



Settlements  
Separations and Costs  
Engineering/Technical Services  
Management Consulting

Jan F. Reimers  
President

APR 11 1996

April 12, 1996

Mr. William F. Caton, Acting Secretary  
Federal Communications Commission  
Room 222  
1919 M Street, NW  
Washington, DC 20554

DOCKET FILE COPY ORIGINAL

RE: CC Docket 96-45 Federal-State Joint Board on Universal Service

Dear Mr. Caton:

Enclosed herewith for filing with the Commission are the original and eleven copies of the Comments of ICORE, Inc., on behalf of many small telephone companies, in the above-captioned matter. There are individual copies for each Commissioner, plus two marked "Extra Public Copy."

Please acknowledge receipt hereof by affixing a notation on the duplicate copy of the letter furnished herewith for such purpose and remitting same to bearer.

Sincerely,

Enclosures

cc: International Transcription Service  
Federal-State Joint Board Service List

(1 copy)  
(Attached)

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BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554

In the Matter of: )  
 )  
Federal-State Joint Board ) CC Docket 96-45  
on Universal Service )

COMMENTS OF THE ICORE COMPANIES

The following companies, through the consulting firm of ICORE, Inc. (ICORE), offer comments to the Federal Communications Commission (FCC or Commission) pursuant to its Notice of Proposal Rulemaking and Order Establishing Joint Board (NPRM or Notice) in the above-captioned matter. The Notice, adopted and released March 8, 1996, requested comments by April 8, 1996, which was later extended to April 12, 1996.

The parties listed below represent a cross section of Independent telephone companies who firmly believe that continuation -- and enhancement -- of universal service support mechanisms for smaller Local Exchange Carriers (LECs) is vital to the preservation of universal telecommunications services at affordable rates:

Adams Telephone Cooperative, Golden , IL;  
Armour Independent Tel. Co., Hartford, SD;  
Ayersville Telephone Company, Defiance, OH;  
Baraga Telephone Company, Baraga, MI;

Barry County Telephone Company, Delton , MI;  
Bentleyville Telephone Co., Bentleyville, PA;  
Blue Earth Valley Telephone Co., Blue Earth, MN;  
Breda Telephone Corporation, Breda, IA;  
Bruce Telephone Company, Bruce, MS;  
Casey Mutual Telephone Co., Casey, IA;  
Circle Telephone Company, Circle, AK;  
Citizens Tel. Company of Kecksburg, Mammoth, PA;  
Citizens Telephone Corp., Warren, IN;  
Clear Lake Independent Tel. Co., Clear Lake, IA;  
Clements Telephone Company, Redwood Falls, MN;  
Climax Telephone Company, Climax, MI;  
Cobbosseecontee Tel. & Telg. Co., Gardiner, ME;  
Consolidated Telephone, Inc., Lincoln, NE;  
Community Service Telephone Co., Winthrop, ME;  
Coon Valley Coop. Telephone Assn., Menlo, IA;  
Cooperative Telephone Exchange, Stanhope, IA;  
Cowiche Telephone Company Inc., Cowiche, WA;  
Craigville Telephone Co. Inc., Craigville, IN;  
Cuba City Tel Exchange Co., Madison, WI;  
Dixville Telephone Company, Dixvile Notch, NH;  
Doylestown Telephone Company, Doylestown, OH;  
Dunbarton Telephone Co. Inc., Dunbarton, NH;  
Dunkerton Tel. Cooperative, Dunkerton, IA;  
Eagle Valley Telephone Co., Hector, MN;  
Easton Telephone Company, Blue Earth, MN;  
Eckles Telephone Company, Blue Earth, MN;  
Eustis Telephone Exchange Inc., Brady, NE;  
Farmers & Business Mens Telephone Co., Wheatland, IA;  
Farmers Mutual Telephone Co., Okolona, OH;  
Farmers Mutual Telephone Co., Bellingham, MN;  
Fishers Island Tel. Corp., Fishers Island, NY;  
Fort Jennings Telephone Co., Fort Jennings, OH;  
Frontier Communications of De Pue Inc., De Pue, IL;  
Geetingsville Telephone Co. Inc., Frankfort, IN;  
Gervais Telephone Company, Gervais, OR;  
Granby Tel. & Telg. Company, Granby, MA;  
Harmony Telephone Company, Harmony, MN;  
Hartington Telephone Company, Hartington, NE;  
Hickory Telephone Company, Hickory, PA;  
Hollis Telephone Company, Wilton, NH;  
Home Telephone Company, Grand Meadow, MN;  
Home Telephone Company, Brady, NE;

