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.

[THE FOLLOWING VIEWGRAPHS ARE FOR BACKGROUND USE AS NECESSARY]

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:

- 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.

- 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.)

- 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.

- 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.

JOHN STAURULAKIS, INC.
TELECOMMUNICATIONS CONSULTANTS
6315 SEABROOK ROAD
SEABROOK, MARYLAND 20706

301-459-7590
FAX 301-577-5575

March 19, 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:

Attached is a copy of materials that were presented by Bruce Schoonover, Sr. and Michael S. Fox, representing John Staurulakis, Inc., during a March 18, 1997 meeting with Tejal Mehta, Gary Seigal and Richard Smith, of the Federal Communications Commission (Commission), and Rowland Curry, of the Public Utility Commission of Texas.

This presentation addressed concerns JSI has with respect to the Federal-State Joint Board on Universal Service (Joint Board) November 7, 1996 *Recommended Decision* to the Commission. If our understanding of the Joint Board's recommendations are correct, we believe the *Recommended Decision* would put in place a formula that will, at the outset, result in a significant change in revenues received, and guarantee the under-recovery of costs for many rural local exchange carriers.

An original and one copy of this *ex parte* notice are being filed in the Office of the Secretary. Further, in accordance with the service list attached as Appendix G to the *Recommended Decision*, each member of the Joint Board and the Joint Board staff has been served a copy of this notice. Please include this notice in the public record of these proceedings.

Respectfully submitted,

Michael S. Fox

Michael S. Fox
Director, Regulatory Affairs

cc: R. Hundt
R. Chong
S. Ness
J. Quello

An *Ex Parte* Presentation to the FCC
--submitted by John Staurulakis, Inc.[1]

The Joint Board's *Recommended Decision* as It Applies to the Universal Service Fund and High Cost Support: An Overview of the Financial Impact on Rural Telephone Companies

Statement of Issue

In its November 7, 1996 *Recommended Decision* to the Federal Communications Commission (FCC), the Federal-State Joint Board on Universal Service appeared to recognize the unique characteristics of rural telephone companies and the importance of ensuring that any regulatory changes made as a result of its recommendations, at least in the short-run, should not result in significant alterations to the level of revenues that rural telephone companies currently receive.

At the same time, however, the Joint Board appears to have recommended that cost recovery be restricted to single-line business lines and primary-residential lines. In addition, the Joint Board proposed to freeze the per-line amount of compensation that rural telephone companies, as defined by the Telecommunications Act of 1996, receive from the combination of the current Universal Service Fund (USF), Dial Equipment Minutes (DEM) weighting, and Long Term Support (LTS). See Attachment B for a more thorough discussion of the Joint Board's recommendations applicable to rural telephone companies.

If our understanding of the Joint Board's recommendations are correct, we believe that through these policy measures, it perhaps unwittingly has put in place a formula that will, at the outset, result in a significant change in revenues received, and guarantee the under-recovery of costs for many rural LECs. JSI's analysis indicates that, initially, the potential shortfall of revenues may be as much as $27 per access line, per month.

Data Analysis and Findings

Eighty (80) of JSI's rural telephone company clients, from twenty-three (23) states, participated in this study. The results indicate that, as a group, on average these companies will experience a loss of $2.79 per access line, per month, beginning in 1998. This represents an average decrease of 17.02% in interstate cost recovery for the combination of the current USF, the DEM Weighting and the Long term support. However, the 17.02 % average masks the true company-specific drop in interstate cost recovery, which reaches as high as 59% of interstate settlements for these programs. See attachment A for the details by company, and by state.

JSI's concern is that a reduction in the level of interstate cost recovery in no way diminishes the actual costs incurred by the LEC. These costs will be shifted to the intrastate jurisdiction[2]. All

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[1] John Staurulakis, Inc. (JSI) is a consulting firm based in Seabrook, Maryland which has worked with independent telephone companies since 1962. A more complete profile of JSI is included in Attachment D.

