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January 23, 1998

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JAN 23 1998

Federal Communications Commission
Office of Secretary

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW - Room 222
Washington, DC 20554

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

Dear Mr. Caton:

On January 22, 1998 the attached written presentation was provided to Kyle Dixon of Commissioner Powell's office and to Sonia Rifkin of the Common Carrier Bureau, by Carmen Ana Culpepper, President, Puerto Rico Telephone Company. This material describes the impacts on Puerto Rico Telephone Company of the two cost proxy models currently under consideration by the Commission in the above-referenced docket. The presentation explains that use of the BCPM model will reduce Puerto Rico Telephone Company's universal service support to one-tenth of its current support and that use of the Hatfield model will reduce its universal service support to one-thousandth of its current support.

The original and a copy of this written ex parte are being filed in the Office of the Secretary on January 23, 1998. Please include a copy of this written presentation in the public record of this docket.

Respectfully submitted,

Linda L. Kent
Associate General Counsel

Attachment

cc: K. Dixon
S. Rifkin
C. Culpepper

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Federal Communications Commission
Office of Secretary

PUERTO RICO TELEPHONE COMPANY

**UNIVERSAL SERVICE
PRESENTATION**

JANUARY 1998

BACKGROUND

- The service penetration rate in Puerto Rico is 76 percent. The national average is 94 percent.
- Affordable telephone service must be available according to needs in Puerto Rico, where the annual per capita income is approximately one-half of the national per capita income.
- PRTC's efforts to provide universal service have been supported with the help of universal service funding and long term support.
- In 1997, PRTC received approximately \$ 107 million in combined federal support.

PROXY MODEL METHODOLOGY

- As of January 1, 1999, total federal support will be calculated for non-rural LECs using costs estimated by a proxy model.
- The proposed models do not produce reasonable results for Puerto Rico: the Hatfield model results in approximately \$171,000 in federal support, and the BCPM results in slightly over \$9 million in federal support.
- The model outcomes result in respective reductions to one-tenth of the present support (BCPM) and one-thousandth of PRTC's current federal support (Hatfield).
- In addition, PRTC is obligated to contribute \$9,490,857 to the federal fund, completely offsetting any federal support generated by either model.

SOLUTION

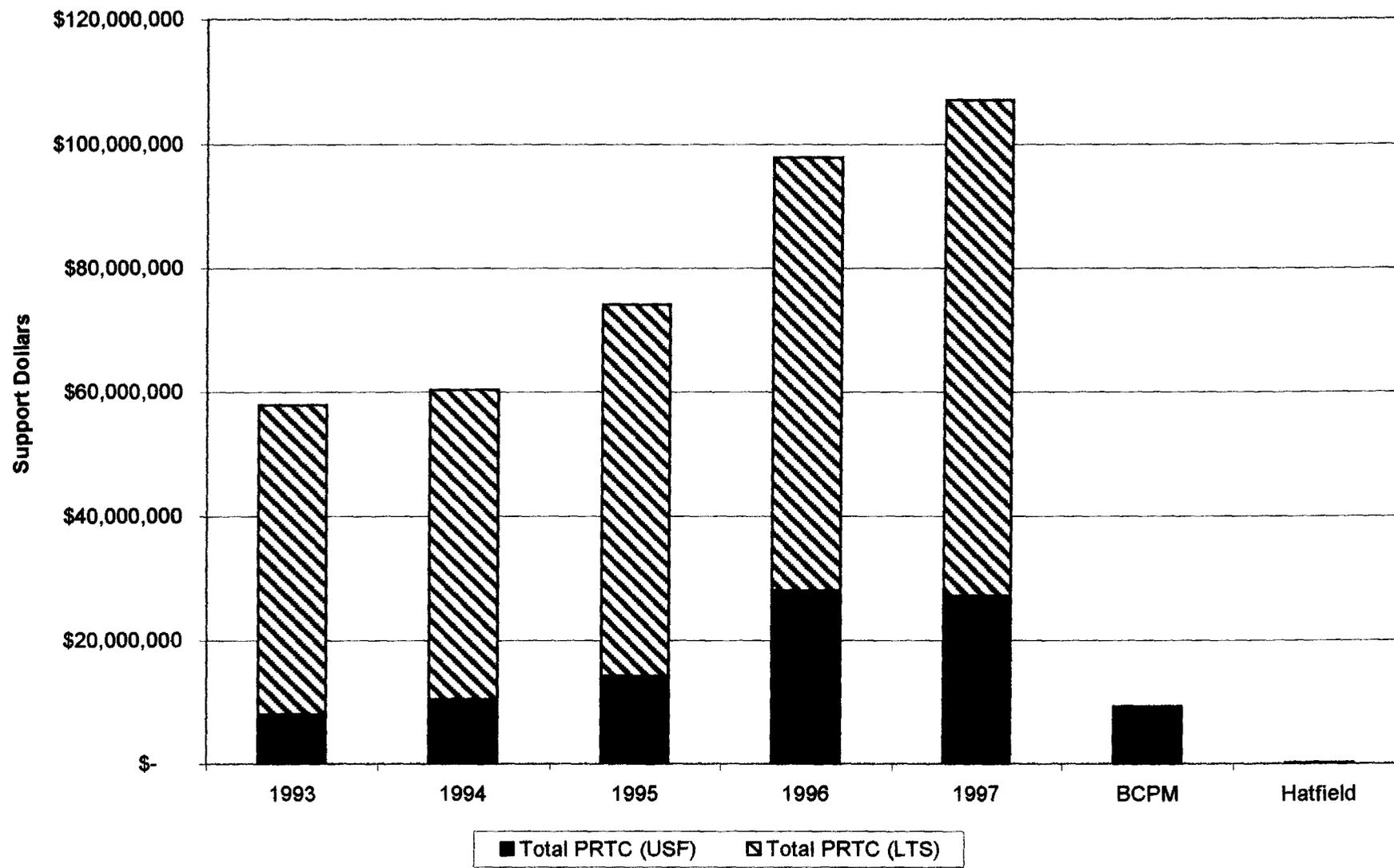
- PRTC should be subject to the same schedule for transition to a proxy model methodology established for rural carriers.
- This solution is consistent with Commission findings and the Communications Act:

