

Government and Regulatory Affairs

October 29, 1998

Ex Parte

Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street NW Rm 222
Washington, DC 20554

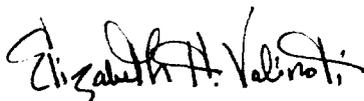
RE: CC DOCKET 96-45, IN THE MATTER OF FEDERAL-STATE JOINT BOARD
ON UNIVERSAL SERVICE

Dear Ms. Roman Salas:

On October 29, 1998, Claire Harrison of TDS TELECOM sent the attached materials to Philip McClelland of the Pennsylvania Office of Consumer Advocates and also of the Joint Board. The materials address TDS TELECOM's positions on Universal Service Issues referred to the Federal-State Joint Board.

Enclosed herewith are the documents sent to Mr. McClelland. I have enclosed copies in accordance with Commission rules. Please date stamp and return the provided copy in the enclosed self-addressed, stamped envelope.

Respectfully submitted,



Elizabeth H. Valinoti
Manager
Federal Regulatory Affairs

EHV/aec

Attachments

cc: P. McClelland



TDS TELECOM

Government and Regulatory Affairs
October 29, 1998

Mr. Philip McClelland
Office of Consumer Advocates
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1921

Dear Mr. McClelland

TDS TELECOM is concerned about unintended, yet potentially negative, consequences of the Joint Board's upcoming Recommendation to the FCC on pending high-cost recovery issues. While we realize your current focus must be the effects of your Recommended Decision on non-rural LECs, regulatory history strongly supports our belief that the rules adopted for non-rural companies will eventually apply – in whole or in large part – to rural LECs.

On October 15, 1998, Paul Pederson and I met with Martha Hogerty to discuss TDS TELECOM's concerns about the use of proxy models in determining sufficient universal service support for rural LECs. Enclosed is the information we shared with Ms. Hogerty during our meeting, updated to include information specific to the TDS TELECOM properties in Pennsylvania.

TDS TELECOM operates 106 small, rural local exchange carriers in 28 states – a veritable microcosm of the rural LEC industry. As such, TDS TELECOM's conclusions on high-cost recovery issues are representative of findings to be expected from assessment of the entire rural LEC community.

Rural LECs, including TDS TELECOM, have proven over time that specific, predictable, and sufficient high-cost support enables rural infrastructure development and rural economic development. Should an inappropriate high-cost recovery methodology be applied to rural LECs, rural America may be denied telecommunications services and rates comparable to those in urban areas. Insufficiency of support, and gross disparity between rural and urban services and rates, would directly contravene the universal service principles of the Telecommunications Act of 1996. Accordingly, TDS TELECOM believes that rural LEC high-cost recovery based on actual costs is the only available method of enabling rural America to benefit from the universal service principles of the 1996 Act. *We ask that regardless of which high-cost recovery method you recommend for non-rural LECs, you consider acknowledging in your November Recommendation the*

reality that at this time, actual costs are the only appropriate measure for rural LEC high-cost recovery.

As you can see from enclosed Slide 1A, application of the currently available versions of the HAI and BCPM models to TDS TELECOM's Pennsylvania LECs could result in a loss of support up to \$9.61 per line, per month. Slide 6 shows that our highest cost companies – those most in need of universal service support – would suffer the greatest loss in support if calculated using the proxy models. Based on analysis of TDS TELECOM companies in an 11 state sample, the per line, per month loss could be as high as \$49.57, jeopardizing the 1996 Act's goal of sufficient support. In contrast, the proxy models in some instances would actually provide our companies with more universal service support than they receive today, as much as \$6.62 per line, per month. Surely this extreme variability between actual support and that projected by the proxy models would not foster the 1996 Act's goal of predictable support. TDS TELECOM conducted this analysis to determine if proxy models could reasonably calculate our companies' high-cost support needs. Clearly they cannot. We realize that the FCC adopted its own proxy model platform on October 22nd, a hybrid of the BCPM and HAI models. Should this new model be readily available, TDS TELECOM would be interested in analyzing the impacts.