Home Telephone Company, Moncks Corner, SC;  
Hot Springs Telephone Co., Missoula, MT;  
Huxley Cooperative Telephone Co., Huxley, IA;  
Interstate 35 Telephone Company, Truro, IA;  
Ironton Telephone Company, Coplay, PA;  
Jefferson Telephone Co. Inc., Jefferson, SD;  
Kadoka Telephone Company, Kadoka, SD;  
Kaleva Telephone Company, Kaleva, MI;  
Kalida Telephone Company Inc., Kalida, OH;  
Laurel Highland Telephone Company, Stahlstown, PA;  
Lexington Telephone Company, Lexington, NC;  
Ligonier Telephone Company, Ligonier, IN;  
Mankato Citizens Telephone Co., Mankato, MN;  
Manti Telephone Company, Manti, UT;  
Marianna & Scenery Hill Tel. Co., Marianna, PA;  
Marseilles Telephone Company, Metamora, IL;  
McClure Telephone Company, McClure, OH;  
McDonough Telephone Coop. Inc, Colchester, IL;  
Mehtel Communications, Mebane, NC;  
Metamora Telephone Company, Metamora, IL;  
Mid Century Telephone Coop. Inc., Canton, IL;  
Mid Communications Telephone Co., Mankato, MN;  
Mid-Iowa Telephone Coop. Assn., Gilman, IA;  
Middle Point Home Telephone Co., Middle Point, OH;  
Midwest Telephone Company, Parkers Prairie, MN;  
Miles Cooperative Tel. Assn., Miles, IA;  
Minford Telephone Company Inc., Minford, OH;  
Minnesota Lake Telephone Co., Minnesota Lake, MN;  
Mt. Angel Telephone Company, Mt. Angel, OR;  
New Lisbon Telephone Company, New Lisbon, IN;  
North-Eastern PA Telephone Co., Forest City, PA;  
Northwestern Indiana Telephone Co., Hebron, IN;  
Nova Telephone Company, Nova, OH;  
Ontario Telephone Co. Inc., Trumansburg, NY;  
Oregon Farmers Mutual Tel. Co., Oregon, MO;  
Orwell Telephone Company, Orwell, OH;  
Osakis Telephone Company, Parkers Prairie, MN;  
Ottoville Mutual Telephone Co., Ottoville, OH;  
Palmerton Telephone Company, Palmerton, PA;  
Panora Cooperative Tel. Assn., Panora, IA;  
Pennsylvania Telephone Co., Jersey Shore, PA;  
Peoples Mutual Telephone Co., Gretna, VA;  
Pierce Telephone Company Inc., Pierce, NE;

