National Rural Telecom Association
National Telephone Cooperative Association
Organization for the Promotion and Advancement of Small Telecommunications Companies
United States Telephone Association

LEC ASSOCIATIONS UNIVERSAL SERVICE TRANSITION PLAN FOR RURAL TELEPHONE COMPANIES

The Universal Service Transition Plan for Rural Telephone Companies is proposed and endorsed by the four national trade associations representing virtually all local exchange carriers: National Rural Telecom Association, National Telephone Cooperative Association, Organization for the Promotion and Advancement of Small Telecommunications Companies and United States Telephone Association.

Why the Plan is Needed

The Joint Board 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 telephone companies described here will achieve that goal and the mandates for "sufficient" support and reasonable urban and rural parity more effectively than the measures offered for rural telephone companies in the Recommended Decision of the Joint Board. Specifically:

- Withdrawing universal service support from second residential and most business lines would cause rate shock to rural business customers, bring further pressure to raise residential rates, and thereby stifle essential rural economic development. It would add greatly to the cost of Internet usage for rural households and businesses that need a second line for their computer hookup. The rural transition plan presented here resolves these problems.

- Arbitrarily freezing past USF (Universal Service Fund), DEM (Dial Equipment Minutes) weighting and LTS (Long Term Support) on a "per-line" basis effectively reduces support for most crucial network upgrades during the transition, thus discouraging rural LECs from investing in their networks at a time when accelerating these investments is critical to rural communities throughout our nation. The rural transition plan presented here reduces this problem.

- If the Joint Board Recommended Decision is adopted, rural LECs will be forced to approach the Commission on an individual basis if they need to undertake investment in 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 for rural LECs and the Commission.

- The Joint Board's recommended treatment of rural telephone companies will move this country toward a land of modern communications "have and have-nots," in contravention of the clear commitments of the Telecommunications Act of 1996. The Joint Association rural transition plan presented here will help to achieve the real goals of the Act.

Overview of the Joint Association Transition Plan

This plan, for rural telephone companies, would substitute for the Joint Board's rural transition recommendation. The Joint Board transition proposal would (a) freeze the USF and LTS (Long Term Support) at 1996 amounts and DEM weighting at 1995 amounts, and (b) fund the frozen amounts through the new Universal Service Fund collected via contributions from all interstate carriers on a competitively neutral basis. Only the primary line for first residences would be eligible for support. Current high cost supported for second residential lines, second residences, and dual or multi-line business lines would be withdrawn.

The Joint Board Recommended Decision purports to use actual costs for a transition period, but instead uses growth in access lines as the only measure for supportable growth in costs. This provides windfall support for companies whose lines are growing faster than their costs, such as those who have recently completed an investment cycle and are poised for line growth. It unfairly penalizes those companies who are making investments to upgrade service that will not lead to line growth in excess of the cost of the upgrade. Particularly dramatic examples of this situation are those companies that have recently acquired exchanges in severe need of upgrading even to the Joint Board's definition of universal service, but whose upgrades will be ignored by the freeze.

Instead of using growth in lines to estimate for cost growth, the Joint Association Plan uses actual growth (or decrease) in costs to determine the universal service support requirement for rural telephone companies.

Telephone Company Eligibility for the Plan

The Joint Association Transition plan -- like the Joint Board recommendation -- is proposed exclusively for " rural telephone companies," as defined under the 1996 Telecommunications Act. Rural telephone companies are defined by the Act as follows:

- Provides common carrier service to any LEC study area that does not include either

  -Any incorporated place of 10,000 inhabitants or more, or any part

thereof, based on the most recently available population statistics of the Bureau of the Census: or

- Any territory, incorporated or unincorporated, included in an urbanized area, as defined by the Bureau of the Census as of August 10, 1993:

- Provides telephone exchange service, including exchange access, to fewer than 50,000 access lines;

- Provides telephone exchange service to any LEC study area with fewer than 100,000 access lines; or

- Has less than 15% of its access lines in communities of more than 50,000 on the date of enactment of the Telecommunications Act of 1996.

The Proposed Plan

The Joint Association Transition Plan is a substitute transition mechanism which would recognize the stated goal of regulators to control the size and volatility of the new universal service fund, while also recognizing that substantial investments are required in rural areas or they will not keep pace with the information age as the statute requires. Wherever possible, the Joint Association Transition Plan builds upon the Joint Board Recommendation. Most importantly, this plan adopts the portions of the Joint Board Recommendation for the transition of rural telephone companies to a new system by combining USF, DEM weighting and LTS amounts in a new Universal Service Fund for rural LECs. The Joint Association Transition Plan differs from the Joint Board Recommendation in two main ways: first, all lines would be eligible for universal service support as they are today; and, second, the interstate allocation factors for the support mechanisms would be frozen, but the underlying costs representing infrastructure investment would grow, as investment in infrastructure in rural America must grow.

- The USF Proposal

During the transition period, the current USF mechanism would stay largely as is, but the current complex system of calculating the nationwide average loop cost would be eliminated. Instead, the 1995 nationwide average loop cost would be adjusted annually using a conservative telecommunications inflation factor accepted by the FCC. (One useful inflation factor is the Gross Domestic Product Price Index (GDPPI), used for price caps). The advantage of this approach is that it would allow rural telephone companies to invest in infrastructure development without requiring nationwide data collection and analysis. The inflation factor would increase the "high cost" hurdle rural telephone companies must exceed by at least 15%, as in the current system, before they qualify for any high cost support. Rural telephone companies would calculate their actual loop cost each year.

- The Joint DEM Weighting Proposal

Instead of freezing the dollar amount of DEM weighting received on per line basis, the Joint Association Transition Plan would freeze the interstate allocation but allow the costs representing infrastructure investment in switching to grow. If, for example, a Rural Telephone Company now allocates 60% of its switching costs to the interstate jurisdiction via DEM, that 60% factor would remain constant. The Joint Association Transition Plan would adopt the Joint Board recommendation to fund the support identified by the DEM weighting factor -- now recovered in interstate access charges -- from the new Universal Service Fund, with a concomitant decrease in rural telephone company interstate traffic sensitive access charges.

- The Joint LTS Proposal

The level of LTS (Long Term Support) would be frozen for the transition period at the percentage that LTS represented of the total NECA common line pool in 1996. This ratio would be applied to the annual common line revenue requirement calculated by NECA for rural telephone companies eligible to receive LTS. As under the Joint Board Recommended Decision the LTS amounts would be transferred to the new USF and recovered through contributions from all carriers on a competitively neutral basis. Also, as under the Joint Board Recommended Decision, LTS would be used to offset carrier common line rates for access customers of rural telephone companies.

Plan Size and Potential Growth

The total dollar amount needed to fund the plan for all rural telephone companies in 1996 would slightly exceed one billion dollars. Final numbers depend upon which companies are determined to be rural telephone companies by state regulatory bodies. This is, of course an estimated number. Rural telephone companies would still contribute to the competitively neutral funding to high cost areas, low income subscribers, schools and libraries.

The Plan Would Not Withdraw Necessary Support from Rural Internet and Business Lines

The Joint Board Recommended Decision would cut off support for most business lines and all second residences or second lines in residences in high cost areas. This cut off adds greatly to the cost of Internet usage for rural households and businesses that use a second line for their computer hookup. Telecommunications services, so vital as an incentive for businesses to locate or remain in rural areas, would increase greatly in price. Finally, figuring which lines fit in the supported versus unsupported category would be an enormous burden, if not impossible. Therefore the Joint Association Plan maintains support for all lines served by high cost rural telephone companies.