[2] This is certainly the case for the current USF, which, as a result of a 1984 Joint Board recommendation, revenues are used to offset intrastate revenue requirements (CC Docket No. 78-72, CC Docket No. 80-286, adopted November 15, 1984, footnote 55). It also appears to be the case for the *DEM Weighting* since it can reasonably be

things being equal, this shift in cost allocation will exert upward pressure on rates for local service, the primary service category over which a rural telephone company has pricing control.[3]

Attachment A is a summary, by company and by state, reflecting the 1998 financial impact of the Joint Board's recommendations on those JSI clients that participated in the study. At the request of our clients, we have coded the company-specific information in order to protect the identity of the individual companies. However, we would be pleased to have FCC staff, or other interested parties, review the actual, underlying data at our offices in Seabrook Maryland, a Washington, DC. suburb. Furthermore, in Attachment C we have included a complete line-by-line explanation of the manner in which these calculations have been made.

Conservative Estimates

We believe that the estimates reflected on Attachment A are conservative. This is primarily due to the fact that the Joint Board's recommended per-access-line freeze, of historic cost recovery levels, results in a *lag in settlements*.[4] To the extent that rural telephone companies have continued to invest in loop plant and switches to fulfill their obligations to serve all customers on a timely basis, it is likely that such costs will not be fully recovered beginning in 1998. This would be further exacerbated in the 1999-2003 period, if companies were to continue to invest in these facilities to promote and advance universal service, and meet the other obligations imposed by the FCC (e.g., dialing parity, number portability, pay phone deregulation, etc.).

Conclusions/Recommendations

JSI believes that, in at least two respects, the Joint Board, unwittingly or not, has violated the intent of Congress embodied in the Act's universal service principles: First, the Joint Board has unnecessarily restricted recovery of universal service costs solely to primary-residence lines and single-line business lines, even while it acknowledged (in Paragraph 89 of the *Recommended Decision)* that the Act provides no statutory guidance in this area. We believe that this recommendation is contrary to the provisions of Section 254(b)(3), and serves to the disadvantage of those customers that receive local service from a rural telephone company, and

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assumed that if the Joint Board recommendation of transferring the *DEM weighting* requirements to the reconstituted USF is approved by the FCC there will be a concurrent change in separations procedures eliminating the DEM weighting which will reduce the assignment of local switching to interstate, and, therefore, automatically result in a jurisdictional shift to intrastate. It is less certain that the change in treatment of *long term support* will result in a jurisdictional shift.

[3] The vast majority of our clients, and rural telephone companies in general, are rate base rate-of-return regulated companies with the obligation to serve all customers within a certified geographic area and on a timely basis, in exchange for an opportunity to recover their costs and earn a return on their investment. In such a scenario, it is typically local service rates over which the rural telephone company has pricing control since these local service costs are residually derived.

[4] The Joint Board has proposed to freeze the per-line amounts of cost recovery from the 1995 USF, the 1996 DEM weighting, and the 1996 Long Term Support. In 1998, absent this freeze, rural telephone companies would be allowed to recover the 1996 level of loop costs through the current USF, the 1998 interstate level of local switching costs including the DEM weighting, and the 1998 level of the common-line costs included in Long Term Support.

ultimately to the disadvantage of rural economic development. Second, the Joint Board has proposed a mechanism for rural telephone companies that will ensure, at the outset, a significant change in the level of revenues received, and will guarantee the under-recovery of costs, an outcome that specifically violates Section 254(b)(5).

Clearly, those parts of the Federal-State Joint Board's *Recommended Decision* related to universal service cost recovery are ill-advised, and will, if adopted by the FCC, establish policy that penalizes customers of rural telephone companies because of where they live.[5] In the short term, the Joint Board's recommendations will lead to significant, adverse effects on rural telephone companies and the subscribers and communities they serve. Ultimately, such policies will also have draconian consequences on rural economic development, in general, and on the future prospects of rural America itself.

