



The Voice of Rural Telecommunications

EX PARTE OR LATE FILED

October 27, 1998

Ms. Magalie R. Salas, Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

RECEIVED

OCT 27 1998

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Re: Ex Parte Notice  
CC Docket No. 96-45 ✓  
CC Docket No. 98-77  
CC Docket No. 98-146

Dear Ms. Salas:

On Friday, October 16, 1998, five National Telephone Cooperative Association (NTCA) representative members, Warren Hight (Souris River Telecommunications Cooperative, Minot, ND), Walter Rowland (Adams Telephone Co-Operative, Golden, IL), Jimmy White (XIT Rural Telephone Cooperative, Dalhart, TX), Mary Mongold (Hardy Telecommunications, Lost River, WV), and Charles Wiese (Tohono O'Odham Utility Authority, Sells, AZ), along with L. Marie Guillory and Pamela Fusting of NTCA met with Katherine Brown, Chief of the Common Carrier Bureau, and Lisa Zaina and Richard Cameron, also of the Common Carrier Bureau.

The purpose of the ex parte meeting was to provide the Bureau a general overview of NTCA's membership and a rural perspective on issues pertaining to the 1996 Telecommunications Act, including access charge and universal service reform and the provision of advanced services in rural areas. The participants expressed concern about unnecessary, burdensome regulatory requirements and pointed out that reform measures must incorporate rural reality.

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In accordance with the ex parte rules, two copies of this letter are being submitted to the Secretary. If there are any questions in this matter, please feel free to contact the undersigned.

Sincerely,

A handwritten signature in black ink, appearing to read "Pamela Fusting". The signature is written in a cursive style with a large initial "P".

Pamela Fusting  
Telecommunications Policy Analyst  
Legal & Industry

enclosure

cc: Katherine Brown  
Lisa Zaina  
Richard Cameron

**NTCA Meeting Agenda**  
**October 16, 1998**  
**2:00 - 3:30pm**

**L. Marie Guillory**  
Vice President, Legal & Industry  
NTCA

Introduction

**Warren Hight**  
General Manager  
Souris River Telecommunications  
Cooperative (Minot, ND)

A Rural Perspective on Access Reform and  
Universal Service

**Walter Rowland**  
General Manager  
Adams Telephone Cooperative  
(Golden, IL)

Bringing Advanced Services to Rural Areas

**Jimmy R. White**  
General Manager  
XIT Rural Telephone Cooperative  
(Dalhart, TX)

An Overview on Rural CLEC Issues

**Mary Mongold**  
Assistant Manager  
Hardy Telecommunications  
(Lost River, WV)

Hardy Telecommunications and Universal Service

**Charles Wiese**  
General Manager  
Tohono O'Odham Utility Authority  
(Sells, AZ)

TOUA and Universal Service

**Access Reform and  
Universal Service**

**from a  
Rural Perspective**

Warren Hight  
Souris River Telecommunications Cooperative

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**FCC Objectives**

- NPRM CC Docket 98-77
- Foster Competition
- NTS Cost Recovery
- Should Price Cap Rules Apply to Rate of Return LECs?

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**NO!**

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### Rural ROR LECs Are Different

- Different Areas
- Different Costs
- Different Circumstances
- Different Problems

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### The Rural Challenge

- 1,000+ route miles of telephone line in service for average RUS telephone borrower
- 4.48 per subscribers per mile for average RUS telephone borrower
- 96 NTCA companies w/ less than one subscriber per square mile

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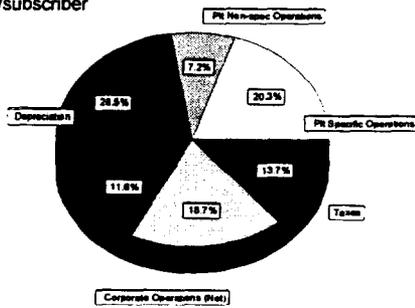
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### Total Operating Expenses

\$650/subscriber



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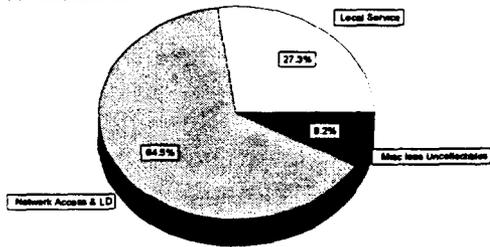
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## Net Operating Revenues

\$841/subscriber



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## Rural ROR LECs Do Not Fit the Mold

- One Size Doesn't Fit All
- Different Characteristics
- Require Different Solutions

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## Factors that Created Rural Companies Nationwide:

- No Existing Service Provider
- No Financial Incentive For Business
- Public Policy Mandated Universal Service - Everywhere

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### What has Changed?

