, earnings parameters, cost support, common line

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16 USTA's proposal for new service tariff filings would also be applicable to carriers participating in the AIR plan described below.

demand adjustment, pricing flexibility, infrastructure development incentives, and service quality reporting. Each of these plan attributes are described below.

1. Basis for Election.

All non-price cap LECs would be eligible to participate under the AIR plan. Participation may be for depooled traffic sensitive rates alone (if the LEC participates in an association tariff for common line rates), or depooled traffic sensitive and common line rates together. In order to mitigate any incentive to "game" the process, electing companies must place all depooled services and all depooled LEC affiliates under the plan.[17] Companies may elect to continue in, or leave, the plan at the completion of each tariff period. However, LECs who elect to leave the plan and file a tariff pursuant to Section 61.38 of the rules, may not return to the plan for at least a three-year period. Again, this will prevent LECs from gaming the process by switching back-and-forth between the two filing options.

2. Filing Periods.

Rates under the AIR plan would be set on a biennial basis. Tariffs would be filed by an electing carrier every two years with a July 1 effective date.[18]

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17 Participation in the plan, however, does not require carriers to depool average schedule affiliates.

18 A carrier may elect to start the biennial tariff period in either an odd or even numbered year.

3. Earnings Parameters.

The AIR plan is intended to provide an efficiency incentive to non-price cap LECs. The plan includes total interstate access earnings limits of 100 basis points below and 200 basis points above the unitary rate-of-return. Under the AIR plan, monitoring period earnings above the upper limit would be subject to refund under the current rate-of-return enforcement rules.[19]

A company falling below the lower earnings limit or above the earnings ceiling after one year would retarget to the appropriate limit within 90 days of the end of the year. (The tariff revision would be filed on 14 days' notice.) In the event that first year earnings fall outside the plan's parameters, absent other justification, rates would be adjusted to the appropriate earnings limit through the use of a rate adjustment factor (RAF). The RAF would be derived from the difference between the earnings limit and the revenue results from the appropriate FCC Form 492 category as follows:

If $ROR > ROR_c$ or $\leq ROR_f$, then:

$$RAF = 1 + \frac{((RBAS*ROR_{c/f})-OPI)*TAXF}{REV}$$

Where ROR = rate of return (FCC Form 492, Line 8)

19 In Section II.C.7 below, USTA discusses a possible alternative to the refund mechanism which could enhance infrastructure development, particularly in rural areas.

$ROR_{c/f}$ = rate of return ceiling or floor under the AIR plan as may be applicable.

RBAS = rate base (FCC Form 492, Line 4)

OPI = operating income (FCC Form 492, Line 3)

TAXF = gross-up factor for income taxes

REV = total revenues (FCC Form 492, Line 1)

The adjusted rate for each rate element would then be calculated in the following manner:

$$Rate_1 = Rate_0 \times RAF.$$

Where: $Rate_1$ is the next period's rate.

$Rate_0$ is the current period's rate.

4. Cost Support.

Under the AIR plan, tariff filings would be based on two-year historic cost and demand data, except that data for a one-year period would be used for the initial AIR plan filing.[20] Additionally, subject to the limitations discussed below, AIR plan participants would include in their rate calculations the effect of known and measurable changes to cost and demand during the tariff period.

The inclusion of known and measurable changes would be limited in several important respects. First, it would be limited to those instances where there is an objective confirmation of the future event causing the cost or demand

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[20] This is consistent with the § 61.39 filing requirements.

change (e.g., a signed contract or other documentation evidencing the future construction of a new transmission facility or the installation of a new switch, written notice to the carrier from a major customer for the start or termination of service on a date certain.)[21] Second, known and measurable changes could only be reflected if their exclusion, in the aggregate, would otherwise cause the carrier to earn 100 basis points below or 200 basis points above the authorized unitary rate-of-return. Thus, the inclusion of known and measurable changes would be consistent with the AIR plan's risk/reward parameters and would reflect changes that decrease as well as increase rates.[22] These limitations should mitigate the Commission's earlier concerns regarding the use of known and measurable changes.[23]

The limited inclusion of known and measurable changes under the AIR plan would help facilitate AIR plan election by LECs that are contemplating, or have just completed,

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21 Known and measurable changes would also include events that have already occurred but are not yet normalized, such as where a major plant investment was made in the last quarter of the historical test period. Known and measurable changes would not include "exogenous" cost changes as defined by Section 61.45(d)(1) of the Commission's rules. As discussed below, such changes are treated separately.

22 This requirement should also substantially reduce the number of known and measurable changes that are reflected in the rate calculations.

23 See Regulation of Small Telephone Companies, 2 FCC Rcd 3811, 3813 (1987).

infrastructure improvements. It would also help minimize rate changes ~~by~~ avoiding all but certain rate adjustments at the end of the first year due to carrier under- or over-earnings resulting from known and measurable changes that could have been reflected in the filed rates at the start of the tariff period.

Finally, carriers under the AIR plan must also reflect the impact of all "exogenous" cost changes in their tariffs as that term is defined by Section 61.45(d)(1) of the Commission's rules.[24] The inclusion of exogenous cost changes would not be subject to the 200/100 basis point trigger applicable to known and measurable changes discussed above.