We have also enclosed charts highlighting revelations from a recent loop sample study we prepared for the Michigan PSC. As applied to our Michigan operating companies, the numbers generated by the BCPM proxy model (e.g., average loop lengths and number of access lines) and the actual numbers generated by the Michigan study varied so significantly (Slides 3, 4) that we therefore believe the BCPM results would grossly miscalculate our necessary high-cost support. This belief is supported in our proxy model results shown on Slide 5. Our findings lead us to conclude that proxy models should not be used to determine our Michigan high-cost support. We would expect similarly inappropriate proxy model results in our other states.

I would be happy to discuss this information with you in further detail, either in person or over the phone. I will be calling you in the near future to follow up on this information. Please feel free to contact me in the interim at (608) 664-4179 should you have any questions or thoughts on the information provided.

Sincerely



Claire E. Harrison
Manager - Policy Development

Enclosures (8)

**TDS TELECOM Positions on Universal Service Issues
Referred to the Federal-State Joint Board
October 1998**

Proxy model decisions made for non-rural companies are likely to carry through to rural companies.

- While the Joint Board is currently reviewing high-cost support issues for non-rural ILECs, regulatory history suggests that rules adopted for non-rural ILECs will eventually – at least in part – apply to rural ILECs. (For example: federal access charge reform)
- Effective analysis of the models by rural companies is extremely difficult because of the complexity of the models, and because much of the data and processes used remain proprietary or at least inaccessible. (For example: geocoding data; mapping of customer location; need to understand Visual Basic or other programming languages)
- Customer location algorithms remain unreliable and generate widely variable average loop lengths that differ significantly from actual measures. Such variation contributes to cost estimates that deviate greatly from actual costs. (See slides 3 and 4)
- TDS TELECOM analysis of the currently available Hatfield and BCPM models at the 25% federal support level indicates extreme variability in resulting high-cost support. This company-by-company variability would generate unpredictable – and often insufficient – support, thereby jeopardizing the universal service principles of the 1996 Act. (See slide 6)

Determining universal service support through the use of actual costs remains the most viable alternative for rural ILECs.

- The 1996 Act goals of reasonable and comparable rates in rural areas will be jeopardized without specific, predictable and sufficient support amounts generated through use of actual costs. To date, the use of actual costs appears to be the best measure for support needs. (See slide 1A)
- Predictable support, as that afforded by current mechanisms, will enable the continued investment in rural infrastructure necessary for rural economic development.

Disaggregating universal service support into geographic areas smaller than study areas is necessary to preserve universal service while promoting competition in rural areas.

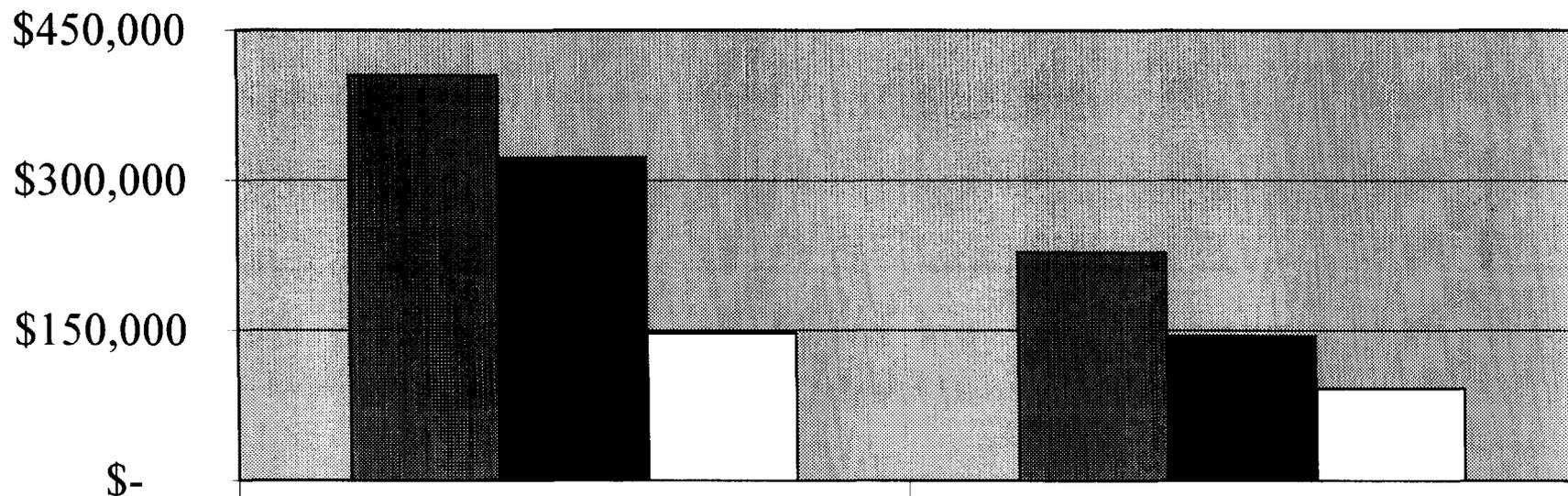
- Averaging support across a study area results in loss of high-cost support when low-cost customers are lost to competitors.
- Disaggregation of support will help prevent the detrimental effects of “creamskimming,” including loss of necessary support for the rural ILEC’s remaining customers.
- Disaggregation of support will also prevent a windfall of unnecessary support to a competing ETC serving the lower cost customers.
- Proxy models may provide an acceptable method of accomplishing disaggregation. In fact, proxy models were originally designed for this purpose, not to determine the size of a universal service fund.