Pine Tree Tel. & Telg. Company, Gray, ME;  
Prairie Grove Telephone Co., Prairie Grove, AR;  
Pymatuning Independent Tel. Co., Greenville, PA;  
Redwood County Telephone Co., Redwood Falls, MN;  
Ringgold Telephone Company, Ringgold, GA;  
Roberts County Telephone Coop., New Effington, SD;  
Searsboro Telephone Company, Searsboro, IA;  
Shell Rock Telephone Company, Shell Rock, IA;  
Sherburne County Rural Tel. Co., Big Lake, MN;  
Skyline Telephone Memb. Corp., West Jefferson, NC;  
South Canaan Telephone Co., South Canaan, PA;  
Southern Montana Telephone Co., Wisdom, MT;  
State Long Distance Telephone Co., Elkhorn, WI;  
Stayton Cooperative Telephone Co., Stayton, OR;  
Stockholm-Strandburg Tel. Co., Stockholm, SD;  
Summit Telephone Company, Fairbanks, AK;  
Sunman Telephone Company Inc., Sunman, IN;  
Swayzee Telephone Company, Swayzee, IN;  
Sycamore Telephone Company, Sycamore, OH;  
Tipton Telephone Company Inc., Tipton, IN;  
Tri County Telephone Company, New Richmond, IN;  
Tri-County Tel. Membership Corp., Belhaven, NC;  
Trumansburg Home Telephone Co., Phelps, NY;  
Union Telephone Company, Hartford, SD;  
Unitah Basin Telephone Co., Roosevelt, UT;  
Valley Telephone Company Inc., Parkers Prairie, MN;  
Venus Telephone Corporation, Venus, PA;  
Villisca Farmers Telephone Co., Villisca, IA;  
Volcano Telephone Company, Pine Grove, CA;  
West Iowa Telephone Company, Remsen, IA;  
West Liberty Telephone Company, West Liberty, IA;  
Western Telephone Company, Faulkton, SD;  
Wikstrom Telephone Company Inc., Karlstad, MN;  
Wilton Telephone Company, Wilton, NH;  
Yadkin Valley Telephone Memb. Corp., Yadkinville, NC;  
Yeoman Telephone Company Inc., Yeoman, IN;  
Yukon-Waltz Telephone Company, Yukon, PA;

## I. INTRODUCTION

The small and mid-sized LECs participating in this filing commend Congress, in adopting the Telecommunications Act of 1996, for its commitment to universal service. The principles set forth in Section 254(b) of the act, if implemented in a fair and equitable manner, should allow all Americans to continue having access to the highest quality services, even in an increasingly competitive telecommunications environment.

The Commission should also be commended for its timely response to the directives contained in the act. It has established a Joint Board made up of extremely competent, knowledgeable individuals, and issued this notice to address the provisions and principles of the legislation. The FCC's previous efforts in regard to high cost assistance have also demonstrated its continuing dedication to universal service.

The companies represented herein, like their counterparts across the country, have long provided universal service at affordable rates. They have steadfastly met their carrier of last resort obligations and have brought modern, state-of-the-art telecommunications services and facilities to rural and suburban America.

It is no accident that the United States has the finest telecommunications system in the world, nor that rural and suburban Americans have access to virtually the same modern services as their urban countrymen. The Communications Act of 1934, and sound regulatory policies over

the past sixty years, have assured this.

The smaller LECs have been able to furnish high quality, reasonably priced telephone service because of (1) their tireless dedication to their customers and (2) a variety of high cost assistance/cost allocation mechanisms made available to them over time. Besides USF, these programs have included, through the years, toll rate averaging; pooling; separations procedures such as DEM weighting; incentive average schedules; value of service pricing; EAS plans; and similar processes.

The smaller, Independent telephone companies have played a key roll in bringing modern facilities -- including digital switching and optical fiber -- to the less populous areas of our country. They are today helping to build the information superhighway, with services such as distance learning, telemedicine, and telecommuting being implemented in their territories. High cost assistance mechanisms have in large part been responsible for these achievements.

Such mechanisms properly recognize the unique roll of small LECs in providing universal service. While USF assistance and separations procedures may require some modification in light of industry changes -- particularly the coming of local competition -- they represent critically important revenue sources for many smaller LECs.

Local competition will, without doubt, spur even more rapid growth in facilities and services. As with other forms of competition, however, the more urban areas, with their large

business, governmental and institutional users, will be the first to be affected. USF, DEM weighting, and other assistance mechanisms must continue to be afforded to small LECs, however, regardless of how much, and how fast, competition reaches rural America. Only in this way will non-urban Americans be assured the same high quality, affordable telecommunications services as their urban counterparts.