- Comparatively, Very Little in Real Terms
- Incumbent Service Providers Still Face...
  - Low Density Numbers
  - High Loop and Switching Investments
  - Obligations to Serve

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### Current Situation

- Support Mechanisms Implicit
- National in Perspective
- Recognize Actual Costs
- Reliable Services
- Reasonable/Affordable Rates

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### Tomorrow's Uncertainty

- Support Explicit vs. Implicit
- Federal vs. State
- Urban vs. Rural
- Low Cost vs. High Cost
- Consumer vs. Consumer
- National Policy vs. No Policy

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**Access Reform Must Incorporate  
"Rural Reality"**

- Rural Costs will not Disappear
- Access Revenues Support Rural Services
- Existing Implicit Subsidies can be Reassigned - NOT Eliminated

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**Access Reform Must Incorporate  
"Rural Reality" - continued**

- Rural Access Rate Disparity will Undermine Universal Service Goals
- PICC Charges will not Satisfy NTS Requirements
- National Averages vs. Company Specific
- Universal Service is Responsibility of Everyone

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**Rural Perspective on other FCC  
Regulatory Issues**

- Multitude of Issues
- Number Portability
- CPNI
- Slamming
- One Size Fits all Approach
- Cost vs. Benefit Assessment
- Consumer Rights Issues

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**Conflicting Nature of  
Regulatory Issues**

- Promote Advanced Services/Reduced Implicit Support
- Promote Competition/Carrier of Last Resort
- Promote Deregulation/Expanding Regulatory Requirements

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**Conflicting Nature of  
Regulatory Issues - continued**

- Promote Consumer Rights/Rural LECs are Consumer Oriented
- Promote Universal Service/Hamper Rural LEC Ability to Provide

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**Summary**

- Perspective is Different Because Rural is Different
- Concerned about Maintaining and Upgrading Services
- Concerned about the Future Affordability of Rural Service
- Concerned about Competitive Cream Skimming for the Burden it Places on Others

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**Summary** - continued

- Concerned about Unnecessary and Expensive Regulatory Requirements
- Concerned about Maintaining an Evolving Definition of Universal Service
- ABOVE ALL, concerned that "RURAL REALITY" Issues will be Ignored

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**BRINGING ADVANCED SERVICES TO RURAL AREAS**

**RESPONSIBILITY AND CHALLENGES FOR THE SMALL TELEPHONE COMPANY**

Walter Rowland - Manager  
Adams Telephone Co-Operative

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**Brief History**

Adams Telephone Co-Operative  
Formed in 1952  
Local owned - local controlled  
Serving rural areas

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**Rural Telephone  
Companies/Cooperatives**

Responding to Customer's Needs  
Leaders in Advanced Telecommunications  
services

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**Infrastructure**

Fiber backbone/Sonet ring architecture

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**Digital Switching**

**Enhanced services**

- Quality voice circuits
- Custom calling services
- Enhanced 9-1-1
- SS7 signaling
- Long distance
- Calling cards

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## Video Services

CATV  
C Band Satellite  
DBS  
Wireless Cable

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## Data Services

High Speed Internet Access  
Wide area availability  
    Packet switching  
Competitive rates  
Consortium - statewide  
    Aggregation of customers  
XDSL Technology

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## Challenges

Uncertain revenues  
    - Access  
    - Universal service  
Status of rural economy  
    - Secretary of Agriculture - Dan Glickman  
    "Rural America is facing the greatest economic  
    disaster since the depression"

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**Challenges - continued**

- Cost to provide advanced services**
- Bandwidth availability to subscriber**
- Investments stranded by technology**
  - Switching
  - Plant

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**Challenges - continued**

- Rural/Town disparity in cost of service**
  - RUS - averaged rates
  - Cream skimming
- New technology**
  - Wireless
- Credibility**
  - Duplicate billing
  - Slamming

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**Challenges - continued**

- Regulatory**
  - Separations and access reform
  - CPNI
  - Local number portability
  - Billing mandates
  - Requirements for subsidiaries
    - Separate
      - Officers
      - Employees
      - Board

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## Challenges

### Regulatory - Continued

- Paystations regulation
  - FLEX-ANI
- State regulatory initiatives
- RUS
- PICC and USF
- Long distance
- CALEA
- Unbundled network compliance

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## Local Benefits

### Education

- Internet access
- Video distance learning
  - Schools
  - Colleges
- Training
- LAN wiring