The FCC’s proposed 25%-75% jurisdictional split of federal and state high-cost support will not provide adequate universal service support, particularly in high-cost states.

- 25% of high-cost support determined by a proxy model is typically less than what rural LECs receive today from federal universal service programs. (See slides 1 and 1A)

FEDERAL UNIVERSAL SERVICE SUPPORT

Actual Federal Support vs. Proxy at 25%



	M&M	SUGAR VALLEY
■ ACTUAL	\$404,389	\$227,497
■ BCPM 3.1	\$321,796	\$144,483
□ HAI 5.0a	\$147,360	\$91,873

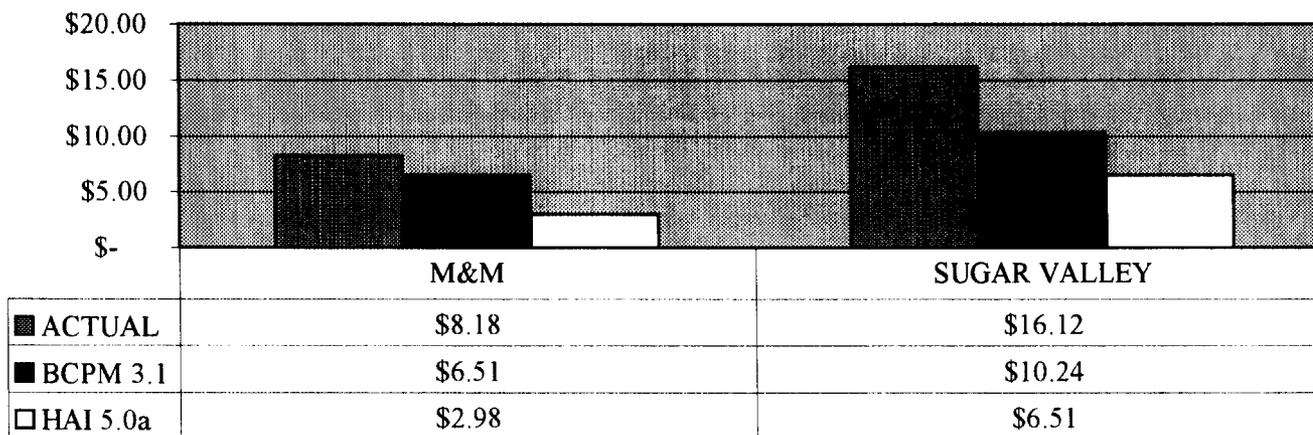
Actual support = USF + DEM + LTS

Proxy data represents wirecenter level calculation using model defaults.

Proxy support calculated on primary residential and single line business lines.