The Commission delayed transition for rural carriers "because the cost models in the record of this proceeding produced a higher margin of error for rural carriers." USF Fourth Order on Reconsideration, ¶ 78. **The same is true for PRTC.**

The Commission must ensure affordable universal service for insular areas. Sec. 254(b)(3). This may be done by treating insular and rural carriers similarly. **PRTC serves an insular area.**

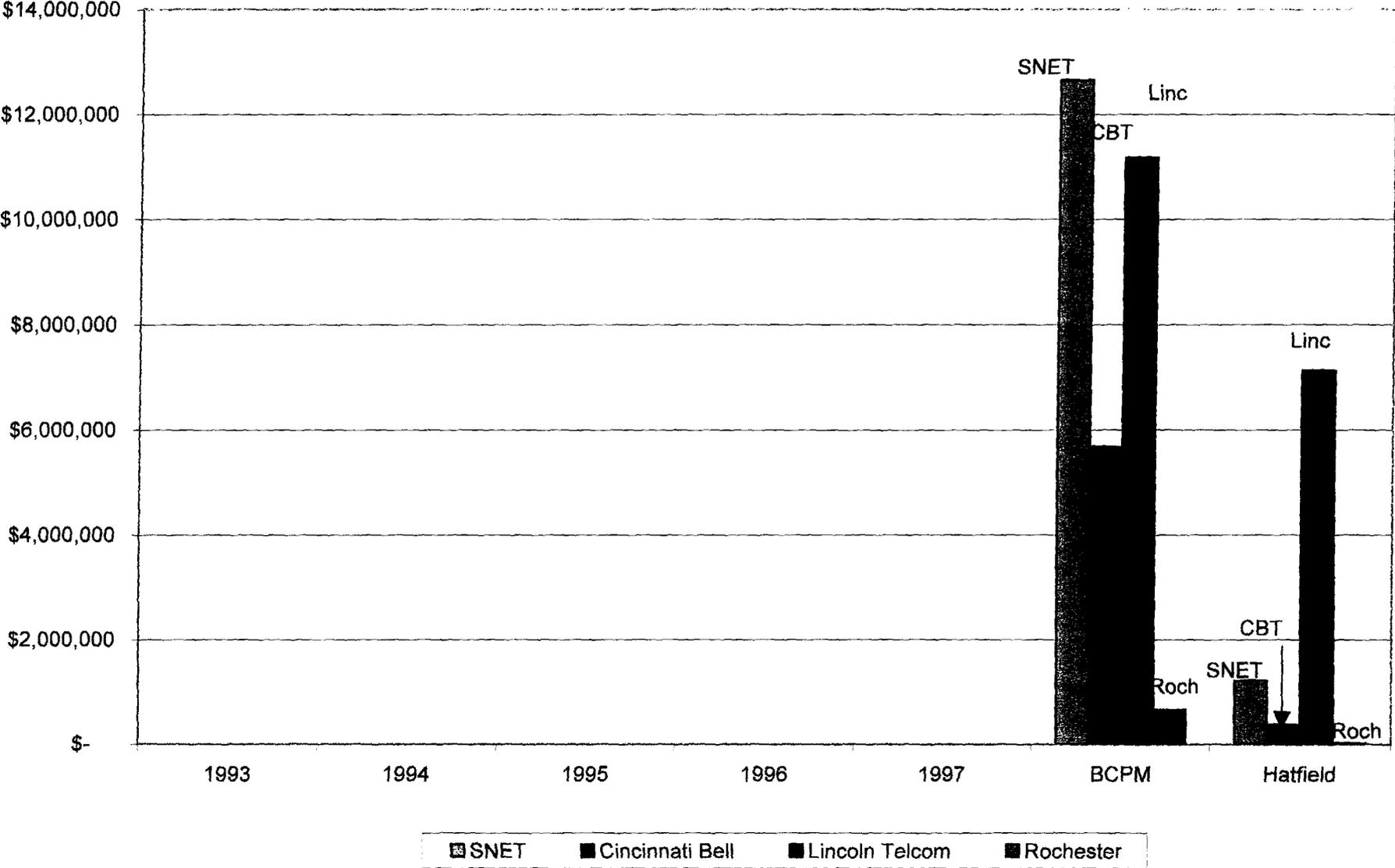
The Commission recognized the possible need to adjust the schedule for non-rural carriers serving insular areas if information for these areas was not included in the economic cost models. USF First Report and Order, ¶ 317. Puerto Rico data was not included in the models until mid-December, 1997. The model results clearly show that the models and the data inputs are deficient in predicting the cost for serving Puerto Rico. **The schedule for non-rural carriers serving Puerto Rico must be adjusted.**