Complicating the situation further, JSI believes, is the intensifying pressure on the FCC to complete its work on forward-looking economic cost proxy models for the large, price-cap LECs. Chairman Hundt, himself, told the Senate Commerce Committee just last Wednesday that he is "increasingly concerned whether a workable, reliable model will emerge in time for our decision on May 8, or whether we will need an interim step in our implementation timetable to permit us to further refine how to determine the cost of providing universal service."[6] While the value of such a model for small telephone companies remains problematic, even for Chairman Hundt (as he told the Commerce Committee at the same hearing), JSI has a broader concern. With the Congressionally mandated deadline fast approaching, JSI fears that its clients and all rural LECs face the prospect of being overlooked as the FCC intensifies its effort to come to closure on appropriate, cost proxy models for the price-cap companies that serve the "90 percent" of the U.S. population that Chairman Hundt has frequently said should be the primary concern of the FCC in these proceedings.

For the foregoing reasons, JSI, on behalf of its rural telephone company clients, respectfully recommends that the FCC reject the Federal-State Joint Board's *Recommended Decision* as it applies to the reconstituted USF. Rather, JSI urges the FCC to adopt the recovery procedures proposed in the *LEC Associations' Universal Service Transition Plan For Rural Telephone Companies*,[7] or other such measures that will ensure that customers served by rural telephone

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[5] In their March 5, 1997 letter to Chairman Hundt, 25 members of the U.S. Senate reiterated that Congressional intent articulated in the Telecommunications Act of 1996 was "to ensure that all Americans have access to affordable telecommunications services regardless of where they live (emphasis added)." In the letter, the Senate cosigners also noted that the Joint Board's recommendations to eliminate universal service support for business and other non-residential consumers in rural areas "appears to misinterpret the Act as to restrict universal service support to single-line residential consumers alone."

[6] See Chairman Hundt's Statement on Universal Service Before the Committee on Commerce, Science and Transportation, United States Senate, March 12, 1997.

[7] The *LEC Associations' Universal Service Transition Plan For Rural Telephone Companies* is an alternative Universal Service Fund compensation plan recently proposed by the National Rural Telecom Association, National Telephone Cooperative Association, Organization for the Promotion and Advancement of Small

companies will be afforded the opportunity to have access to services and rates comparable with those offered in urban areas. In addition, JSI recommends that there be sufficient federal mechanisms to preserve and advance universal service, as envisioned by Congress, and as specifically established in Section 254(b) of the Telecommunications Act of 1996.

Telecommunications Companies, and the United States Telephone Association. The associations filed this plan with the FCC in a transmittal dated March 7, 1997.

Calculation of Annual Reconstituted USF Loss Under Joint Board Proposed Rules
State Totals

COMPANY		Loss Per Line	% Loss
Company A	AL	3.32	19.08%
Alabama Total		**$3.32**	**19.08%**
Company B	AR	0.80	11.70%
Company C	AR	2.25	14.36%
Arkansas Total		**$1.42**	**13.38%**
Company D	FL	6.72	17.06%
Florida Total		**$6.72**	**17.06%**
Company E	GA	4.14	25.10%
Company F	GA	1.12	19.64%
Company G	GA	1.62	5.83%
Company H	GA	0.54	4.08%
Company I	GA	1.41	18.72%
Company J	GA	1.99	14.27%
Company K	GA	2.38	11.48%
Company L	GA	3.45	18.44%
Company M	GA	2.27	34.32%
Company N	GA	2.76	11.06%
Company O	GA	0.79	10.30%
Georgia Total		**$2.01**	**14.80%**
Company P	IN	0.92	14.58%
Company Q	IN	3.44	16.68%
Company R	IN	0.58	9.62%
Company S	IN	0.64	4.77%
Indiana Total		**$1.14**	**11.51%**
Company T	KS	4.34	8.33%
Kansas Total		**$4.34**	**8.33%**
Company U	LA	7.02	15.70%
Louisiana Total		**$7.02**	**15.70%**