FEDERAL UNIVERSAL SERVICE SUPPORT PER LINE PER MONTH

Actual Federal Support vs. Proxy at 25%



CHANGE IN SUPPORT PER LINE PER MONTH

		M&M	SUGAR VALLEY
BCPM 3.1 vs ACTUAL	\$	(1.67)	\$ (5.88)
HAI 5.0a vs ACTUAL	\$	(5.20)	\$ (9.61)

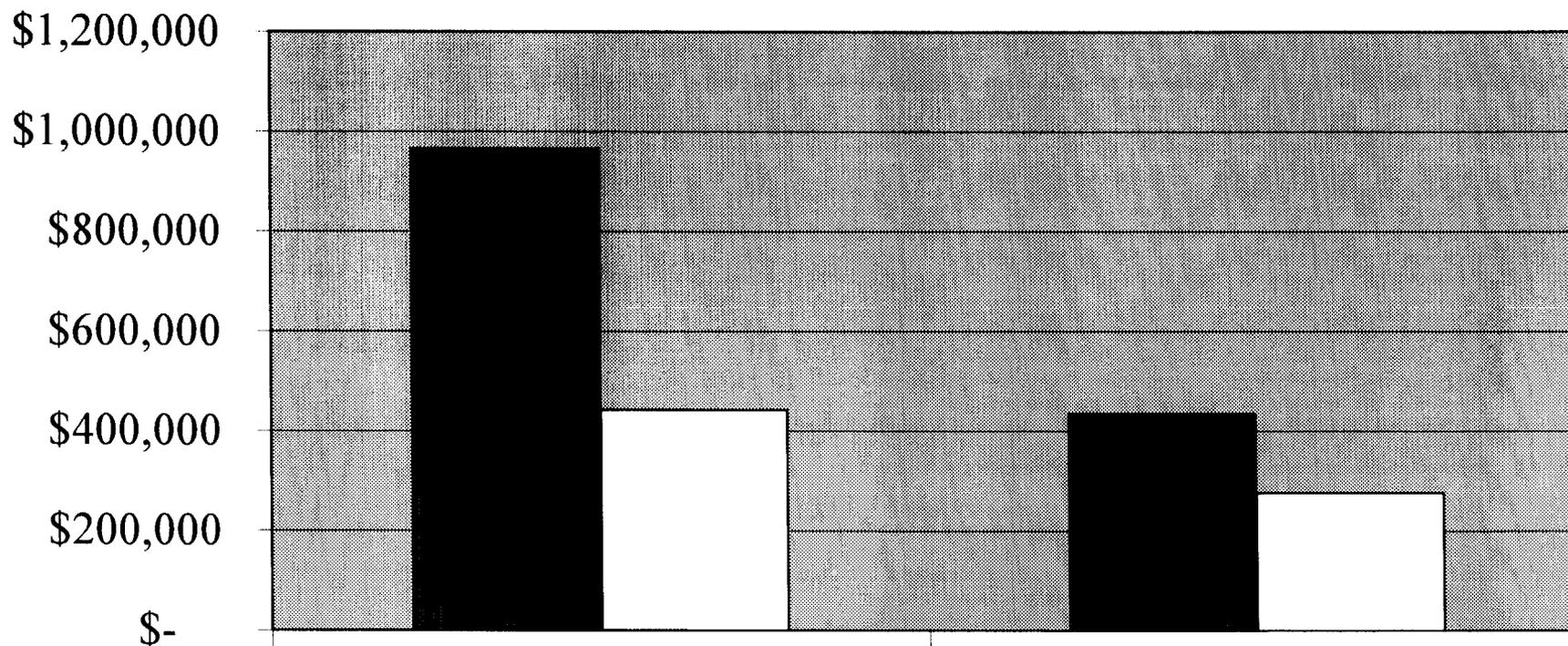
Actual support = USF + DEM + LTS

Proxy data represents wirecenter level calculation using model defaults.

Proxy support calculated on primary residential and single-line business lines.