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## Local Benefits - continued

### Medical/Emergency

- Local clinic
- Ambulance
- Volunteer Fire Departments
- E-9-1-1/GIS

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**Local Benefits - continued**

**Economic**

- Local owned/local controlled
  - Responsive to subscribers
- Local leadership
- Local employment
  - Supports local business
- Efficient operation

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**Help Wanted!**

**Reduced regulatory burdens**

- Exempted from separate subsidiary requirements
  - Limited resources - additional regulatory burdens may eliminate existing services
- No unbundling of advanced services to CLEC's
  - Enables cream skimming

**Encourage desegregation of spectrum**

Small telephone companies are different  
Proven track record for bringing advance services to rural areas

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**Jimmy R. White - General Manager**

**XIT Rural Telephone  
Cooperative, Inc.**

**Regulated  
ILEC  
Organized 1951  
Access Lines: 1,257  
Serving Area: 3,200 sq. miles**

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**XIT Telecommunication  
& Technology, Inc. (XT&T)**

Deregulated  
Wholly owned subsidiary of  
XIT Rural Telephone Cooperative, Inc.  
Organized 1988

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**XT&T - d.b.a.**

**XIT Communications, CLEC**  
Competitive Local Exchange Carrier  
Formed 1997 - Access Lines: 2,800, Serving Area: 35 sq. miles  
Potential Access Lines: 5,700 (5 year)

**XIT Paging, Paging Company**  
Formed 1996 - Subscribers: 250

**XIT Long Distance, IXC - Interexchange Carrier**  
Formed 1997 - Subscribers: 1,100

**XITNET, Internet Provider**  
Formed 1996 - Subscribers: 1,200 - Service Area: 4 County Area

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**XT&T - Partnerships**

**XIT Cellular, Cellular Carrier**  
Partnership: XT&T - General Partner  
with 99% ownership  
Organized 1989 - Subscribers: 10,000  
Serving Area: 7,500 sq. miles

**XT&T Fiber, Inc., Fiber Lease Company**  
Wholly owned subsidiary of XT&T  
Organized 1991

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### Competitive Challenges for XIT

- Moved from partnering arrangement to new pricing structure creating downward pressures on revenues
- Required to change from a non-involved recipient to involved participant
- Recognized that as a small high cost company our future depended on growth and diversified sources of income

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### Competitive Challenges for XIT

- Acknowledged the eventual move from certified area monopoly to total competitive structure
- Recognized the importance of name recognition and customer relations in a competitive environment
- Acknowledged the shift from a customer driven market to a marketing driven environment

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### Organizational Corrective Action Taken

- Began to evaluate every opportunity to determine ways to expand or invest to achieve alternative income
- Get involved in statewide and national associations and in personal visits with regulators and legislators
- Formed a deregulated subsidiary for involvement in areas where regulatory or other constraints prevented growth and allow us the ability to move forward on qualified opportunities

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**Organizational Corrective  
Action Taken**

- Developed a long range strategic planning process to reduce the Cooperative's dependence on revenue sharing by establishing other resources of revenues
- Established a marketing department and began a greater emphasis on a community involvement with a targeted name recognition and image building campaign
- Provide all employees with marketing and customer service training
- Began to search opportunities through partnership with other related organizations to achieve our goals

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**Results Achieved to Position XIT for  
Competitive Environment & the Future**

- XIT has, through partnership with other area Cooperatives, developed a regional fiber optic network to lease capacity to interexchange carriers
- XIT has, through partnership, negotiated a collective limited partnership in five metro markets in West Texas with a major cellular operator
- XIT secured the license for cellular services in the Texas Rural Service Area 1 (TX - RSA 1) encompassing our service area and beyond
- XIT entered the Internet market becoming a local ISP in our area and surrounding areas

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**Results Achieved to Position XIT for  
Competitive Environment & the Future**

- XIT, in partnership with another Cooperative, offers paging within our cellular service area
- XIT has become an interexchange provider offering long distance service within our serving area and outside of this area where we have a presence
- XIT recently began a Competitive Local Exchange Carrier (CLEC) operation in the two exchanges served by a larger telephone company

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### Competitive Local Services

- XIT began a competitive local exchange carrier (CLEC) operation in two exchanges within our serving area that are served by GTE

	<u>Dalhart, TX</u>	<u>Stratford, TX</u>
Population (12/97):	6,371	1,817
Access Lines (12/97):	683 Bus. <u>3,334 Res.</u> 4,017	180 Bus. <u>876 Res.</u> 1,058
Subscribers Per Mile:	27.4	28.7
Projected Growth: 10 Year Average	3.26%	2.84%

