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UNITED STATES
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APR 8 1997
Federal Communications Commission
Office of Secretary

April 8, 1997

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:

The attached letters were sent today to Thomas Boasberg, Legal Advisor to Chairman Hundt; James Casserly, Legal Advisor to Commissioner Ness; James Coltharp, Special Advisor to Commissioner Quello; and Daniel Gonzalez, Legal Advisor to Commissioner Chong by the National Telephone Cooperative Association, the National Rural Telecom Association, the Organization for the Promotion and Advancement of Small Telephone Companies, and the United States Telephone Association.

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

attachments

cc: David Cosson
Margot Humphrey
Lisa Zaina
Thomas Boasberg
James Casserly
James Coltharp
Daniel Gonzalez

NRTA · NTCA · OPASTCO · UNITED STATES TELEPHONE ASSOCIATION

"Representing America's Local Exchange Carriers"

April 8, 1997

Mr. Daniel Gonzalez
Legal Advisor to Commissioner Chong
Federal Communications Commission
1919 M Street, NW
Room 844
Washington, DC 20554

Dear Mr. Gonzalez:

This letter is to follow up on the meeting we had last month about the LEC Associations' Transition Plan for Rural Telephone Companies. Since our meeting, the state members of the Universal Service Joint Board have recommended that the LEC Associations' Transition Plan be adopted. We were pleased that the March 26, 1997 submission of these Joint Board members contained this recommendation. We also have additional information about our plan that was developed since our meeting, and we believe it is important to share it with you. Knowing the heavy workload at the Commission right now, we thought this letter would be the best way to convey the information. However, please do not hesitate to call any of us if you have questions or wish to discuss this matter.

Additional, quantitative information on the Transition Plan was submitted in a March 13 ex parte filing and meeting with Common Carrier Bureau staff. A copy of the ex parte is attached. There are two aspects of this quantification that are important to understanding it:

(1) The quantification of the transition plan from the November 8 Recommendation of the Joint Board is overstated in the March 13 ex parte. The November 8 Recommendation of the Joint Board was to exclude all but single line business customers and the first line in the primary residence from Universal Service support. The quantification of this November 8 plan set out in the March 13 ex parte is based upon <u>all lines</u>. This approach was taken because the information needed to exclude the other lines from the quantification is not available.[1]

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[1] As the Associations have stated repeatedly, we strongly disagree with excluding lines from the plan. To do so would mean an immediate drop in the support that Rural Telephone Companies, and their customers, receive for universal service. It would stifle economic development in rural areas and precipitously increase the price of second residential lines now used, among other things, for Internet access.

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(202) 298-2300

Organization for the Promotion and Advancement of Small Telecommunications Companies
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Washington, D.C. 20036
(202) 659-5990

United States Telephone Association
1401 H Street, N.W.
Suite 600
Washington, D.C. 20005
(202) 326-7300

(2) Quantifying the Transition Plan requires that one make assumptions about line growth rates, cost growth rates, etc. for at least the years 1997, 1998, and 1999. No one can precisely predict the future. Nevertheless, the quantification shows that the growth in the Transition Fund would not be at all unreasonable if the plan is "unfrozen" as we recommend. Indeed, if one looks at both the November 8 Recommendation of the Joint Board and the LEC Associations' Transition Plan on the basis of all lines, the LEC Associations' Transition Plan may actually have a smaller growth rate. But most important, the LEC Associations' Transition Plan more accurately targets support based on the actual changes in each Rural Telephone Company's real costs, and thus does not discourage investment by these companies.

Also since our meeting, we undertook a review of study area waivers filed in the last three years involving Rural Telephone Companies. We analyzed these FCC filings because we believed that they would contain evidence of the commitment of the Rural Telephone Companies to upgrading the public network infrastructure in the rural areas of this country. Indeed, these filings show ongoing commitments for switching and loop upgrades totaling approximately $350 million and affecting just about one-half million lines. Obviously, this data is far from an exhaustive or complete picture of Rural Telephone Company investment, but it is still a clear indication that Rural Telephone Companies have a commitment to providing high quality telephone service to their customers. However, these commitments cannot be honored in an atmosphere of uncertainty which includes freezes and the promotion of policies that discourage new investment.[2]

Finally, on March 19, an ex parte was submitted by John Staurulakis, Inc. (JSI), a telecommunications consulting firm. That submission quantified the negative effects on eighty of JSI's Rural Telephone Company clients if the November 8 Recommendation of the Joint Board to exclude lines and to "freeze" the plan were adopted. JSI found that, on average, the eighty companies would experience a 17% immediate drop in funding as compared to the current universal service support they receive. And JSI also pointed out that the company specific effects reach a high of a 59% drop in support. Obviously, such dramatic decreases in the amount of support Rural Telephone Companies currently receive would have serious detrimental consequences for these companies and their customers. A copy of the JSI ex parte is attached.

