UNITED STATES TELEPHONE ASSOCIATION

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March 3, 1997

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Federal Communications Commission
Office of Secretary

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

RE: Ex Parte Notice
CC Docket No. 96-45

Dear Mr. Caton:

On February 26, 1997, a group representing the United States Telephone Association (USTA) and the Rural Telephone Coalition (RTC) held a series of four meetings with FCC staff. At the first meeting, Mary McDermott (USTA),Lisa Zaina (representing the RTC), Kevin Hess (TDS Telecom), John Duda (ST Enterprises), Tom McKell (Horizon Chillicothe) and Paula Eller (Yukon Telephone) met with Jim Casserly of the FCC.

At the second meeting, David Cohen (USTA), David Cosson (NTCA) and Bob Williams (Oregon Farmers Mutual Telephone) met with Tom Boasberg and Tim Peterson of the FCC.

At the third meeting, David Cohen (USTA), David Cosson (NTCA) and Bob Williams (Oregon Farmers Mutual Telephone) met with Jim Coltharp of the FCC.

At the last meeting, Mary McDermott (USTA), Margot Humphrey (representing the RTC), Kevin Hess (TDS Telecom), John Duda (ST Enterprises), Tom McKell (Horizon Chillicothe) and Paula Eller (Yukon Telephone) met with Dan Gonzalez of the FCC.

At each meeting, the USTA group discussed the LEC associations' universal service transition plan for rural telephone companies, as shown in the attached pages which were handed out at the meetings.

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Because of the lateness of the last meeting, this notice is being filed today. An original and one copy of this ex parte notice are being filed in the Office of the Secretary. Please include this notice in the public record of these proceedings.

Respectfully submitted,

Mary McDermott

Mary McDermott
Vice President - Legal & Regulatory Affairs

cc: Jim Casserly
Tom Boasberg
Tim Peterson
Jim Coltharp
Dan Gonzalez

LEC ASSOCIATIONS UNIVERSAL SERVICE TRANSITION PLAN

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FEDERAL-STATE JOINT BOARD RECOMMENDED DECISION ON UNIVERSAL SERVICE

CC DOCKET NO. 96-45

OVERVIEW

* This plan, for rural telephone companies, is a proposed substitute for the recommendation of the Joint Board that the current USF, DEM weighting and long term support be frozen at 1996 per line amounts and transferred to the new Universal Service Fund (USF) where they would be funded by contributions from all interstate carriers.

* The problem with the Joint Board's recommendation of a per line freeze is that it would result in:

    * LECs not recovering their interstate costs defined in Part 36, including the additional expense adjustment, carrier common line, and traffic sensitive costs which were incurred in reliance upon the rules in effect when the investments were prudently made.

    * LECs will be unable to make substantial investment in infrastructure development where that investment would increase on a per line basis, thus thwarting the objectives of the 1996 Telecommunications Act.

THE PROPOSED PLAN

* The LEC Associations propose a substitute transition mechanism which would recognize the interest of regulators in controlling the size of the new universal service fund, while also recognizing that substantial investments are required in rural areas to assure that they are not bypassed by the information age. The key elements of this proposal are:

USF The 1995 nationwide average loop cost would be adjusted annually to reflect inflation by application of the Gross Domestic Product Price Index (GDPPI). This would establish an easily administered control and eliminate the need for annual submission of data for calculation of the nationwide average.

USF support would be applied to all lines.

LECs would annually calculate their additional interstate expense allocation on the basis of their loop cost in excess of the indexed nationwide average loop cost.

THE PROPOSED PLAN (Cont.)

DEM The 1995 (96?) interstate allocation factor based on weighted DEM would be frozen for each study area. This allocation factor would be applied annually to the traffic sensitive investment and expenses. All interstate allocated amounts in excess of unweighted DEM would be recovered through the new USF.

The interstate allocation based on unweighted DEM would continue to be recovered through interstate access charges, which would be considerably lower than currently.

LTS The level of Long Term Support would be frozen for the transition period at the percentage that LTS represented of the total common line pool in 1996. This ratio would be applied to the annual common line revenue requirement calculated by NECA. The LTS amounts would be transferred to the new USF and recovered through contributions from all interstate carriers.

ESTIMATED 1998 FUNDING REQUIREMENTS

* The LEC associations estimate that the 1998 funding requirements for new universal service support for rural telephone companies would be approximately as shown below. Because there is no cumulative data on the level of investments currently made but not yet reflected in settlements, as well as investments to be made during the transition, these figures, while reasonable, are necessarily not precise.

	Amount, $ M
USF	465
DEM WEIGHTING	220
LONG TERM SUPPORT	345
TOTAL	1,030

ADVANTAGES OF THE PLAN

* The LEC associations plan would address the legitimate concerns of the Joint Board while more affectively meeting the objective to "ensure that the goals of affordable service and access to advanced services are met by means that enhance, rather than distort, competition."