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Mary Mongold  
Hardy Telecommunications

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### Who We Are

- Member-Owned Cooperative
- 2,800 Members
- Rural
  - 3 Subscribers Per Route Mile
  - 7 Subscribers per Square Mile
- One Exchange

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## Hardy County Statistics

- Population - 11,642
- High Schools Graduates - 55%
- College Graduates - 7%
- Per Capita Income - \$17,000
- Social Security Recipients - 20%
- Land in Farms - 38%
- Largest Industry - Poultry Farming

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## Advanced Services

- Fiber Backbone
- ISDN
- ISP
- Local High School Business Partner
  - Wired Schools for Internet in 1995

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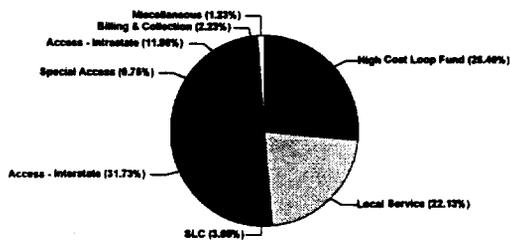
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## Revenue Breakdown



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### Universal Service

- 26% of Revenue
- 1997: Negative Retained Earnings of \$226,000 if USF not Received
- Additional Burden of \$46 per Member per Month if USF funding Shifted from Interstate to Local

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### TOUA and Universal Service

Charles Wiese  
Tohono O'Odham Utility Authority

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### Tohono O'Odham Nation

- Second Largest Reservation in U.S.
  - 2,773,357 acres
  - Population 20,000
- Largest Village: Sells (estimated pop 3,000)
- 70-80% Unemployed
- Private Sector Employment: 15%
- High School Dropout Rate: 80%

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### Utility Authority

- Established 1970
- Electric and Water Service started 1974
- Telephone Service started in Aug., 1987
- Now includes Internet, cellular, & Propane
- Electric Service extended to over 70 Villages by the mid-Eighties ... Using REA/RUS Loans
- Water/Wastewater Upgrades are continuing Funded by Indian Health Service

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### Utility Authority - continued

- Currently over 3,000 Electric and 3,000 Water Meters in Service
- Started Propane Service in late 1997, 375 Customers
- Started Internet Service in 1996
  - Many Trials & Errors along the Way
  - Starting to add Hi-Cap Users
- Reselling Cellular service while Trying to Obtain License
- Total Investment to Date in Plant: \$44 Million

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### Why Did We Go Into the Telephone Business?

- Service in 1986
  - Step Switch Operating at 100% Capacity
  - Service Outside of Sells on Open Wire, 8-Party Service, Distance Charges Applied
  - 125/Month Dial Tone
  - Repairman Scheduled for Sells on Thursdays

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**Why Did We Go Into the Telephone Business?** - continued

- Hickiwan Daycare Discontinued Service
- Various Members Absconded with the Poles (e.g., for corrals)
- When asked to Reinstate Service, US West asked for \$80,000

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**TOUA is Approached**

- First Sought to Work with US WEST
- After being Rebuffed, TOUA began to Consider Acquisition of the System
- New Board Member was Former Manager at Valley Telephone Coop in Wilcox

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**Feasibility/Preliminary Engineering Studies Done**

- Based on Predictable Revenue Projections from Universal Service Support, Received \$7 Million REA Loan to Build New System
- Began Service August 21, 1987 - with assurance of USF Support, REA Loan, & \$950,000 Community Development Block Grant

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### Operations in Early Years

- First Two Years: Expanded coverage, built out to unserved villages
- By June, 1989: All plant (except 1 CO building) replaced w/ Underground Cable, Digital Switches
- Added Voice Mail & Centrex in 1995

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### Operations Today: Customer Base

- Residential Characteristics
  - Non-published
  - Change Numbers
  - Few Advanced Features
  - Advertising Doesn't Work
  - Slow Payment
- Business Characteristics
  - Primarily Government Services
  - Becoming Data and Network Providers
  - No Held Orders due to Capacity

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### Penetration Rate: 70%

- Residential Access Lines: 1,510
- Business Access Lines: 1,317
- Approaching Capacity of Plant in Ground
- Bypass Problem using Electronics (e.g., Pair Gain Devices)

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### Projection for Growth

- Growth of Business
- Assisted Schools in obtaining RUS Distance Learning Grant, SLC Funding
- Assisted Hospital in obtaining RUS Telemedicine Grant

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### New Construction

- New Switch
- Fiber to Tucson
- CLASS Features
- Expand Internet - Data Transport

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