Company V	ME	18.00	45.70%
Company W	ME	0.49	5.37%
Maine Total		**$8.77**	**37.41%**
Company X	MN	0.64	10.33%
Minnesota Total		**$0.64**	**10.33%**
Company Y	MS	2.15	9.66%
Company Z	MS	5.62	11.44%
Company AA	MS	2.93	8.66%
Company AB	MS	3.52	15.12%
Mississippi Total		**$2.73**	**11.42%**
Company AC	MT	4.93	14.43%
Company AD	MT	6.16	20.07%
Montana Total		**$5.84**	**18.49%**
Company AE	NC	0.40	4.59%
Company AF	NC	0.31	1.78%
North Carolina Total		**$0.37**	**3.04%**
Company AG	ND	0.40	6.57%
Company AH	ND	5.32	12.35%
Company AI	ND	1.53	4.27%
Company AJ	ND	4.87	21.06%
Company AK	ND	3.92	9.10%
North Dakota Total		**$2.53**	**12.15%**
Company AL	NH	1.82	21.18%
Company AM	NH	3.42	27.86%
New Hampshire Total		**$3.17**	**27.08%**

Company AN	NM	25.61	36.92%
New Mexico Total		**$25.61**	**36.92%**
Company AO	NY	27.24	31.89%
Company AP	NY	4.68	11.73%
Company AQ	NY	2.49	21.98%
Company AR	NY	9.32	48.00%
Company AS	NY	0.62	9.44%
Company AT	NY	1.43	23.74%
Company AU	NY	5.40	50.57%
Company AV	NY	1.05	9.16%
Company AW	NY	2.05	32.25%
Company AX	NY	3.89	30.21%
Company AY	NY	10.24	24.33%
Company AZ	NY	0.59	8.70%
Company BA	NY	2.15	30.62%
Company BB	NY	7.63	8.59%
Company BC	NY	0.65	3.12%
Company BD	NY	2.00	26.18%
Company BE	NY	4.02	27.53%
Company BF	NY	1.42	12.22%
New York Total		**$5.15**	**23.70%**
Company BG	OK	1.25	3.22%
Oklahoma Total		**$1.25**	**3.22%**
Company BH	PA	0.30	4.11%
Company BI	PA	5.30	58.76%
Company BJ	PA	2.81	10.12%
Pennsylvania Total		**$4.10**	**28.54%**
Company BK	SC	0.98	10.61%
Company BL	SC	0.69	6.08%
Company BM	SC	1.91	15.63%
South Carolina Total		**$1.33**	**12.34%**

Company BN	SD	4.11	15.49%
Company BO	SD	0.68	10.05%
South Dakota Total		**$1.27**	**12.51%**
Company BP	TX	5.25	12.24%
Company BQ	TX	5.00	23.14%
Company BR	TX	2.84	10.24%
Company BS	TX	8.99	19.78%
Company BT	TX	12.42	16.89%
Company BU	TX	13.12	3.26%
Company BV	TX	7.47	28.82%
Company BW	TX	2.02	15.74%
Company BX	TX	1.90	13.21%
Company BY	TX	12.74	22.05%
Texas Total		**$5.15**	**18.04%**
Company BZ	WI	2.67	34.57%
Wisconsin Total		**$2.67**	**34.57%**
Company CA	WV	1.34	10.04%
Company CB	WV	0.80	12.52%
West Virginia Total		**$1.13**	**10.63%**
Total 23 States		**$2.79**	**17.02%**

Conflicting Objectives

In its *Recommended Decision*, it appears that the Joint Board has put in play a conflicting set of short-term objectives in its universal service policy for rural telephone companies. In Paragraph 283, the Joint Board recognized that "moving small, rural carriers to a proxy model too quickly may result in large changes in the support that they receive." While recommending that rural carriers not move immediately to proxy models, but move gradually over a six-year transition, the Joint Board also chose to freeze for three years, starting on January 1, 1998, high-cost assistance, DEM weighting and LTS benefits for rural carriers, based on historical, per-line amounts.

