

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of

Petition for Agreement with Designation of)
Rural Company Eligibility Telecommunications)
Carrier Service Areas at the Exchange Level)
and for Approval of the Use of Disaggregation)
of Study Areas for the Purpose of Distributing)
Portable Universal Service Support)

CC Docket No. 96-45

DA 98-1691

)
Filed by: The Washington Utilities and)
Transportation Commission, Asotin Telephone)
Company, CenturyTel of Cowiche, Ellensburg)
Telephone Company, CenturyTel of)
Washington, Hat Island Telephone Company,)
Hood Canal Telephone Co., Inc., Inland)
Telephone Company, Kalama Telephone)
Company, Lewis River Telephone Company)
Mashell Telecom, Inc., McDaniel Telephone)
Company, Pend Oreille Telephone Company)
Pioneer Telephone Company, St. John,)
Co-operative Telephone and Telegraph)
Company, Tenino Telephone Company,)
The Toledo Telephone Co., Inc., United)
Telephone Company of the Northwest,)
Western Wahkiakum County Telephone)
Company, Whidbey Telephone Company, and)
Yelm Telephone Company)

REPLY COMMENTS
OF
THE UNITED STATES TELEPHONE ASSOCIATION

The United States Telephone Association (USTA) hereby submits these reply comments to the comments filed regarding the above-referenced petition filed by the Washington Utilities and Transportation Commission (WUTC) and twenty rural local exchange carriers (LECs).

USTA filed comments in which it stated that the relief requested in the subject petition goes well

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beyond a simple, straight-forward study area waiver. USTA explained that the petition raises such complex issues as the use of disaggregation of support, the competitive consequences of basing universal service support on study areas, the use of proxy models for calculating costs for rural companies, and the potential preemption of issues to be decided by the Joint Board, among others. USTA also pointed out that the issues raised by this petition have the potential of altering the Commission's universal service policies that have been established and are being further formulated in ongoing proceedings. Therefore, USTA argued that the Commission cannot allow such significant policies to be modified in the context of a single state's study area waiver request. For the reasons stated below, USTA continues to advocate this position.

I. A METHOD FOR ASSURING ADEQUATE UNIVERSAL SERVICE SUPPORT FOR RURAL LOCAL EXCHANGE CARRIERS HAS BEEN ESTABLISHED AND SHOULD NOT BE ALTERED WITHOUT FULL CONSIDERATION.

The Commission agreed with the Joint Board determination that rural service areas should correspond to the rural telephone company's study area.¹ In addition, the Commission followed the Joint Board recommendation to use embedded costs to determine rural LECs' cost of providing universal service on the basis that rural companies average such costs at the study area level.² The Commission has made clear that rural carriers will continue to receive universal service support for all lines at least until January 1, 2001 and, in conjunction with this determination, stated that it would defer consideration of support for rural LECs based on forward-looking mechanisms until that time, at the earliest.³ This means that, at least during this interim period, rural telephone companies will continue to receive universal service based on

¹*Report and Order* in Federal-State Joint Board on Universal Service, CC Docket No. 96-45, 12 FCC Rcd 8776, 8881 (1996) (*Report and Order*).

²*Id.*

³*Id.*

embedded cost.

While the Commission has established a procedure for waiver on a case-by-case basis of the general policy that rural telephone companies' study areas should be their service areas,⁴ the Commission and the Joint Board have concluded that the study area should be the service area of rural LECs and the Commission has specifically linked this determination with the fact that rural LECs use embedded costs calculated on a study area basis to determine universal service support. These factors are interrelated. To begin to change this policy in one state, as the WUTC petition would do, would be to prematurely and inappropriately prejudge the broader, significant issues relating to cost recovery and universal service calculations for all rural companies throughout the country.

II. DISAGGREGATION OF SERVICE AREAS SHOULD BE SERIOUSLY EVALUATED, BUT NOT IN THE CONTEST OF A SPECIFIC PETITION TO CHANGE RURAL TELEPHONE CARRIERS' STUDY AREAS.

USTA has advocated that all carriers, specifically including rural carriers, should have the flexibility to disaggregate universal service support so that support to high cost areas can be better targeted.⁵ Furthermore, the Commission agreed with the Joint Board's conclusion that the actual level of universal service support should be based on the cost of providing service within sub-units of a state-defined service area, such as a wire center or census block group.⁶ However, significant issues associated with disaggregation remain to be determined. Therefore, USTA would recommend that the Commission fully consider options regarding the basis for and

⁴The procedure for altering a particular rural service area is set forth in the *Report and Order* at 8880-8881.

⁵ USTA Comments on the *Recommended Decision* in Federal-State Joint Board on Universal Service, CC Docket No. 96-45, 12 FCC Red 87 (1996) (*Recommended Decision*), filed December 19, 1996, at 31.

⁶*Report and Order* at 8883.

method of disaggregation and the proper number of zones to avoid arbitrage.⁷

III. USE OF PROXY MODELS FOR RURAL TELEPHONE CARRIERS HAS NOT BEEN DETERMINED AND SHOULD NOT BE PREMATURELY JUDGED.

USTA has repeatedly cautioned that rural carriers should not be required to utilize a proxy model that does not accurately predict the costs incurred by such carriers and that to do otherwise would threaten the maintenance of current affordable rates for rural customers and the ability of rural LECs to provide the necessary network upgrades to maintain high quality service and access to advanced services.⁸ As stated above, the Commission has determined that rural LECs would not use proxy models until January 1, 2001, at the earliest.