    * Subscribers will benefit from the continued investment of rural telephone companies in the infrastructure necessary to provide their customers with access to advanced communications and information services.

    * LECs will be able to recover their prudently invested costs properly assigned to the interstate jurisdiction.

    * Rural business customers will not experience severe rate shock and the resulting incentive to relocate to urban areas.

UNIVERSAL SERVICE FUND

Present Rules

Separations rules currently assign 25% of LECs' loop costs to interstate. LECs whose embedded loop costs exceed 115% of the nationwide average loop cost can allocate additional costs to interstate, as follows:

Study Areas of 200,000 loops or less:	65% of costs between 115% and 150% for each loop, and 75% of costs over 150% for each loop
Study Areas of over 200,000 loops:	10% of costs between 115% and 160% for each loop 30% of costs between 160% and 200% for each loop 60% of costs between 200% and 250% for each loop, and 75% of costs over 250% for each loop.

UNIVERSAL SERVICE FUND (Cont.)

These additional interstate allocations are funded entirely by the IXCs and paid directly to LECs. This amount is now capped at the total fund size of the previous year times the prior calendar year's line growth.

Joint Board Recommendation

The Joint Board would replace this by freezing the amount paid to a LEC in 1997 based on its 1995 embedded costs divided by the number of the carrier's loops as of 12/31/95. This frozen per line amount would then be multiplied by the number of loops for 12/31/96 to determine the payments for 1998.

DEM WEIGHTING

Present Rules

LEC study areas below 50,000 access lines allocate local switching equipment investment to interstate based on relative dial equipment minutes of use, times a weighting factor based on study area access lines, as follows:

0 - 10,000 access lines -------------------- 3.0
10,001 - 20,000 access lines ---------------- 2.5
20,001 - 50,000 access lines ---------------- 2.0

Costs which would otherwise be allocated to intrastate are shifted to interstate and recovered as an implicit subsidy through interstate rates. The allocation factor is capped at 85% of local switching costs which can be assigned to interstate.

DEM WEIGHTING (Cont.)

Joint Board Recommendation

The Joint Board would transfer this explicit support from access charges to the USF by determining the additional revenues to be collected by each LEC in 1996 above what would have been collected without DEM weighting and dividing that by the year-end 1996 loops to obtain a frozen per-line amount. The 1996 per loop cost would determine 1998 payments. Local switching rates would be correspondingly reduced.

LONG TERM SUPPORT

Present Rules

NECA annually projects the common line revenue requirement for incumbent LECs participating in its common line pool. The total amount of long term support (LTS) needed is then calculated by subtracting the amount pool participants will receive in SLCs and CCL charge revenue as well as pay telephone costs and revenues. Pool members draw from the fund annually based on their reported costs (except for average schedule participants). LTS is funded by non-pooling incumbent LECs who then reflect the contributions in their CCL charges

Joint Board Recommendation

The Joint Board would freeze each pool member's percentage of total LTS contributions from the non-pooling LECs. Then, LTS payments to pool members in 1996 divided by the year-end loops would give a frozen per-line amount. 1996 loops times this value would then serve as a basis for 1998 payments. 1999 payments would be derived from year-end 1997 loops, and so on.

SUPPORTING POLICY CONSIDERATIONS

The Joint Board, quoting the Telecommunications Act of 1996, seeks to create an effective universal service support system which will "ensure that the goals of affordable service and access to advanced services are met by means that enhance, rather than distort, competition." The Universal Service Transition Plan for Rural LECs described here will achieve that goal more effectively than the measures offered for rural companies in the Joint Board's Recommended Decision. Specifically:

- o Failure to apply universal service support to all lines would cause rate shock to rural business customers, bring further pressure to raise residential rates to prevent loss of business customers to competitors, and thereby stifle essental rural economic development. The rural transition plan presented here corrects this error and will help prevent these results from occurring.

- o Arbitrarily freezing USF, DEM and LTS on a per-line basis is unjustifiable on any grounds and would serve to discourage rural LECs from investing in their networks at a time when accelerating these investments is critical to providing expected levels of service. This is because they could not recover all their costs. The rural transition plan presented here corrects this.

SUPPORTING POLICY CONSIDERATIONS (Cont.)

- o If the Joint Board Recommended Decision is adopted in FCC rules, rural LECs will be forced to approach the Commission on an individual basis if they need to undertake investment to their networks beyond what they would be able to recover through the frozen, per line approach recommended by the Joint Board. The rural transition plan presented here will alleviate this needless administrative burden to a great extent.

- o The Joint Board recommendations for treatment of rural LECs will move this country toward a land of advanced communications accessibility "have and have-nots" in contravention of the clearly expressed goals of the Telecommunictions Act of 1996. The rural transition plan presented here will not do this, but will in fact help achieve the real goals of the Act.