In addressing universal support mechanisms, however, the Joint Board felt that only the primary-residential line (connection) and single-line business lines should qualify for support. In that regard, the Joint Board reasoned that "supporting one connection per residence is consistent with section 254(b)(3), which states that access to services for low income consumers and those in rural, insular and high cost areas should be reasonably comparable to that available in urban areas." Concluding that support for a single residential connection would give a household "complete" access to telecommunications and information services, the Joint Board declined to provide support for other residential connections beyond the primary residential connection, believing that "(s)upport for a second connection is not necessary for a household to have the required 'access' to telecommunications and information services." Justifying this decision, the Joint Board declared that it found that "providing support for designated services carried to single-connection businesses in high cost areas at a reduced level is not inconsistent with the 1996 Act." Furthermore, the Joint Board went on to speculate that "as competition develops, it may be unnecessary to provide even this reduced support for services carried on the initial connection of businesses in high cost areas."

As established in the Joint Board's transition plan, beginning January 1, 1998, rural telephone companies would base their universal service cost recovery on a combination of current USF compensation, the interstate DEM weighting settlements related to local switching, and the LTS component of the interstate common-line pool based on the historical per-line cost recovery amount, multiplied by eligible access lines. The Joint Board proposed that for 1998, the components will be defined as follows:

- **Current USF:** The 1995 USF loop cost divided by 1995 total USF lines, and multiplied by 1996 eligible lines.
- **DEM Weighting:** The DEM weighting portion of the 1996 interstate local switching cost, divided by 1996 total lines, and multiplied by 1996 eligible lines, and.
- **Long Term Support:** The 1996 interstate common-line revenue requirement, multiplied by a factor that represents the Long Term Support component of the 1996 interstate NECA common-line pool, divided by the 1996 NECA common-line revenue requirement, and multiplied by 1996 eligible lines.

According to the Joint Board's formula, beginning in the year 2001 and continuing through the year 2003, support will be gradually shifted to a proxy-based methodology. In 2001, support would be based on 75 percent frozen levels and 25 percent proxy; in 2002, 50 percent frozen and 50 percent proxy; and in 2003, 25 percent frozen and 75 percent proxy. Beginning in 2004, the basis of support would be 100 percent proxy. The Joint Board contended that freezing high-cost support levels will prepare rural LECs for both their move to a proxy model, and the advent of a more competitive marketplace.

Reconciliation of the *Recommended Decision* with the Intent of the Act

In Section 254 of the Telecommunications Act, Congress set forth, among other things, the universal service principles it intended the Joint Board and the FCC to follow in setting policy. To guide the FCC and Joint Board, Section 254(b) of the Act established universal service principles which include the following:

(1) Quality services should be available at just, reasonable, and affordable rates;
(2) Access to advanced telecommunications and information services should be provided in all regions of the nation;
(3) Consumers in all regions of the nation, including low-income consumers and those in rural, insular, and high-cost areas, should have access to telecommunications and information services, including interexchange and advanced services, that are reasonably comparable to those services provided in urban areas and that are available at rates reasonably comparable to rates charged for similar services in urban areas;
(4) All providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service;
(5) There should be specific, predictable and sufficient federal and state mechanisms to preserve and advance universal service; and
(6) Elementary and secondary schools and classrooms, health care providers, and libraries should have access to advanced telecommunications services as described in subsection (h)
(7) Such other principles as the Joint Board and Commission determine are necessary and appropriate for the protection of the public interest, convenience, and necessity and are consistent with the Act

JSI believes that, in at least two respects the Joint Board has violated the intent of Congress embodied in the Act's universal service principles. First, the Joint Board has unnecessarily restricted recovery of universal service costs solely to primary-residence lines and single-line business lines, even while it acknowledged (in Paragraph 89 of the *Recommended Decision*) that the Act provides no statutory guidance in this area. We believe that this recommendation is contrary to the provisions of Section 254(b)(3), and serves to the disadvantage of customers that receive local service from a rural telephone company, and ultimately to the disadvantage of rural economic development. Second, the Joint Board has proposed a mechanism for rural telephone companies that will ensure, at the outset, a significant change in the level of revenues received and will guarantee the under-recovery of costs, an outcome that specifically violates Section 254(b)(5)

Basis of Calculation of Loss

Please refer to page 2 for the sample company data and algorithm used in the *calculation of annual reconstituted USF loss under the Joint Board proposed rules.*

1. **Current USF** This is the 1997 level of compensation from the existing federal Universal Service Fund, as provided for in Part 36.601-36.641 of the Federal Communications Commission (FCC) rules. As such, compensation is based on cost and loop data for 1995. For the sample company, the 1997 USF is $1,567,653.