The WUTC petition proposes reliance on the use of a proxy model to allow the disaggregation of universal service support. This would result in the premature use of a proxy model for rural companies and should not be permitted by the Commission, absent full consideration of the proposal by all who would be affected by such a shift in nation-wide policy.

IV. LINKAGE OF THE COMMISSION'S PROCEDURE FOR APPROVAL OF SERVICE AREA MODIFICATIONS AND DISAGGREGATION OF SUPPORT SHOULD NOT BE SANCTIONED.

The Commission has established a procedure for obtaining study area waivers. This procedure is not dependant on a request for disaggregation of universal service support. In fact, the Commission has not specified a mechanism for obtaining approval to disaggregate support at this time. The Commission should not permit the two issues to be linked through its study area waiver process and should not sanction a state commission's use of disaggregation to obtain

⁷See GTE Comments 6-8.

⁸See USTA Petition for Reconsideration and/or Clarification of the *Report and Order*, filed July 17, 1997, at 2; and USTA Reply Comments on the *Recommended Decision*, filed January 10, 1997 at 8.

carrier acquiescence of study area waivers. Such a practice would veircumscribe the normal rulemaking process where all interested parties have a full opportunity to provide their positions and the Commission has a similar opportunity to consider all the ramifications of a particular policy.

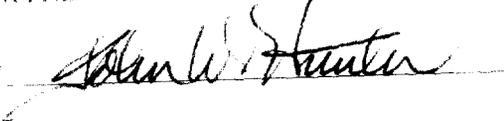
V. CONCLUSION

For the reasons stated above, USTA continues to urge the Commission not to hastily act on the WUTC request without fully considering the policy implications of the significant issues raised by that petition.

Respectfully submitted.

UNITED STATES TELEPHONE ASSOCIATION

By



Lawrence E. Sarjeant
Linda L. Kent
Keith Townsend
John W. Hunter

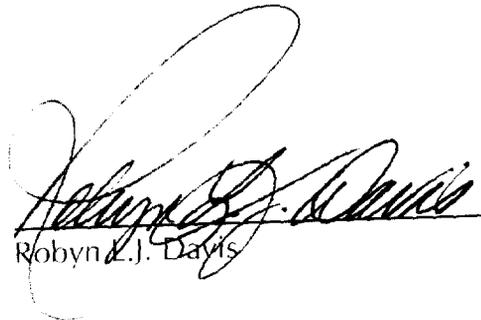
Its Attorneys:

1401 H Street, NW
Suite 600
Washington, DC 20005
(202) 326-7375

September 28, 1998

CERTIFICATE OF SERVICE

I, Robyn L.J. Davis, do certify that on September 28, 1998 copies of the Reply Comments of the United States Telephone Association were either hand-delivered, or deposited in the U.S. Mail, first-class, postage prepaid to the persons on the attached service list.


Robyn L.J. Davis

Sheryl Todd (3 ccs, 1 diskette)
Federal Communications Commission
2100 M Street, NW
Eighth Floor
Washington, DC 20554

Jeffrey D. Goltz
(WUTC Counsel)
1400 S. Evergreen Park Drive, SW
Suite B-3
Olympia, WA 98504

Richard A. Finnigan
(Asotin Telephone Co. Counsel)
2405 S. Evergreen Park Drive, SW
Suite B-3
Olympia, WA 98502

Robert S. Snyder
(Hat Island Telephone etal Counsel)
1000 Second Avenue
30th Floor
Seattle, WA 98104

Gene DeJordy
Western Wireless Corp.
3650 131st Avenue, SE
Suite 400
Bellevue, WA 98006

Michael C. Farquhar
David L. Sieradki
Ronnie London
Hogan & Hartson, LLP
(Counsel for Western Wireless Corp.)
555-13th Street, NW
Washington, DC 20044

John F. Raposa, HQE03J27
GTE
600 Hidden Ridge
P.O. Box 152092
Irving, TX 75015

Andre J. Lachance
GTE
1850 M Street, NW
Suite 1200
Washington, DC 20036

Margot Smiley Humphrey
Koteen & Naftalin, LLP
1150 Connecticut Avenue, NW
Suite 1000
Washington, DC 20036

L. Marie Guillory
Pamela Sowar Fursting
National Telephone Cooperation Association
2626 Pennsylvania Avenue, NW
Washington, DC 20037

Steven Pastorkovoich
Stuart Polikoff
OPASTCO
21 Dupont Circle, NW
Suite 700
Washington, DC 20036

Jay C. Keithlev
Sprint
1850 M Street, NW
11th Floor
Washington, DC 20036

Sandra K. Williams
Sprint
P.O. Box 11315
Kansas City, MO 64112

Chris Barron
TCA, Inc.
1465 Kelly Johnson Blvd.
Suite 200
Colorado Springs, CO 80920

ITS
1231 21st Street, NW
Washington, DC 20036