The following comments touch on various universal service issues, while specifically addressing two separate and distinct mechanisms that recognize the higher costs of smaller telephone companies -- USF assistance and DEM weighting. The companies represented by ICORE herein offer suggestions to modify and retarget USF, and to continue DEM weighting, to the benefit of small and mid-sized LECs and their customers.

## II. SERVICES

The definition of services to be supported by any universal service funding mechanisms should be evolutionary, rather than static. Changes in technology, cost, and customer demand will create a shifting panorama of services which should be considered for future support.

Initially, eligible services might include touchtone, accessibility to basic local network services, accessibility to emergency services (e.g., 911 where available), and accessibility to interexchange services. Only minimal -- if any -- local usage should be included, as at least some LECs might choose to offer low priced local measured service plans to promote universal service.

The availability of popular -- but not as yet ubiquitous -- enhanced services such as Custom Calling features, CLASS and equal access should also be encouraged.

Small, rural carriers that are not as yet providing enhanced services should be afforded a reasonable schedule for their implementation, as well as an exemption process which recognizes technical infeasibility or economic hardship. There are at present differing levels of demand for such services -- and this will certainly be true for more exotic future services -- which should be recognized in setting standards in rural, insular and high cost areas.

### III. SUPPORT FOR RURAL, INSULAR AND HIGH COST AREAS

#### A. Eligibility

It appears that the act rightfully limits universal service support to rural LECs that offer all basic services to all potential subscribers at the study area level. This standard should survive any Joint Board recommendations on universal service.

Small and mid-sized LECs have been committed, year after year, to building switching, loop, and support plant to serve every customer in their service area. They have never had the luxury of offering service only to larger, multi-line, high volume users. Their commitment to universal service, aided by such mechanisms as USF and DEM weighting, has resulted in there being a telephone in nearly every household in this country. Support to individuals will provide perverse incentives for customers to leave the

incumbent LEC for entities with no social obligations, thereby destroying the whole framework of universal service.

A rational universal service assistance program should promote ubiquitous service at affordable rates, by recognizing the high costs and social obligations of carriers of last resort. The needs of individuals -- for food, clothing, shelter, education, medical care, telephone service and other "essentials" -- are the proper purview of charitable organizations, welfare agencies and governmental institutions -- not the telephone industry.

The industry is already involved in programs -- Lifeline Assistance and Link-up America -- which help bring affordable telephone service to lower income households. Anything beyond these very worthwhile efforts will place LECs squarely in the middle of a quasi-welfare system, creating problems which will dwarf even the most vexing of today's issues.

Providing direct assistance to the smaller, rural LECs that are carriers of last resort is the only way to assure the continuation of facilities modernization and universal service. Assistance for individuals neither recognizes carrier of last resort obligations nor assists LECs with providing universal service. In a competitive marketplace, such funding will allow "shopping" between service providers -- only one of which may be disadvantaged by having carrier of last resort obligations.

## B. Support Mechanisms

### 1. DEM Weighting

Small switches clearly have higher costs per access line than very large switches. A large portion of the cost of a digital switch relates to the central processing hardware and software, which vary little with the number of access lines. ICORE clients with exchanges serving fewer than 500 lines typically pay in the \$250,000 range for a switch, or over \$500 per line. A switch serving 20,000 lines might cost \$2,000,000, or \$100 per line. A software upgrade alone for a 500 line switch often costs in excess of \$50,000 -- or more than the total equivalent per line cost of a larger switch.

Current DEM weighting procedures not only properly recognize these higher switching costs, but their proportionately greater value to the interexchange network as well. Simply put, most of the sophisticated and expensive features inherent in today's digital switches are necessary for network functions -- translation, equal access, SS7, expanded CICs, 500 and 900 portability services, and the like. These network costs exist whether the switch handles 1 interstate minute, or 100 million. Since the costs associated with purely local (and in most cases, EAS) services would be minimal, a weighted cost allocation methodology which assigns more costs to the interstate jurisdiction is perfectly justifiable.

