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December 16, 1993

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

RECEIVED
DEC 16 1993
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: RM-8389

Dear Mr. Caton:

Transmitted herewith, on behalf of The National Rural Telecom Association (NRTA), are an original and nine (9) copies of its comments in the above-referenced proceeding.

In the event of any questions concerning this matter, please communicate with this office.

Very truly yours,

Margot Smiley Humphrey
Margot Smiley Humphrey

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few business customers. Economic downturns can have particularly harsh effects on rural communities. Given their high costs, few business customers and small subscriber bases, rural local exchange carriers (LECs) can face volatile operating results from economic fluctuations, loss of a few or even one large customer, or other conditions and events.

LECs with higher costs, greater vulnerability to setbacks, small staffs and fewer customers and facilities have not been able to elect earlier incentive regulation plans adopted by the Commission. They cannot meet the price caps productivity improvement requirement designed for larger LECs. Moreover, many LECs cannot charge the high stand-alone rates that would result from leaving the NECA pools, where rates are averaged, without placing their customers and communities at a serious disadvantage.

The NECA pooling incentive settlement proposals would create more realistic options for additional small companies to try incentive regulation. Without forsaking some of the necessary protections for themselves and their customers that are available only through pooling, small LECs could opt for a system that would reward successful efforts to reduce costs and increase productivity. As NECA points out, such efforts will benefit customers, as will profit sharing under the Pool Profit Sharing Incentive Option. Moreover, the Commission need not be concerned about over-recovery of costs. Earnings above the upper threshold

of earnings would first offset losses of other pool members regulated under the incentive plan, with the remainder distributed to all pool members.

The NECA settlement options would allow selection of incentive regulation on a study area basis, letting LECs choose the appropriate regulatory regime for the conditions in their service areas, regardless of the characteristics and constraints of their affiliates. The Commission has, for some time, allowed LECs to choose average schedule or cost based settlements on a study area basis, with no adverse consequences. Making these additional incentive regulation options available to more small and mid-sized LECs will help the Commission to evaluate the benefits and potential drawbacks of incentive based regulation in a broader experiment.

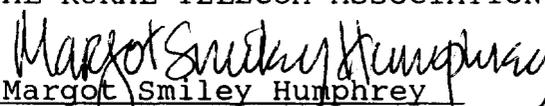
The Commission should also adopt NECA's additional pool administration proposals. Encouraging the introduction of new services by removing unnecessary impediments will help small LECs to provide new services to their customers more quickly. The plan provides built-in rate protection through the rate ceiling based on price cap LEC tariffs. In addition, the limited pricing flexibility NECA requests for the NECA pools will help remove a current disadvantage of pool participation, perhaps enabling LECs to remain in the pools that might otherwise have to file their own tariffs because of competitive pressures.

For all of these reasons, NRTA urges the Commission to initiate a rulemaking proceeding as soon as possible, to compile a record on NECA's proposals and, thereafter, to adopt them for the benefit of small LECs and their customers.

Respectfully submitted,

NATIONAL RURAL TELECOM ASSOCIATION

By:


/s/ Margot Smiley Humphrey
/s/ Margot Smiley Humphrey

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December 16, 1993

CERTIFICATE OF SERVICE

I, Richard D. Massie, a secretary in the law firm of Koteen & Naftalin, do hereby certify that I have this date caused the foregoing to be sent by first class United States Mail, postage prepaid, to the following:

Joanne Salvatore Bochis, Esq.
National Exchange Carrier Association, Inc.
100 South Jefferson Road
Whippany, New Jersey 07981

December 16, 1993

By:


/s/ Richard D. Massie
/s/ Richard D. Massie