2. **Current DEM weighting** This is the DEM Weighting portion of the 1995 interstate central office equipment-local switching equipment (Category 3) revenue requirement. It is determined by dividing the 1995 interstate central office equipment-local switching equipment revenue requirement, calculated in accordance with Part 36 and 69 of the FCC's rules, by the local switching equipment weighted DEM factor, determined in accordance with FCC Part 36.125(f) rules, and multiplied by the difference between the Weighted and unweighted DEM, calculated in accordance with FCC Part 36.(b)and (f) rules. For those LECs that settle interstate access on an Average Schedule basis, the DEM Weighting portion of the interstate local switching requirement was determined by multiplying $.0203 per minute by the applicable interstate access minutes. This rate per minute was provided by NECA, as its estimate of the value of the DEM Weighting within the traffic sensitive pool. The 1995 rather than the 1996 data has been used simply because of its availability. In the sample company, the calculation is as follows

$$\frac{\$555{,}381}{.435639} \times (.435639 - .145213) = \$370{,}254$$

3. **Long Term Support** This is the portion of the 1995 interstate Common Line revenue requirement that is supported by *long term support* provided by non common line pooling LECs, in accordance FCC Part 69.612 rules. This is determined by multiplying the interstate common line revenue requirement, for year ending June 30, 1996, by a factor of 41.11%. This factor was determined by the National Exchange Carrier Association (NECA), and was used in a January 13, 1997 NECA common line rate filing. According to this filing, the total common line pool revenue requirement for the year ending June 30, 1996 was $1,079,604,950, the *end user charge* revenue was $448,499,973, the *carrier common line* revenue was $187,312,637 and the *long term support* was $443,792,339, thus yielding the factor of .4111. The 1995 rather than the 1996 data has been used simply because of its availability. In the sample company, the calculation is as follows

$$\$994{,}190 \times .4111 = \$408{,}712$$

Access Line Information (Nos. 5, 7, and 12) This information was provided by the company, and represents total access lines, multiline business lines and residential second lines/second home lines, respectively.

All Other Lines These are calculated lines in accordance with the formulas specified for each line. It should be noted that for calculation purposes, line 6 results have not been rounded to the nearest penny.

XYZ Telephone Company

CALCULATION OF ANNUAL RECONSTITUTED USF LOSS UNDER JOINT BOARD PROPOSED RULES

1	Current USF (1995 Cost for 1997)	$1,567,653
2	Current DEM Weighting (1995 Costs)[1]	$370,254 [2]
3	Long Term Support (1995 Costs)[1]	$408,712 [3]
4.	**Total Cost Recovery Subject to Reconstituted USF** - *Current Payment Level* **(Line 1 + Line 2 + Line 3)**	$2,346,619 [4]
5	Access Lines (December 1995)	5,154
6	Frozen Reimbursement Per Access Line, Per Month (Line 4 / Line 5 / 12 months)	$37.94
7	Multiline Business Lines (December 1995)	252
8	Subtotal Eligible Access Lines (Line 5 minus Line 7)	4,902
9.	**Subtotal Reconstituted USF (Line 6 x Line 8 x 12 months)**	$2,231,883
10.	**Subtotal Loss (Line 9 minus Line 4)**	($114,736)
11.	**Subtotal Loss of Support Per Line, Per Month (Line 10 / Line 5 / 12 months)**	**($1.86)**
12	Residential 2nd Lines and 2nd Home Lines	350
13	Total Eligible Lines (Line 8 minus Line 12)	4,552
14	Revised Reconstituted USF (Line 6 x Line 13 x 12 months)	$2,072,528
15	**Total Annual Loss (Line 14 minus Line 4)**	($274,091)
16	**Effective Loss of Support Per Line, Per Month (Line 15 / Line 5 / 12 months)**	($4.43)

[1] We have relied on 1995 costs because of their availability. The DEM Weighting and the Long Term Support will be frozen based on 1996 costs.