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[2] Indeed, the Rural Utility Service has recently stated that RUS borrowers who are typical of the companies represented by the Associations have temporarily delayed plans for major network construction pending the outcome of Commission reforms. Rural Telephone Bank, 7 CFR Part 1610, Rural Utilities Service, 7 CFR Parts 1735, 1737, 1739, and 1746, 62 Fed. Reg. 10483 (Proposed Rules) (proposed March 7, 1997).

Again, thanks for meeting with us and hearing our views on a subject that is vital to the successful implementation of the provisions of the 1996 Telecommunications Act. Please contact any of us if you have questions or wish to further discuss the LEC Associations' Transition Plan.

Sincerely,

David Cosson/M. McD.
David Cosson
National Telephone Cooperative Association

Margot Humphrey/M. McD
Margot Humphrey
National Rural Telecom Association

Lisa Zaina/M. McD
Lisa Zaina
OPASTCO

Mary McDermott
Mary McDermott
United States Telephone Association

attachments

NRTA · NTCA · OPASTCO ·

"Representing America's Local Exchange Carriers"

UNITED STATES TELEPHONE ASSOCIATION

April 8, 1997

Mr. James Casserly
Legal Advisor to Commissioner Ness
Federal Communications Commission
1919 M Street, NW
Room 832
Washington, DC 20554

Dear Mr. Casserly:

This letter is to follow up on the meeting we had last month about the LEC Associations' Transition Plan for Rural Telephone Companies. Since our meeting, the state members of the Universal Service Joint Board have recommended that the LEC Associations' Transition Plan be adopted. We were pleased that the March 26, 1997 submission of these Joint Board members contained this recommendation. We also have additional information about our plan that was developed since our meeting, and we believe it is important to share it with you. Knowing the heavy workload at the Commission right now, we thought this letter would be the best way to convey the information. However, please do not hesitate to call any of us if you have questions or wish to discuss this matter.

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[1] As the Associations have stated repeatedly, we strongly disagree with excluding lines from the plan. To do so would mean an immediate drop in the support that Rural Telephone Companies, and their customers, receive for universal service. It would stifle economic development in rural areas and precipitously increase the price of second residential lines now used, among other things, for Internet access.

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Also since our meeting, we undertook a review of study area waivers filed in the last three years involving Rural Telephone Companies. We analyzed these FCC filings because we believed that they would contain evidence of the commitment of the Rural Telephone Companies to upgrading the public network infrastructure in the rural areas of this country. Indeed, these filings show ongoing commitments for switching and loop upgrades totaling approximately $350 million and affecting just about one-half million lines. Obviously, this data is far from an exhaustive or complete picture of Rural Telephone Company investment, but it is still a clear indication that Rural Telephone Companies have a commitment to providing high quality telephone service to their customers. However, these commitments cannot be honored in an atmosphere of uncertainty which includes freezes and the promotion of policies that discourage new investment.[2]

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Again, thanks for meeting with us and hearing our views on a subject that is vital to the successful implementation of the provisions of the 1996 Telecommunications Act. Please contact any of us if you have questions or wish to further discuss the LEC Associations' Transition Plan.

Sincerely,

David Cosson
National Telephone Cooperative Association

Margot Humphrey
National Rural Telecom Association

Lisa Zaina
OPASTCO

Mary McDermott
United States Telephone Association

attachments

April 8, 1997

Mr. James Coltharp
Special Advisor to Commissioner Quello
Federal Communications Commission
1919 M Street, NW
Room 832
Washington, DC 20554

Dear Mr. Coltharp:

This letter is to follow up on the meeting we had last month about the LEC Associations' Transition Plan for Rural Telephone Companies. Since our meeting, the state members of the Universal Service Joint Board have recommended that the LEC Associations' Transition Plan be adopted. We were pleased that the March 26, 1997 submission of these Joint Board members contained this recommendation. We also have additional information about our plan that was developed since our meeting, and we believe it is important to share it with you. Knowing the heavy workload at the Commission right now, we thought this letter would be the best way to convey the information. However, please do not hesitate to call any of us if you have questions or wish to discuss this matter.