In addition, most smaller LECs still charge for local service on a flat rate basis, so local usage is perceived by customers as "free." Toll usage, conversely, is restricted by its volume sensitive nature. DEM weighting rightfully recognizes the deterrent effect of toll versus local pricing. To a very real degree, DEM weighting represents a cost allocation methodology that recognizes the higher interstate switching costs of the smaller LECs, rather than being a "subsidy" or "assistance" mechanism.

There are thus a number of valid reasons for continuing DEM weighting, as well as valid reasons for keeping it separate from loop related USF assistance. Switching costs vary by exchange size, and cost allocations by usage. Loop costs and allocations are driven by entirely different factors. The combining of two such different costs would in all likelihood create an administratively burdensome system that could never assure an equitable distribution or targeting of assistance. The required unbundling of discrete switching and loop elements would also be corrupted.

In addition, combining DEM and USF has the potential to make an already bad situation worse for average schedule companies. At present, these typically smaller carriers receive very little USF assistance -- in 1995, only those with 515 or fewer access lines per exchange are eligible for funding -- but they do benefit from DEM weighting, which is built into the formulas. The combining of DEM

with USF would in all likelihood reduce overall assistance to average schedule companies, by eroding the significant contribution that a separate weighted DEM makes to current settlements.

The ICORE companies recommend that full DEM weighting be maintained for all study areas with 10,000 or fewer access lines. LECs of this size generally serve small exchanges with high per unit costs, and lack the large subscriber bases over which to spread their costs. For these smallest study areas, maximum weighting is appropriate.

For study areas between 10,000 and 200,000 access lines (LECs that are much smaller than the large system holding companies), average access lines per exchange (or switch) could form the basis of DEM weighting. We would suggest that an overall average lines per exchange be calculated for all study areas with 10,000 or fewer lines, and form the baseline for a "banding" or sliding scale approach.

Under this proposal, any study area in the 10,000 to 200,000 access line range, whose average lines per exchange were at or below the baseline, would be accorded full weighting. For study areas with lines per exchange above the baseline, a linear sliding scale or banding system could be used to reduce the weighting factor from 3 down to 1 as average lines per exchange increase.

The current DEM weighting rules properly reflect the higher interstate switching costs of the very small LECs, by according a weighting factor of 3 to study areas with 10,000 or fewer access lines. The system could be improved for mid-sized LECs above 10,000 lines by adopting the sliding scale methodology recommended above.

## 2. USF

Just as small LECs serving rural, insular and high cost areas have proportionately higher switching costs, they often have significantly higher loop costs than larger, urban-oriented LECs. Current Universal Service Fund rules allow all cost companies with loop costs in excess of 115% of the nationwide average (plus a small subset of average schedule companies) to receive compensation.

The higher loop costs of small, rural LECs are in large part attributable to their provision of universal service in sparsely populated areas. These high loop costs of rural and insular LECs, which are caused by low density in their service areas as well as other factors beyond their control, must continue to be recognized and supported if all Americans are to have high quality, affordable telecommunications services.

The existing USF support system, enhanced by the use of proxies and improved for average schedule companies as explained below, should be maintained for the smaller LECs. In fact, only those LECs defined as rural by the act should be eligible for loop cost related USF. Elimination of the large companies will limit USF payments and retarget the fund to those carriers that most need assistance.

USF assistance based on actual loop costs should not be an option for Price Cap LECs, as it provides incentives that are totally contrary to every other aspect of their business. These companies should not be allowed to have it both ways, i.e., to be rewarded for their low cost of switching and transmission, as well as their high cost of local loop facilities.

USF data for 1993, the last year for which ICORE has detailed analyses, demonstrate clearly how the Price Cap LECs dominate the fund in many states. GTE, for instance, received at least half the total assistance in several states, including roughly 66% in Indiana, 68% in Alabama, 74% in Missouri, 83% in Idaho, and 93% in Kentucky. Its take in Missouri, over \$36 million, exceeded the total funding for 50 of the other 52 states and territories. Only Texas and California received more.