5. Adjustment for Carrier Common Line Demand Growth.

USTA recognizes the Commission's concern over using historical demand and cost data for determining carrier common line rates and, therefore, proposes to include a minutes of use (MOU) growth adjustment under the AIR plan. This mechanism will afford LECs the ability to recover costs, and will share the benefits of carrier common line demand growth between customers and carriers.

USTA believes that the price cap plan's g/2 adjustment is not appropriate for the AIR plan.[25] Instead, USTA pro-

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[24] 47 CFR § 61.45(d)(1).

[25] For example, the AIR plan does not provide for the automatic recovery of annual inflationary cost increases.

poses to adjust for carrier common line demand growth by attributing the benefits of historical growth over an annual MOU growth threshold equally to both customers and carriers. In determining carrier common line rates for the next biennial period, historic demand would be multiplied by one plus 1/2 of any historic growth in excess of an estimate of common line cost growth for companies eligible to elect the AIR plan, pursuant to the following formula:[26]

$$CCL_{ADJ} = CCL_{HIST} * [1 + [(g-1.x)/2]]$$

Where CCL_{ADJ} is the adjusted CCL MOU demand for the next biennial period.

CCL_{HIST} is the historic CCL MOU demand.

g is the ratio of MOU per access line during the base period, to the MOU during the previous base period.

x is the to-be-determined MOU growth threshold.

The CCL rate would then be calculated as follows:

$$RATE_{CCL} = \frac{COST_{HIST}}{CCL_{ADJ}}$$

Where $COST_{HIST}$ is the historical test period carrier common line revenue requirement.

6. Pricing Flexibility

Ideally, pricing flexibility would apply to all non-price cap LECs regardless of the tariff filing option they

[26] No adjustment is necessary where the historic growth does not exceed the MOU growth threshold. The adjustment mechanism would also apply to the proposed expansion of Section 61.39 to include common line.

elect. USTA recognizes, however, that broad-based pricing flexibility cannot be achieved without raising many interrelated issues involving reform of the Part 69 rules, expanded local network interconnection, separations changes, and other matters. For this reason, USTA is proposing limited pricing flexibility for only the AIR plan at this time. USTA will continue to work with the FCC staff to ensure that expanded pricing flexibility will be available in the future for non-price cap LECs under each of the regulatory options.

Under the AIR plan, a carrier may increase a rate up to 10% over each two-year tariff period. A rate increase, however, must have no cumulative revenue impact based on historic demand as measured within one of three rate groupings: common line, traffic sensitive-switched, and traffic sensitive-special. Thus, for each rate increased pursuant to the pricing flexibility feature, one or more rates in the same rate grouping must be reduced to offset any historically-based demand. There are no limitations on rate reductions.

At the end of each two-year period, a rate adjustment factor reflecting historical changes in revenue requirement and demand will be computed for each rate grouping. Each factor will be applied to its corresponding rate grouping on a composite basis so that the over-all rate level of each grouping will be no greater than the new demand-weighted revenue requirement. Individual rates within a grouping may be changed up to the percentage change reflected in the grouping's factor, plus the 10% rate flexibility feature which is restored concurrently with the start of the next two-year tariff period.

7. Infrastructure Development Incentives.

The Commission staff has indicated that infrastructure development should be an important goal in a proceeding to reform the regulation of small and midsize LECs. USTA shares this goal but notes that many of these carriers serve small markets in sparsely populated areas and, therefore, network development is often an uncertain undertaking. For this reason, reliance on streamlined regulation and indirect incentives alone might not provide a sufficient impetus for full infrastructure development. Additional measures may be necessary to achieve this objective.

One possibility would be to apply excess earnings toward specific LEC infrastructure development proposals that are directly tied to the provision of advanced services. Existing Part 65 refund obligations would apply in those instances where the LEC had no service related infrastructure development needs at the present time.

USTA's infrastructure development proposal is in its conceptual stage. USTA recognizes that the proposal raises several issues which need to be addressed and discussed with Commission staff before the proposal can be finalized. USTA urges the Commission to proceed with implementation of the other AIR plan features during this time.

8. Service Quality and Infrastructure Reporting.

USTA believes that LECs electing the AIR plan will have a strong incentive to maintain a high level of service quality for their customers. High service quality has been the exchange carriers' hallmark over the decades, and it would be contrary to carriers' financial interests to jeopardize their customer relationships by allowing service quality and network plant to deteriorate.

USTA recognizes, however, the Commission's concern for an additional level of customer assurance through periodic reporting of service quality. For this reason, USTA proposes that carriers electing the AIR plan be required to file annual reports similar to several of the reports required by price cap LECs.[27] These reports would include the following:

a. Installation interval reports, reflecting the percentage of service installations completed within carrier established intervals (similar to the installa-

[27] See Second Report and Order, 5 FCC Rcd at 6827-29. Because of the smaller size of likely AIR plan participants, and important differences between the AIR plan and price caps, there is no need for AIR plan LECs to file identical reports, and at the same intervals, as price cap LECs.

tion results reported by price cap carriers in ARMIS 4305, Table II, rows 0130 and 0132).

b. Repair interval reports, reflecting the average total number of hours to complete requested repairs.

c. Network blockage reports, reflecting the ratio of blocked call attempts to total attempts at the busy hour.

d. Switch downtime reports, reflecting the amount of time during the reporting period that a switch is totally down.