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Mr. James Coltharp
April 8, 1997
page 3

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UNITED STATES TELEPHONE ASSOCIATION

April 8, 1997

Mr. Thomas Boasberg
Legal Advisor to Chairman Hundt
Federal Communications Commission
1919 M Street, NW
Room 500
Washington, DC 20554

Dear Mr. Boasberg:

This letter is to follow up on the meeting we had last month about the LEC Associations' Transition Plan for Rural Telephone Companies. Since our meeting, the state members of the Universal Service Joint Board have recommended that the LEC Associations' Transition Plan be adopted. We were pleased that the March 26, 1997 submission of these Joint Board members contained this recommendation. We also have additional information about our plan that was developed since our meeting, and we believe it is important to share it with you. Knowing the heavy workload at the Commission right now, we thought this letter would be the best way to convey the information. However, please do not hesitate to call any of us if you have questions or wish to discuss this matter.

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United States Telephone Association

attachments

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UNITED STATES
TELEPHONE
ASSOCIATION

USTA 100 Years 1897-1997

EX PARTE

March 13, 1997

RECEIVED
MAR 13 '97
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

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

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

Dear Mr. Caton;

On March 13, 1997, Porter Childers representing the United States Telephone Association (USTA) met with Ms. Kathleen Levitz and Mr. Tim Peterson of the Federal Communications Commission's (FCC) Common Carrier Bureau, to discuss the estimated high cost support for rural carriers based on the Joint Board plan in its Recommended Decision of November 8, 1996 and the LEC Joint Association Transition Plan filed on February 14, 1997.

The attached material was used as part of our discussion.

In accordance with Section 1.1206(a)(1) of the Commission's rules, two copies of this notice are being submitted to the Secretary of the FCC today. Please include it in the public record of this proceeding.

Respectfully submitted,

Porter E. Childers

Porter E. Childers
Executive Director
Legal and Regulatory Affairs

Attachment

cc: K. Levitz
P. Peterson

ESTIMATING HIGH COST SUPPORT FOR RURAL CARRIERS

The United States Telephone Association (USTA) has estimated the total amount of high cost support for rural carriers for both the Joint Board plan as contained in its Recommended Decision[1] and the LEC Joint Association Transition Plan[2] for the first three years of the Joint Board's proposed transition period beginning January 1, 1998. The estimates for high cost support were developed for the three current high cost support programs: high cost assistance, DEM weighting benefits and Long Term Support benefits.

I. JOINT BOARD PLAN

A. High Cost Assistance

The methodology and assumptions used to calculate the estimated high cost assistance support for rural carriers are as follows:

1). Rural carrier/study areas were determined based on the number of universal service loops as of December 31, 1995.[3] The carriers/study areas with less than 100,000 universal service loops were classified as rural for purposes of this estimate. This determination of rural does not capture all of the carriers which may be rural under the definition of rural telephone company contained in the Act.[4]

2). The frozen level of high cost assistance for rural carriers/study areas was developed by dividing the projected capped high cost assistance payments for 1997[5] by the number of rural carrier/study area universal service loops at year end 1995. The 1997 high cost assistance payments were based on 1995 embedded costs and 1995 loops.[6]

---

[1] *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Recommended Decision*, released November 8, 1997 at ¶ 289. [*Recommended Decision*].

[2] USTA *Ex Parte* Notice, CC Docket No. 96-45, February 14, 1997.

[3] National Exchange Carrier Association (NECA) Universal Service Fund Data Collection, CC Docket No. 80-286, filed October 1, 1996. [NECA Universal Service Fund Data]. This includes all universal service loops.

[4] Section 3(37).

[5] NECA Universal Service Fund Data.

[6] *Recommended Decision* at ¶ 291.

3). The individual rural carrier's universal service loops for the years 1998, 1999 and 2000 were developed by using a growth rate that was developed from a time trend analysis of historical data (1988 through 1995). The growth rate used was 4.63 percent.

4). The estimated high cost assistance amount was developed for rural carriers/study areas by multiplying the rural carrier/study area frozen high cost assistance per loop (as determined in step A.2 above) for the years 1998, 1999 and 2000 by the forecasted number of loops (as developed in step A.3 above).

B. DEM Weighting Benefits

1). The frozen level of DEM weighting benefits for rural carriers/study areas were developed by projecting the DEM weighting benefits received in 1993.[7] The 1993 DEM weighting benefits for rural carrier/study areas were projected to 1996 levels using the historical growth rate in traffic sensitive revenue requirement from rural carriers/study areas.[8] The growth rate used was 6.80 percent.[9]

2). The frozen level of DEM weighting benefits for rural carriers/study areas were developed by dividing the projected DEM weighting benefits for 1996 by the projected number of rural carriers/study areas universal service loops at year end 1996. The 1996 universal service loops were developed by using a growth rate that was developed from a time trend analysis of data (1988 through 1995). The growth rate used was 4.63 percent.

3). The estimated DEM weighting benefits were developed for rural carriers/study areas by multiplying the frozen DEM weighting benefits per universal service loop (as developed in step B.2 above) for the years 1998, 1999 and 2000 by the forecasted universal service loops (as developed in step A.3 above).