UNIVERSAL SERVICE SUPPORT

Remaining 75% of Proxy Support



■ BCPM 3.1	\$965,387	\$433,449
□ HAI 5.0a	\$442,081	\$275,618

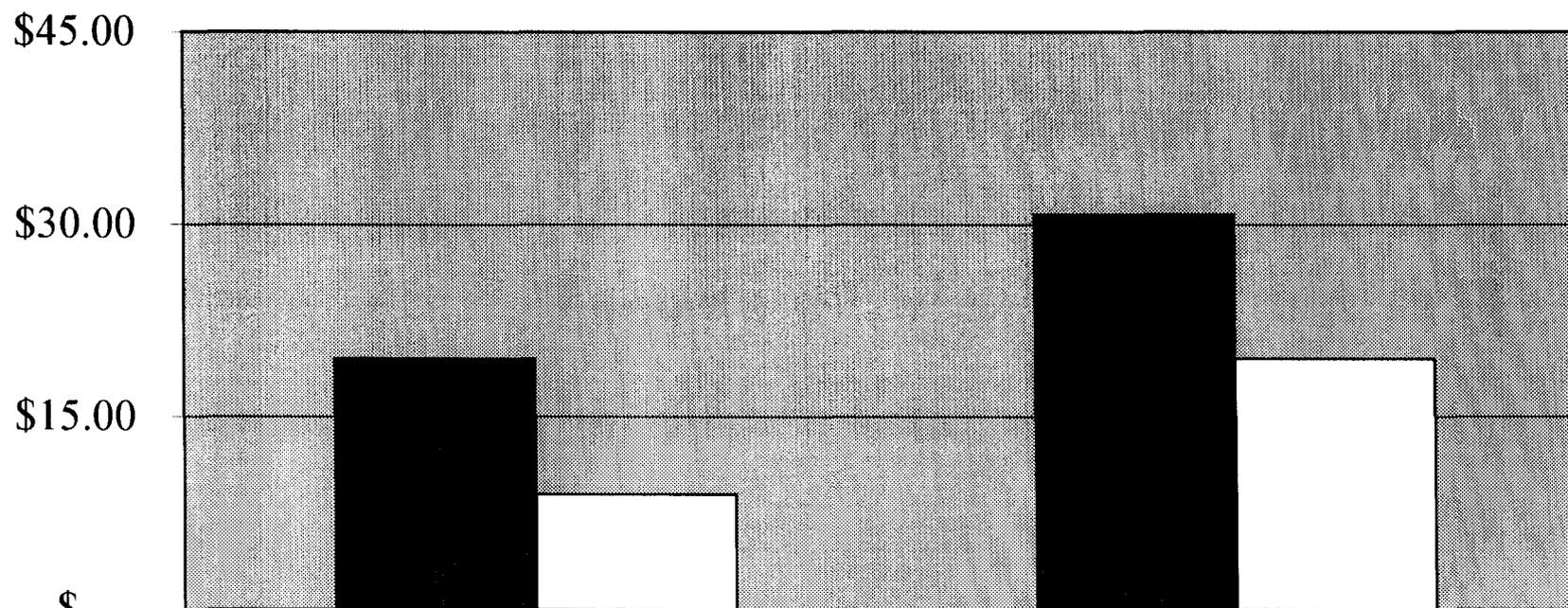
Actual support = USF + DEM + LTS

Proxy data represents wirecenter level calculation using model defaults.

Proxy support calculated on primary residential and single-line business lines.

