FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

November 7, 1997

IN REPLY REFER TO:

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Re: CC Docket Nos. 96-45 and 97-160
Universal Service Models Development Process

Gentlemen:

In the Universal Service Order released May 8, 1997, the Commission, acting on the recommendation of the Federal-State Joint Board, concluded that non-rural carriers providing supported services to rural, insular, and high cost areas (collectively referred to as high cost areas) should receive universal service support based on the forward-looking cost of providing the supported services.[1] The Commission determined that it could not select a mechanism

[1] Federal-State Joint Board on Universal Service (Joint Board), CC Docket No. 96-45, *Report and Order*, FCC 97-157 (rel. May 8, 1997) (*Order*) at para. 224.

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for computing forward-looking costs because none of the mechanisms that had been submitted for consideration was sufficiently developed at that time.[2] Nearly six months have elapsed since that time yet, despite significant Commission guidance, much work remains to be done. In the *Order*, the Commission stated that it would continue to review two cost models submitted by your companies, the Hatfield Model and the Benchmark Cost Proxy Model (the BCPM).[3] The Commission stated that it would select a forward-looking economic cost mechanism with platform design features[4] and input values by August 1998.[5]

On July 18, 1997, the Commission issued in this proceeding a *Further Notice of Proposed Rulemaking* (*FNPRM*)[6] establishing a multi-step approach to refining and selecting a mechanism for determining a non-rural carrier's forward-looking economic cost of providing supported services to high cost areas.[7] The Commission established a schedule for the selection of a forward-looking mechanism that called for the selection of the platform components (fixed algorithms and assumptions) of a mechanism by January 1, 1998, and the determination of input values by August 31, 1998.[8] Since the announcement of weekly meetings, open to the public,[9] Commission staff and model proponents have met on at least a weekly basis, generally for three hours at a time. After reviewing public comments and meeting regularly with you and other interested parties, the Common Carrier Bureau released a Public Notice that provided guidance on the first group of platform issues identified in the

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[2] *Order* at para. 245.

[3] The proponents of the Hatfield Model are AT&T and MCI. The proponents of the BCPM are US West, Sprint, and BellSouth. *See Order* at Appendix J for a description of the Hatfield Model and the BCPM.

[4] In the context of a forward-looking economic cost mechanism, the "platform" refers to the fixed algorithms and assumptions built into a cost model, as contrasted with user-specified "inputs" into a cost model. *See* Federal-State Joint Board on Universal Service, Forward Looking Mechanism for High Cost Support for Non-Rural LECs, CC Docket Nos. 96-45 and 97-160, Further Notice of Proposed Rulemaking, FCC 97-256 (rel. Jul. 18, 1997) (*FNPRM*) at paras. 17-18.

[5] *Order* at para. 245.

[6] Federal State Joint Board on Universal Service and Forward Looking Mechanism for High Cost Support for Non-Rural LECs, *Further Notice of Proposed Rulemaking*, CC Docket Nos. 96-45 and 97-160, FCC 97-256 (rel. July 18, 1997).

[7] *FNPRM* at para. 35.

[8] *Order* at para. 245.

[9] Public Notice, *Weekly Meetings on Forward-Looking Cost Mechanisms for Universal Service Support*, DA 97-1810 (rel. Aug. 22, 1997).

FNPRM related to switching, interoffice trunking, signaling, and local tandem investment.[10] In addition, since late August, both groups of model proponents have described to us comprehensive changes to their customer location and outside plant design modules.

Currently, two models are before the Commission in this proceeding: the Hatfield Model (version 4.0), submitted by AT&T and MCI, and the Benchmark Cost Proxy Model (BCPM) (version 2.0), submitted by U S West, Sprint, and BellSouth. We are concerned that these models have yet to incorporate the guidance provided in our September 3 Public Notice. The BCPM proponents have stated that their model would fully incorporate the Bureau's guidance by late October or early November. The Hatfield proponents have stated that their model would fully incorporate the guidance by November 15. Moreover, we have not had a meaningful opportunity to review the proposed changes to the customer location and outside plant design modules. The BCPM proponents filed working modules incorporating these changes with data for a handful of states, but not until October 15. Although we have received some results purportedly generated by Hatfield's new modules, the Hatfield proponents have not yet provided the modules for our review. The code excerpts that Hatfield provided are not sufficiently detailed for meaningful evaluation. Given the magnitude of the changes that have been made in these modules and their importance in the accuracy of the models' results, these delays in making the modules available for our review seriously impair our ability to reach conclusions on platform design issues by the end of the year.

In order for the Commission to select a platform for a mechanism to determine non-rural carriers' forward-looking cost of providing the supported services by the end of this year, it is imperative that the modelers promptly provide updated models. We therefore urge you, as we have on numerous occasions in our weekly meetings, to provide us with model revisions quickly, and to respond in a timely fashion to the guidance that we provide in this proceeding.

Sincerely,

for Kenneth P. Moran, Chief
Accounting and Audits Division
Common Carrier Bureau

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[10] Public Notice, *Guidance to Proponents of Cost Models in Universal Service Proceeding: Switching, Interoffice Trunking, Signaling, and Local Tandem Investment*, DA 97-1912 (rel. Sept. 3, 1997).