PRTC: USF High Cost Support

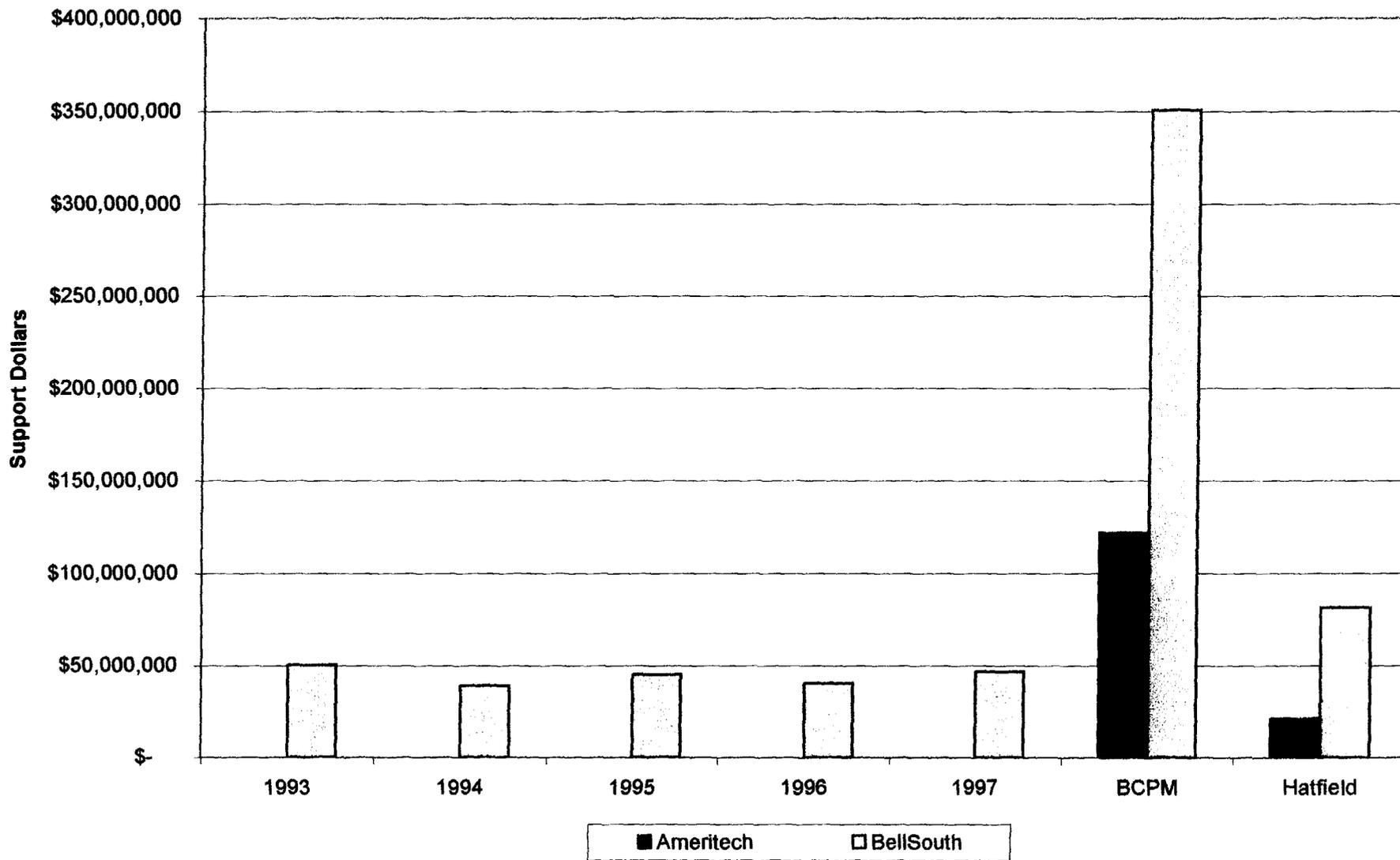


Source: FCC 1996 Monitoring Report, Table 3-14

USF High Cost Support



USF High Cost Support



USF Comparison
History

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>BCPM</u>	<u>Hatfield</u>
SNET	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,652,850	\$ 1,220,730
Cincinnati Bell	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,680,952	\$ 378,529
Lincoln Telcom	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,183,061	\$ 7,130,118
Rochester	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 654,025	\$ 20,215
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>BCPM</u>	<u>Hatfield</u>
Ameritech	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 121,850,824	\$ 21,165,966
BellSouth	\$ 50,307,450	\$ 39,064,141	\$ 45,035,477	\$ 40,482,465	\$ 46,705,764	\$ 350,758,371	\$ 81,310,307
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>BCPM</u>	<u>Hatfield</u>
Total PRTC (USF)	\$ 7,865,549	\$ 10,351,906	\$ 14,104,783	\$ 27,838,000	\$ 27,014,415	\$ 9,263,835	\$ 171,255
Total PRTC (LTS)	\$ 50,000,000	\$ 50,000,000	\$ 60,000,000	\$ 70,000,000	\$ 80,000,000	\$ -	\$ -

Proxy Model Data: Hatfield 5.0
BCPM 3.0

Historical USF Data: FCC Monitoring Report, Table 3.14

**Universal Service
Fourth Order on Reconsideration
*Released December 30, 1997***

Long Term Support (LTS)

Excerpts from Para 74

- * Commission reiterates that rural carriers will continue to retain many features of current support mechanism.
- * This will allow sufficient time to adjust to any changes in universal service support, particularly a move to forward looking economic cost models.
- * Continued LTS for rural carriers serves the public interest by reducing CCL charges assessed to IXCs and thereby facilitating interexchange service in high cost areas consistent with the express goals of section 254.

Without LTS, PRTC CCL rate could exceed \$0.05 per MOU in year 2000

Excerpts from Para 78

- * Cost models in the record of this proceeding produced a higher margin of error for rural carriers. The Commission concluded that rural carriers should not begin their transition to use forward looking economic cost mechanism when the non-rural incumbent LECs transition to their new mechanism in 1999.
- * We cannot ensure that rural carriers would receive appropriate levels of support if we allowed them to receive support calculated using the forward looking economic cost for non-rural carriers.