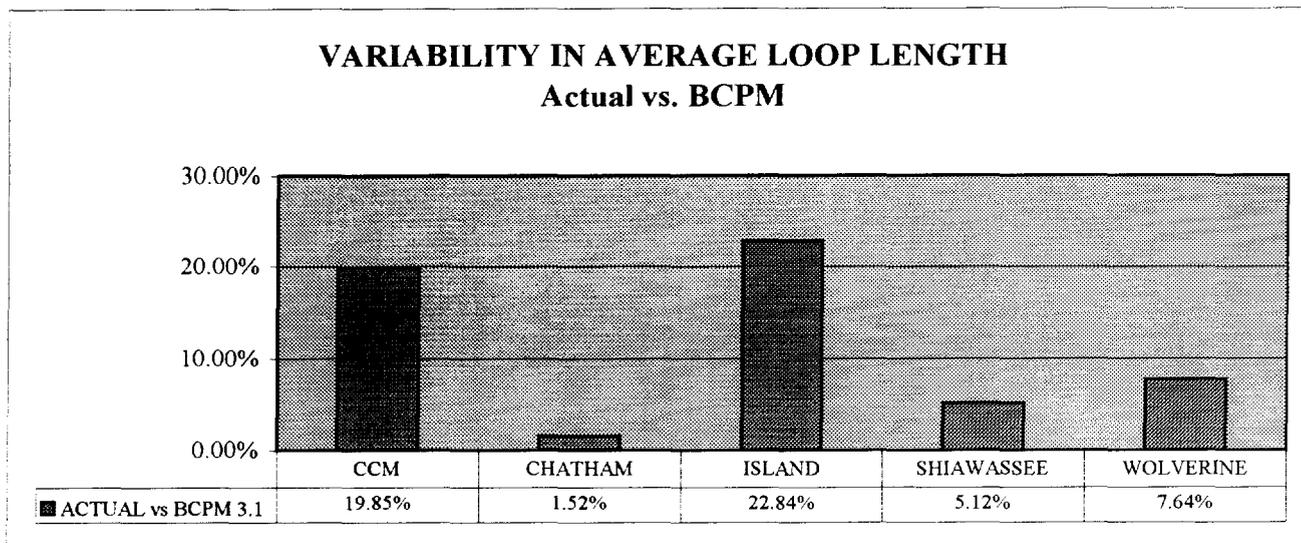
UNIVERSAL SERVICE SUPPORT PER LINE PER MONTH

Remaining 75% of Proxy Support



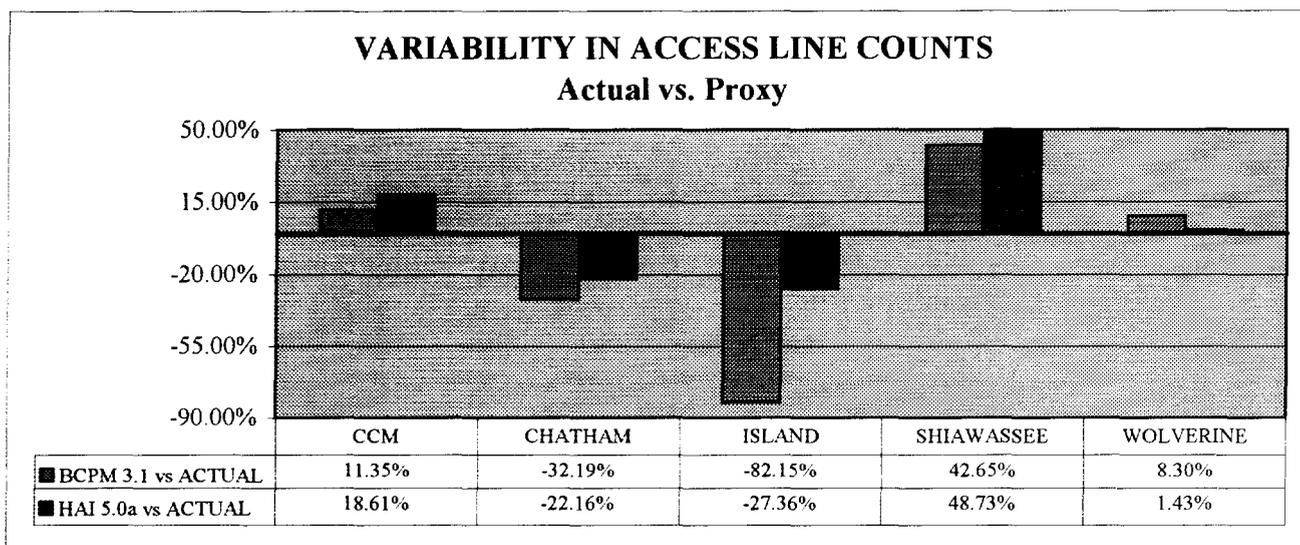
	M&M	SUGAR VALLEY
■ BCPM 3.1	\$19.53	\$30.71
□ HAI 5.0a	\$8.94	\$19.53

Per the FCC Universal Service Order, there is to be a 25/75 jurisdictional funding split.
 Proxy data represents wirecenter level calculation using model defaults.
 Proxy support calculated on primary residential and single-line business lines.