Many Regional Bell Operating Companies also received large amounts of

funding, taking 20% of North Carolina's allotted \$25.3 million; about 22% of both Georgia's \$32.6 million and Louisiana's \$24 million; almost 24% of West Virginia's \$18.2 million; over 28% of Maine's \$5.3 million; 45% of Vermont's \$5.6 million; some 47% of Mississippi's \$13.1 million; and fully 75% of New Hampshire \$5.2 million. Southern Bell got about \$14.4 million in Florida alone, some 45% of that state's total.

It can be argued, of course, that Price Cap LECs also have -- and will continue to have -- carrier of last resort obligations. If the Joint Board should determine that this makes them eligible for USF under the act, these Price Cap LECs should be required to eliminate administrative costs and to compute a system-wide cost of all loops in all study areas to determine eligibility. This would at least average high cost with low cost study areas, "spreading" costs over all loops. Large multi-study area LECs have the ability to distribute such costs. Smaller LECs do not.

Similarly, other large, multiple-study area, non-Price Cap LECs -- if declared eligible for USF -- should also have to compute one overall company-wide or system-wide loop cost, and eliminate administrative expenses. Again, these LECs have more ability to absorb high costs than do the smaller LECs.

If the Commission chooses to eliminate or restrict the eligibility of Price Cap and other large LECs from loop-related USF assistance, the same criteria should apply to similarly defined competitive entities. That is, even if a competitive carrier is willing and able to provide all services to all subscribers at the study area level, that carrier should be eliminated or restricted from funding on the same basis as the incumbent LEC.

As an alternative, the large, non-rural LECs could be eliminated from direct USF compensation, but be allowed to reflect their carrier of last resort obligations in their interconnection negotiations. That is, the large "eligible telecommunications carriers" could be allowed to charge higher rates for certain unbundled network elements when dealing with non-eligible carriers.

#### IV. USE OF PROXIES

Previous industry dialogue has tended to have an "either or" flavor when addressing the use of actual costs versus proxy factors in the determination and/or distribution of universal service support. In reality, some method of "weighting" actual costs with proxies such as exchange size, density, loop length, terrain and climate may be the most reasonable approach.

For those LECs settling on a cost basis, actual costs are the most accurate and quantifiable starting point for determining USF. Since some portion of these costs are discretionary, however,

it may be well to develop a weighting methodology to account for conditions totally beyond the LECs' control. In this way, actual costs could be weighted to reflect the higher cost nature of some service areas.

A proxy system is even more important for average schedule LECs. Under current rules, the eight largest Price Cap LECs received about \$300 million in USF assistance in 1993, and probably more in later years. No average schedule company with more than about 540 loops per exchange will receive a penny this year. Many small, rural companies have chosen average schedule status to avoid the substantial burdens inherent in the cost separations process, but have high loop costs -- and function as carriers of last resort -- nonetheless. Average schedule status should not automatically preclude USF relief for all but the tiniest LECs.

The Federal-State Joint Board, as part of this proceeding, should work closely with NECA to ensure that more USF is provided to more average schedule companies. Part 69 of the Commission's current rules requires that average schedule formulas simulate disbursements made to similarly-situated cost companies. With cost companies of all sizes and configurations receiving USF, it is difficult to understand why only a small subset of average schedule companies -- those with 540 or fewer lines per exchange -- is eligible under NECA's algorithm.

It would appear that loops per exchange, loops per study area, average loop length, density (subscribers per square mile of territory), subscribers per route mile, terrain and climate might all be good proxy factor candidates. While ICORE lacks the resources to analyze the

various proxies, and therefore cannot comment on each in detail, statistical analyses of these factors by the FCC or NECA may very well demonstrate strong relationships to costs. The actual loop costs of LECs using a cost basis of settlement could then be weighted, or adjusted, by factors indicative of costs that are beyond their control. These same statistical relationships could also be used to construct more effective USF formulas for average schedule companies.

NECA has the data and resources to undertake an extensive study of USF. As an on-going part of this proceeding, it should be directed to correlate loop costs with a number of proxy factors, in order to develop both a "weighting" of actual costs to determine the eligibility of LECs settling on cost, and a new proxy system for average schedule LECs which affords them the same relative levels of USF relief as their cost counterparts.