USTA also proposes that LECs under the AIR plan report on their level of infrastructure development, and other plant characteristics, so that the Commission can identify any instances where carriers might be experiencing problems in implementing network upgrades. These reports, which would also be filed on an annual basis, would include the following:

e. Total access lines, and number of lines served by stored program control switches and digital switches. Also, number of lines with equal access, Signalling System 7 and ISDN.

f. Serving area in square miles. Any change in this figure is likely to reflect the impact of mergers or acquisitions. Size of serving area is a component of area density which is a significant distinguishing characteristic of midsize and small LECs.

g. Loop transmission facilities measured by both channels available and channels in service, in total and in terms of baseband, analog, digital fiber and other.

h. Interoffice transmission facilities measured by circuits, in total and in terms of broadband, analog and digital. Also measured by carrier links, in terms of analog copper or radio, digital copper or radio, or fiber.

i. Copper pairs available at the main distribution frame, and number of sheath miles.

j. Fiber sheath miles.

k. Gross construction expenditures (thousands of dollars).

9. The AIR Plan Has Significant Benefits for Customers, Commission Staff and Carriers.

The AIR plan is designed to bring both efficiency incentives and regulatory streamlining to non-price cap carriers. The plan has features that make it superior to both traditional rate-of-return and price cap regulation for small and midsize LECs, their customers, and Commission staff.

The AIR plan streamlines regulation while at the same time maintaining significant protections, and providing substantial benefits, for the customer. For the carrier and Commission staff, the AIR plan eliminates repetitive annual filings. Customers are protected by the cost showings that must accompany the biennial filing, by mid-period rate adjustments, by a refunding mechanism which circumscribes the carrier's ability to price above the plan's upper earnings limit, and by the service quality reporting requirements. Further, under the AIR plan, rates will not increase every year. In fact, with a comprehensive cost/rate true-up every second year, if required based on earnings results, rates could fall from the preceding period.

The AIR plan will also encourage the ongoing expansion and improvement of the network. The plan's earnings incentives should stimulate the deployment of advanced services as plan participants meet the changing needs of their customers.[28] Additional incentives for infrastructure development could be provided by the application of overearnings to the depreciation reserve deficiency or to discrete infrastructure projects.

Finally, the AIR plan will induce LECs to undertake productivity improvements. Although a LEC's ability to earn above the unitary rate-of-return is circumscribed under the AIR plan, the plan provides sufficient incentives during

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[28] USTA has recently adopted a policy for infrastructure sharing, which, if enacted by Congress and implemented through the regulatory process, will significantly advance the Commission's objective of infrastructure development. This policy is set forth in Attachment 4.

each two-year period to stimulate cost-saving measures, marketing initiatives and other LEC productivity enhancements.

D. Exchange Carriers Should be Permitted to Reenter NECA Pools Under Certain Conditions.

Under USTA's Proposal, carriers which have exited the NECA common line, traffic sensitive or both pools may reenter the pools they had exited at the end of any tariff period. However, to reenter the common line pool the following conditions must be met:

1. The LEC reentering the common line pool must have no material impact on pool composition.[29]

2. The LEC reentering the common line pool must retain its Long Term Support (LTS) obligation.

Allowing small carriers to reenter the NECA pools mitigates part of the risk faced by these companies due to their substantial earnings variability. However, the reentering company would be required to maintain its LTS obligation, which becomes an effective disincentive to "bouncing" in and out of the pool based

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[29] Under the USTA Proposal, common line pool reentry would be limited to those companies with 50,000 or fewer access lines. This is in the spirit of the exception to the Unity 1-A Agreement principles adopted in 1989. See Amendment of Part 69 of the Commission's Rules Relating to the Common Line Pool Status of Local Exchange Carriers Involved in Mergers or Acquisitions, CC Docket No. 89-2, released August 23, 1989, ¶ 31.

on the carrier's projected earnings. Further, the LTS obligations of other LECs would remain substantially unchanged by a company's reentry.

III. IMPLEMENTATION OF THE USTA SMALL AND MIDSIZE COMPANY REGULATORY REFORM PROPOSAL WILL REQUIRE MODIFICATION OF EXISTING RULES.

The extension of the Section 61.39 rules to common line and associated rule changes, the modification of the tariff filing requirements and earnings enforcement procedures applicable to baseline rate-of-return carriers, and the AIR plan, will require changes in Parts 61, 65 and 69 of the Commission's rules. The recommended rule changes necessary to implement USTA's Proposal are appended hereto as Attachment 5.

IV. CONCLUSION.

USTA's Proposal for small and midsize company regulatory reform is designed to improve the current regulatory process by streamlining tariff requirements and adding efficiency incentives. The Proposal will provide benefits and protection to customers, and will reduce administrative burdens on both Commission staff and non-price cap LECs.