AVERAGE LOOP LENGTH IN FEET

	CCM	CHATHAM	ISLAND	SHIAWASSEE	WOLVERINE
ACTUAL	27,473	28,383	27,335	20,218	31,257
BCPM 3.1	22,020	27,952	21,092	19,183	28,868



ACCESS LINES

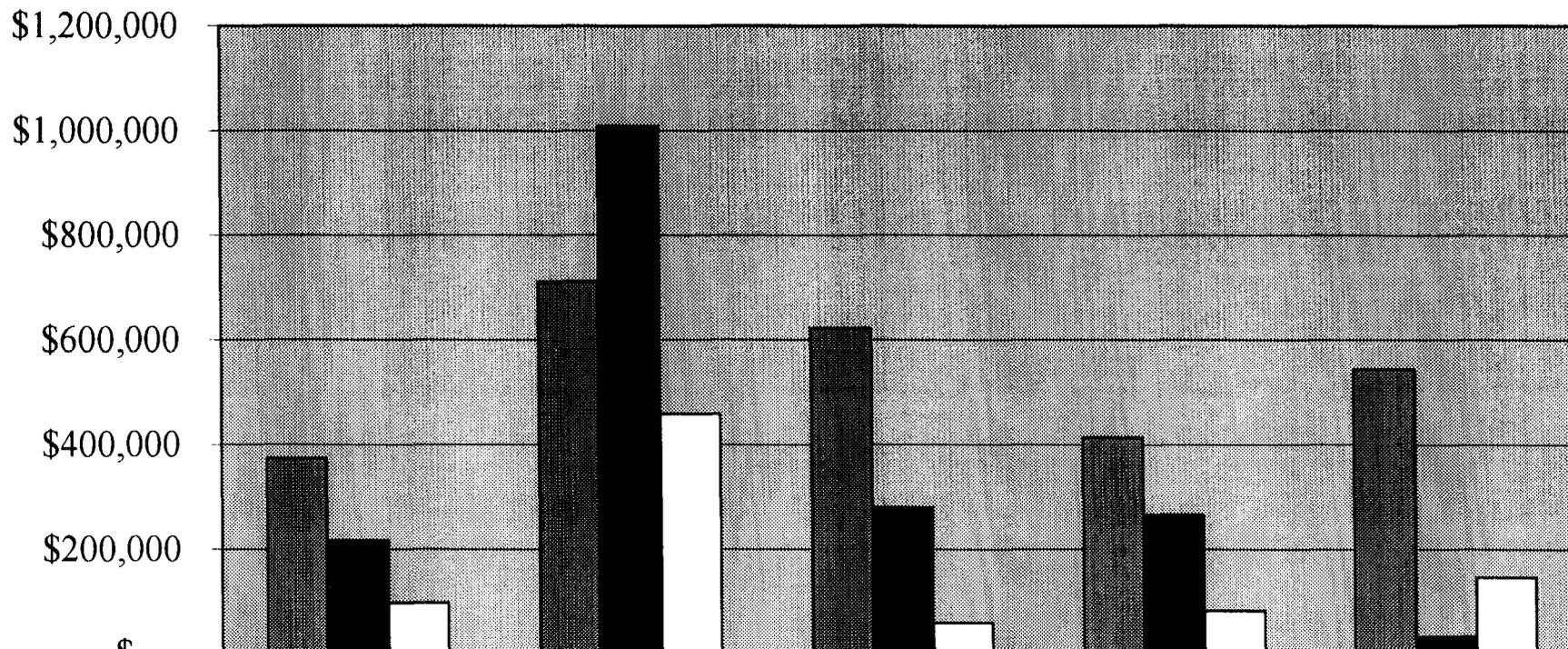
	CCM	CHATHAM	ISLAND	SHIAWASSEE	WOLVERINE
ACTUAL	3,884	3,650	1,389	3,712	9,108
BCPM 3.1	4,325	2,475	248	5,295	9,864
HAI 5.0a	4,607	2,841	1,009	5,521	9,238

Actual based on Michigan study.

Average loop length information not available for HAI 5.0a.

FEDERAL UNIVERSAL SERVICE SUPPORT

Actual Federal Support vs. Proxy at 25%



	CCM	CHATHAM	ISLAND	SHIAWASSEE	WOLVERINE
■ ACTUAL	\$373,227	\$710,327	\$621,046	\$411,877	\$543,292
■ BCPM 3.1	\$215,798	\$1,007,481	\$278,653	\$264,153	\$32,004
□ HAI 5.0a	\$95,995	\$458,720	\$57,747	\$81,336	\$145,120