[2] This represents the difference between the weighted and unweighted Interstate local switching revenue requirement. If a DEM weighting access line threshold was crossed in 1996, this amount could be significantly [illegible].

[3] The long term support equals the Interstate Common Line revenue requirement multiplied by a factor representing the relationship of long term support to total Common Line revenue requirement in the NECA pool. The factor is based on a January 15, 1997 calculated relationship and is equal to 41.11%.

[4] This is based on frozen historical information as contemplated by the Joint Board's recommended decision. Thus, this [illegible] does not consider losses [illegible] asset additions made in subsequent [illegible].

JSI PROFILE

John Staurulakis, Inc. (JSI) is a full-service telecommunications consulting firm established in 1962 by John Staurulakis, who still serves as president, for the primary purpose of providing independent telephone companies with expert assistance in toll separations and settlements, a field in which it now enjoys a national reputation. In that respect, since its inception JSI has assisted more than 300 companies, including holding companies such as Allied Telephone Corp., Mid-Continent Telephone Corp., Rochester Telephone Corp. of New York, and Telephone and Data Systems in successfully implementing cost-based settlements with the Bell operating companies. JSI pioneered settlements on an individual cost-study basis in a number of states where it prepared the first separations studies ever, including Alabama, Arkansas, Georgia, Maine, Mississippi, New Hampshire, South Carolina, Vermont, and Virginia.

With headquarters in Seabrook, Maryland, and regional offices in Minnesota, Texas, and Georgia, JSI employs a total of 70 staff professionals, and serves some 200 telephone company clients in 35 states. JSI provides a range of services that includes toll separations cost studies; incremental studies; general rate cases; cost-of-service studies; rates and tariff filings; accounting reviews for compliance with regulatory requirements; FCC monitoring and responses to dockets; extended area service (EAS) and other feasibility studies; state and federal jurisdictional monitoring, including participation in generic and access charge hearings; capital recovery (depreciation) studies; NECA reporting and forecasting; computerized continuing property records; full traffic services; CABs billing and review; valuation/acquisition assistance; rate design; equal access presubscription, strategic business planning; seminars; software development; and other specialized management, financial, competitive, and regulatory services.

The firm actively participates in state access charge proceedings where it has filed comments and presented expert testimony on behalf of its clients and other statewide companies. Those states include Alabama, Arizona, Florida, Georgia, Indiana, Kentucky, Maine, Michigan, Missouri, Montana, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, South Carolina, Texas, West Virginia and Wisconsin. In addition, the firm has been employed by state telephone associations or small-company groups in Georgia, Indiana, Maine, Michigan, Mississippi, Missouri, New York, North Carolina, North Dakota, South Carolina, Tennessee, and Wisconsin to represent them in EAS plan implementation, intra-LATA competition, ONA issues, equal access presubscription, and other such issues. Services include participation in statewide committee activities, the preparation of statewide plans, and the presentation of testimony. The firm has filed numerous traffic-sensitive, subscriber-line, and carrier-common-line tariffs with numerous state commissions. Also, the firm has filed numerous sets of comments with the FCC on behalf of its clients in relationship to separations issues.

JSI has gradually expanded its staff expertise and experience in response to the evolving needs of its client companies. The firm's marketing and business development expertise has been expanded, as clients deploy new technologies and expand into new lines of business, including fiber networks, long-distance resale, competitive access, the Internet, and wireless services. In 1992, the company formed JSI Financial Services as a separate division to provide clients specialized business and financial intermediation, valuation. and syndication services. In 1997, the company established JSI Solutions, a division that will offer software and educational products to telecommunications providers. JSI is committed to maintaining the highest level of expertise and proficiency in those areas of value to the communications provider of tomorrow.

The philosophy of the firm is to provide the highest quality service to our clients at the most reasonable cost. Since we are a family-owned/operated company, there is a high degree of pride instilled in our staff, which we believe is reflected in our service and our staff's caring attitude. Our professionals display the highest levels of integrity and desire to go out of their way to be responsive to our clients' needs.