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August 17, 1998

RECEIVED

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Via Facsimile and Federal Express

Magale Roman Salas, Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Comments of Small Western LECs
on June 4, 1998, Notice of Proposed Rulemaking
on Access Charge Reform Issues
CC Docket No. 98-77
Our File No. 8323-6780-1

Dear Ms. Salas:

Enclosed for filing please find an original and 16 copies of the comments of a group of Small Western LECs in the above-referenced proceeding. These opening comments are filed in response to the FCC's June 4, 1998, Notice of Proposed Rulemaking.

Copies of this document are being mailed as directed by this NPRM.

Due to the circumstance of our office being located in San Francisco, we are delivering a facsimile copy of this filing today. The original signed copy will be delivered by overnight express for inclusion in the formal file of the proceeding.

Sincerely,

BECK & ACKERMAN

Jillisa Bronfman

JB:ncg
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Enclosures

No. of Copies rec'd 0+16
List ABCDE

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Access Charge Reform for Incumbent	)	CC Docket No. 98-77
Local Exchange Carriers Subject to	)	
Rate-of-Return Regulation	)	

COMMENTS

OF

EVANS TELEPHONE COMPANY
HUMBOLDT TELEPHONE COMPANY
KERMAN TELEPHONE CO.
OREGON-IDAHO UTILITIES, INC.
PINNACLES TELEPHONE CO.
THE PONDEROSA TELEPHONE CO.
THE SISKIYOU TELEPHONE COMPANY
THE VOLCANO TELEPHONE COMPANY

ON JUNE 4, 1998, NOTICE OF PROPOSED RULEMAKING ON ACCESS CHARGE REFORM ISSUES

Dated: August 17, 1998

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Attorneys for Commenting Parties

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Access Charge Reform for Incumbent	)	CC Docket No. 98-77
Local Exchange Carriers Subject to	)	
Rate-of-Return Regulation	)	

COMMENTS OF SMALL WESTERN LECS
ON JUNE 4, 1998, NOTICE OF PROPOSED RULEMAKING
ON ACCESS CHARGE REFORM ISSUES

Evans Telephone Company, Humboldt Telephone Company, Kerman Telephone Co., Oregon-Idaho Utilities, Inc., Pinnacles Telephone Co., The Ponderosa Telephone Co., The Siskiyou Telephone Company, and The Volcano Telephone Company (the Small Western LECs) respectfully file their comments in response to the Notice of Proposed Rulemaking (NPRM) in the captioned docket, released on June 4, 1998.

I. INTRODUCTION.

The Small Western LECs are small independent local exchange carriers serving rural areas in the states of California, Nevada, Oregon, and Idaho. They are "carriers of last resort" providing service to residential and small business customers throughout their respective service territories, including those located in the most remote regions of their service areas.

The Small Western LECs provide access services to interexchange carriers (IXCs), which allow the IXCs to originate and terminate interstate and intrastate long distance calls from and to

the rural Americans served by the Small Western LECs. The long distance access services and the local exchange services provided by the Small Western LECs are the essence of the concept of universal service that has long been the cornerstone of local and national telecommunications policies.

The Telecommunications Act of 1996 (TA96) has continued to place universal service in rural areas at the top of the list of telecommunications policy priorities. Specifically, as noted in the NPRM,[1] TA96 requires that "Consumers in all regions of the Nation . . . should have access to telecommunications and information services . . . that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas." The NPRM generally proposes to align access charge policies for "rate-of-return" LECs with those adopted for price cap LECs in the Access Charge Reform Order in CC Docket No. 96-262. The NPRM recognizes, however, that there may be particular circumstances of rate-of-return LECs[2] that militate against strict mirroring of the price cap LEC access charge structure. The NPRM seeks comment in several specific areas on these differences. The Small Western LECs believe that the Commission must develop specific access charge policies for small, rural carriers that recognize their differences from the larger, price cap LECs and that these policies can only be developed through analysis of actual cost and usage data of the affected carriers.

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[1]NPRM, Para. 2, quoting TA96, Section 254(b)(3).

[2]The NPRM notes that rate-of-return LECs range in customer base from a few hundred access lines to over one million lines. NPRM, para. 15.