## V. OTHER ISSUES

### A. All Telecommunications Entities Should Fund Universal Service Mechanisms

ICORE believes that ubiquitous telephone service benefits every provider of telecommunications services -- switchless and facilities based resellers, facilities based interexchange carriers (IXCs), Competitive Access Providers (CAPS), competitive local exchange carriers (CLECs) alternative operator service (AOS) providers, cellular, PCS and other wireless carriers, customer owned coin operated telephone (COCOT) providers, and similar entities. The connectivity of virtually every home, institution and business to every other home, institution and business in this country is of tremendous value.

If universal service is to be maintained -- to the benefit of all providers -- by LECs acting as carriers of last resort, then all service providers except those LECs should help pay for high cost assistance. In other words, those who enjoy the advantages of universal service should fund universal service; those who are obligated to provide universal service should receive the funding.

#### B. NECA Should Administer Federal Universal Service Funding Mechanisms

Since NECA already administers the tariff and revenue distribution processes for many small LECs, as well as industry-wide USF, Lifeline Assistance, Link-Up America and TRS programs, it would seem to be the logical administrator of any enhanced or new universal support mechanisms.

### V. CONCLUSION

The small and mid-sized LECs have always been, and will continue to be, the standard bearers of universal service. As such, they will remain the carriers of last resort and the drivers of facilities modernization and rural economic development in their service territories, regardless of competitive forces.

Unlike the very large, multi-study area LECs with their huge subscriber bases, these smaller LECs have no realistic way of absorbing the high costs of providing ubiquitous service at affordable rates. If universal service is to remain a viable social policy, and the smaller LECs are

to have universal service obligations, they must be afforded separations allocations and assistance mechanisms which recognize both their higher costs and their social obligations.

In fact, these social obligations, which have been so instrumental in bringing modern telecommunications facilities and economic development to rural America, will be even more crucial in the emerging competitive era. For it may become increasingly critical that rural Americans be protected -- as well as served -- by their local telephone company.

There is tremendous emphasis on competition in the nation's very largest, and to some extent, its secondary and tertiary metropolitan areas. The RBOCs are reducing their forces and selling their rural exchanges; the IXC's are entering the local competitive arena in many large cities; the existing CAPS have become CLECs with fiber networks in most of the country's big urban centers.

Given this unbridled competitive focus on metropolitan America, the question must be asked: Who will protect telephony in rural America? When hurricanes, or floods, or tornadoes, or blizzards, or man-made disasters strike, who will have the resources to restore -- to rebuild -- facilities in the small towns and rural areas that are the backbone of the United States? Who will ensure that non-urban Americans still have telephone access to police, fire, and medical services? Who will be there for every subscriber, in every emergency situation?

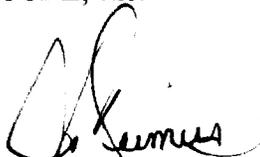
The answer is simple: The small and mid-sized rural LECs, with their endless dedication

to serving their subscribers. They should never be put in the position of being unable to respond swiftly and decisively to such crises.

USF should be modified and retargeted toward the smaller cost and average schedule companies as discussed herein. DEM weighting, which at present benefits the small and mid-sized LECs, should be continued with the changes suggested above.

The commitment and dedication of small and mid-sized Independent telephone companies, in partnership with enlightened regulatory policies, have brought state-of-the-art telecommunications facilities and services to every part of the country. This partnership, if continued, will assure that the information superhighway reaches all Americans.

Respectfully submitted,  
ICORE, Inc.

A handwritten signature in black ink, appearing to read "Jan F. Reimers", is written over a horizontal line.

Jan F. Reimers  
President  
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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing document was served by First Class mail, postage prepaid, to the individuals on the attached list this 12th day of April, 1996:

  
Jamie B. Navarre

## **FEDERAL-STATE JOINT BOARD**

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