Actual support = USF + DEM + LTS

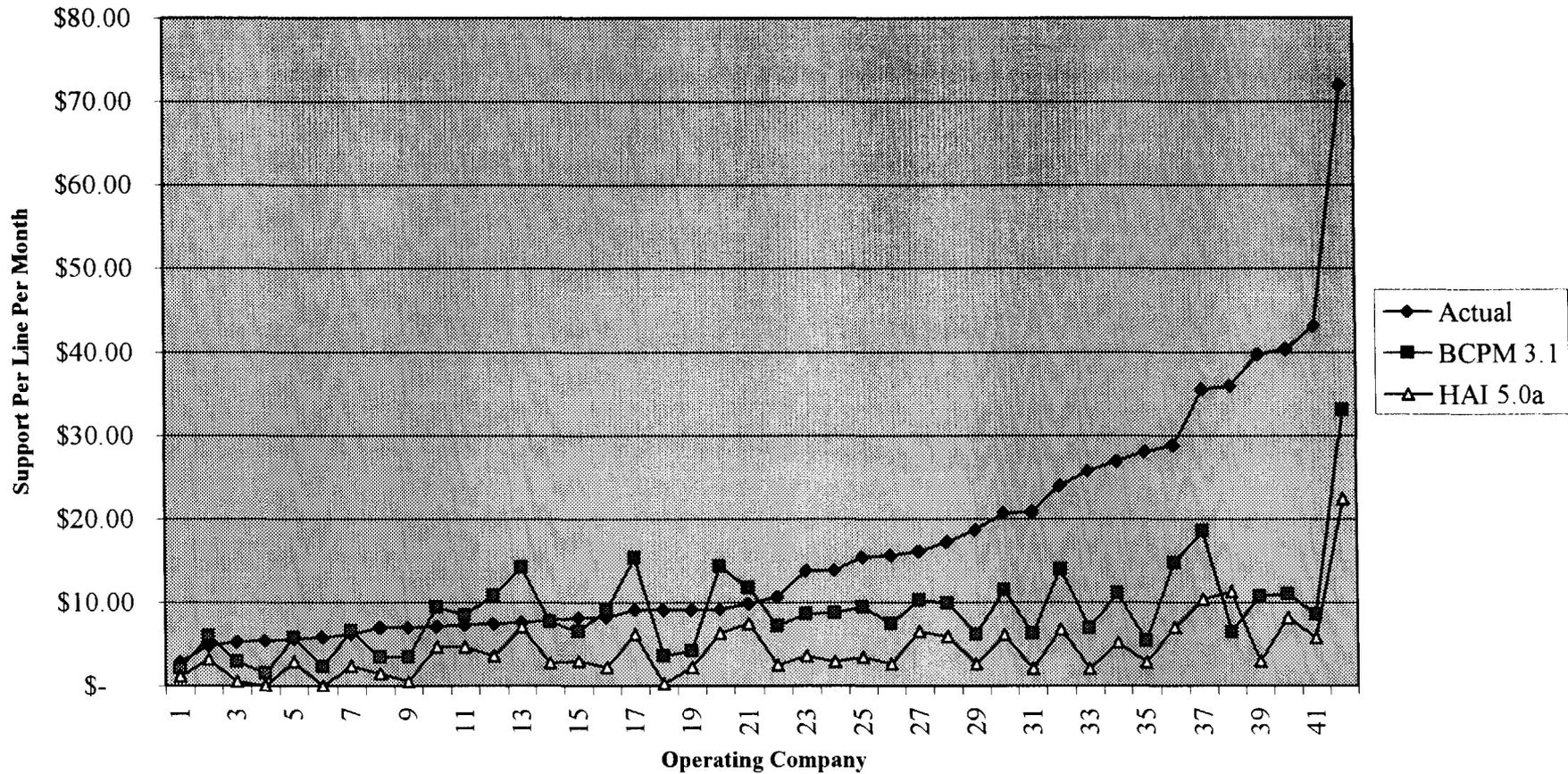
Proxy data represents wirecenter level calculation using model defaults.

Proxy supprt calculated on primary residential and single-line business lines.

FEDERAL UNIVERSAL SERVICE SUPPORT PER LINE PER MONTH

TDS TELECOM OPERATING COMPANIES IN JOINT BOARD STATES

Actual Federal Support vs. Proxy at 25%



Actual support = USF + DEM + LTS
 Proxy data represents wirecenter level calculation using model defaults.
 Proxy support calculated on primary residential and single-line business lines.
 Data represents 42 companies in 11 states.