II. LOCAL EXCHANGE COMPANY CLASSIFICATION.

The NPRM generally recognizes two categories of local exchange carriers, price cap LECs and rate-of-return LECs. While this "duopoly" classification is based on existing distinctions in regulatory methodology, it does not sufficiently describe the range of company characteristics that bear on access charge policies. Rate-of-return LECs at the "small" end of the scale will necessarily lack the diversity of the million-line companies. Companies in western, high-cost states will not be adequately served by policies that might suit small companies serving lower-cost areas.

These size and cost characteristics will also directly relate to the "relevance" of local competition to access charge policies for a particular company. Those smaller LECs which are "very concerned that their existing high per-minute rates for interstate access place them at a significant disadvantage in attempting to compete with new access service providers"[3] are most probably companies which serve low-cost areas which are also better positioned to benefit from "unleashing" competitive forces to serve consumer interests.[4] Consumers in high-cost service areas, however, are far less likely to benefit from policies that shift access charges to flat-rated end user charges.[5]

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[3]NPRM, para. 2.

[4]NPRM, para. 1.

[5]This potential benefit requires that reductions to access charges be "passed through" in the form of lower toll rates for consumers. This has not, however, been the actual practice of the IXCs.

III. FLAT RATE AND USAGE SENSITIVE CHARGES.

The Small Western LECs recognize the general economic principles reflected in the NPRM's proposal to transition access charge elements for so-called "non-traffic sensitive" costs to flat rated charges rather than per minute charges. This concept should, however, be tempered by limits on the flat rate charges based upon a reasonable relationship to similar charges for price cap companies serving adjacent areas. This principle is required by the "comparable rates and services" standard of Section 254(b)(3) of TA96, discussed above. The appropriate upper level of flat rated charges and the structure of charges for the unrecovered balance of these costs can only be determined through analysis of actual cost levels of rate-of-return LECs.

Even without a fine analysis of specific company costs, however, it is clear that the Commission's policies affecting second lines and multiline business lines for price cap LECs cannot be applied to small, rate-of-return LECs without violating the Telecommunications Act. The concept of removing all "subsidy" from second lines is reflected both in the Commission's access charge and universal service support policies for price cap LECs. Given the high degree of averaging that is present in the rates of price cap LECs, the disparity in first and second lines rates produced by such policies is relatively small. In the case of a non-averaged high-cost LEC, however, the resulting "second line" rates would be so high as to violate the "comparable rate" requirement of Section 254(b)(3).

IV. UNIVERSAL SERVICE AND SEPARATIONS REFORM DOCKETS.

The Commission is currently considering major policy revisions in its open dockets on universal service and separations reform that bear directly on issues of small LEC access charge

policies. Each of these proceedings is addressing cost assignment and cost recovery, with a wide range of policy options being recommended to the Commission for adoption.

While each of these pending dockets may appear to relate to a discrete subject matter, there are important areas of overlap. The determination and assignment of loop costs and switching costs for universal service and separations assignment purposes will directly affect the level of those costs that must be recovered through access charges. Until these policy determinations are made, access charge policies can only be addressed in the abstract.

This is a particularly important factor when considering policies that shift access recovery to end users or to a flat "per-line" charge assessed to IXCs. The Small Western LECs recommend that the Commission limit any such rate shift at the present time to amounts that do not exceed the per-line charges in effect for the price cap LECs. Any further transition to flat-rated charges should be deferred and made the subject of additional public comment after the Commission resolves final policy decisions in these related dockets.

V. CONCLUSION.

The Small Western LECs look forward to the opportunity to participate in this important proceeding and to evaluate the specific data that will be presented to the Commission by the national associations and cost consultants representing small, rural LECs. The Commission must

focus on actual cost data and requirements in evaluating the extent to which the access charge policies of price cap LECs can be adapted for use by rate-of-return companies.

Dated: August 17, 1998

Respectfully submitted,

EVANS TELEPHONE COMPANY
HUMBOLDT TELEPHONE COMPANY
KERMAN TELEPHONE CO.
OREGON-IDAHO UTILITIES, INC.
PINNACLES TELEPHONE CO.
THE PONDEROSA TELEPHONE CO.
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