C. Long Term Support Benefits

1). The frozen level of Long Term Support benefits for rural carriers/study areas were developed by dividing the projected benefits received during 1996 as calculated by NECA by the end of year 1996 universal service loops (as developed in step B.2 above).[10]

---

[7]Federal-State Joint Board, Monitoring Report, CC Docket No. 87-339, May 1996 at Table 3.16. [Monitoring Report].

[8]NECA Transmittal.

[9]*Recommended Decision* at ¶ 292.

[10]*Id.* at ¶ 293.

2). The estimated Long Term Support benefits were developed for each rural carrier/study area by multiplying the frozen long term support benefit per loop (as developed in step C.1 above) for the years 1998, 1999 and 2000 by the forecasted loops (as developed in step A.3 above).

II. LEC JOINT ASSOCIATION TRANSITION PLAN

A. High Cost Assistance

The methodology and assumptions used to calculate the estimated high cost assistance support for rural carriers are as follows:

1). Rural carriers/study areas were determined based on the number of universal service loops as of December 31, 1995.[11] The carriers/study areas with less than 100,000 universal service loops were classified as rural for purposes of this estimate. This determination of rural does not capture all of the carriers which may be rural under the definition of rural telephone company contained in the Act.[12]

2). The LEC average cost per loop was developed by projecting the 1995 nationwide average cost per loop ($248.43) using the projected growth of the Gross Domestic Product Price Index (GDPPI) for the years 1998, 1999 and 2000. The projected cost per loop used was $267.93 for 1998, $274.22 for 1999 and $281.08 for 2000.

3). The individual rural carrier/study area projected cost per loop for the years 1998, 1999 and 2000 was developed from historical data (1988 through 1995) for rural carriers/study areas.[13] The growth rate used was 0.34 percent.

B. DEM Weighting Benefits

1). The DEM weighting benefits for the years 1998, 1999 and 2000 were developed using an overall historical growth rate of 6.80 percent from the base year of 1993 of the revenue requirement for all rural carriers/study areas and applied to the 1993 DEM weighting benefits of the rural carriers/study areas.[14]

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[11]NECA Universal Service Fund Data.

[12]Section 3(37).

[13]NECA Transmittal.

[14]Monitoring Report.

C. Long Term Support Benefits

1). The Long Term Support benefits for the years 1998, 1999 and 2000 for rural carriers/study areas were developed using the historical growth rate of 6.3 percent from the base year of 1996 of the revenue requirements for rural carriers/study areas and applied to the 1996 Long Term Support benefits as calculated by NECA.[15]

[15] NECA Transmittal.

UNIVERSAL SERVICE
BASED ON JOINT BOARD RECOMMENDED DECISION
RURAL CARRIERS -- HIGH COST SUPPORT

	1998	1999	2000
USF	608,900,000	637,800,000	668,000,000
	655,029,260	686,034,043	718,510,900
DEM	421,800,000	441,800,000	462,700,000
LTS	366,300,000	383,700,000	401,900,000
TOTAL	1,397,000,000	1,463,300,000	1,532,600,000

[illegible]

UNIVERSAL SERVICE
BASED ON
LEC JOINT ASSOCIATION TRANSITION PLAN
RURAL CARRIERS - HIGH COST SUPPORT

	1998	1999	2000
USF	502,700,000	481,000,000	458,000,000
DEM	448,000,000	478,500,000	511,000,000
LTS	392,600,000	417,300,000	443,600,000
TOTAL	1,343,300,000	1,376,800,000	1,412,600,000

STAMP COPY

UNITED STATES
TELEPHONE
ASSOCIATION

EX PARTE

February 14, 1997

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

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

Dear Mr. Caton:

On February 13, 1997, Paul Violette, Mark Barr, Gene South, David Cohen, John Hunter, Jim Lowell and Porter Childers representing the United States Telephone Association (USTA) and Margot Humphrey, Liza Zaina and David Cosson representing the Rural Telephone Coalition (RTC) met with Emily Hoffnar and David Krech of the Federal Communications Commission's (FCC) Common Carrier Bureau and Paul Pederson, Charles Bolle and Lee Palagyi of the State staff on the Universal Service Joint Board to discuss issues affecting rural telephone companies in the Universal Service proceeding .

The attached document was used during the discussion.

Due to late adjournment of the meeting and in accordance with Section 1.1206(a)(1) of the Commission's rules, two copies of this notice are being submitted to the Secretary of the FCC today, the next business day. Please include it in the public record of this proceeding.

Respectfully submitted,

Porter E. Childers

Porter E. Childers
Executive Director
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Attachment

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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.