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November 30, 1999

Hon. Magalie Roman Salas
Office of the Secretary
Federal Communications Commission
The Portals
445 Twelfth Street, S.W.
Room TW - A 325
Washington, DC 20554

RE: *Comments on the Interim Hold-Harmless Provision,*
Federal-State Joint Board on Universal Service, CC
Docket No. 96-45, FCC 99J-2

Dear Secretary Salas:

The New York State Department of Public Service ("NYDPS") submits this letter in response to the Joint Board's request for comments in the above captioned matter regarding the hold-harmless provision for high cost funding provided to non-rural carriers recently adopted by the Commission. Specifically, this letter in lieu of comments addresses the procedures and schedules for eliminating the hold-harmless provision.

In establishing its revised mechanism for providing federal high cost support for non-rural carriers (See, FCC 99-306), the Commission adopted an interim hold-harmless provision to avoid "rate shock" by ensuring that non-rural carriers continue to receive as much federal high cost support as they would have under the previous mechanism. Concurrently, the Commission requested recommendations from the Joint Board on how and when to phase-out this provision. The NYDPS supports the Commission's clarification that this hold-harmless support is not a perpetual entitlement for the reasons discussed in our December 22, 1998 comments in CC Docket No. 96-45.

Indeed, the hold-harmless support most non-rural

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companies receive could be eliminated immediately without risk of "rate shock." Of the 21 companies that will receive hold-harmless support, 15 companies receive less than \$1 per line per month. Even assuming that in each of these 15 cases the reduced federal support would be replaced by increased intrastate rates (which we do not^{1/}), such minimal increases would not produce "rate shock."

Four of the remaining six companies receiving hold-harmless support will receive monthly amounts ranging from \$1.57 to \$2.88 per line. Although the NYDPS believes these amounts of support also could be eliminated immediately without "rate shock," a brief transition of not more than three years would be acceptable. Such a transition could limit annual support reductions (and potential intrastate rate increases) to a maximum amount of \$1 per line per month. Such reductions would be comparable to those we recommend for the former 15 companies.

Only the two non-rural carriers serving Puerto Rico will receive hold-harmless amounts that represent a significant portion of their estimated costs of providing universal service.

These companies, Puerto Rico Telephone Company and PRTC-Central, will receive \$8.52 and \$23.47 per line per month, respectively.^{2/}

A transition period of more than three years for phasing-out the hold-harmless provision would appear to be appropriate in these cases to avoid potentially large local rate increases.

^{1/} The extent to which any reduction in federal support will be offset by intrastate rate increases will be determined by individual states.

^{2/} The amount of support these two companies are receiving is based upon the previous mechanism (combined, over \$133 million annually). Serious questions are raised by the fact that neither of these companies qualify for support under the Commission's new high cost mechanism. A more thorough examination of the reasons for this funding divergence would be appropriate to ensure that telephone customers in Puerto Rico neither receive unwarranted support nor are denied justifiable support as the Commission transitions to its new high-cost mechanism. We recommend that the Commission undertake such an investigation before determining an appropriate transition schedule for these two companies.

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In sum, the NYDPS recommends that the Commission adopt, as soon as possible, a transition period of no more than three years for the elimination^{1/} of hold-harmless support for non-rural carriers, with the exception of the carriers serving Puerto Rico.

Sincerely,

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^{1/} The Commission should consider a schedule whereby at the beginning of each year the carriers' hold-harmless support is reduced by its current monthly per line support or \$1 per line per month, whichever is less.

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In the Matter of

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Federal-State Joint Board on Universal Service, CC
Docket No. 96-45, FCC 99J-2

CERTIFICATE OF SERVICE

I, Lucille T. Dillenbeck, hereby certify that an original and four (4) copies of the letter in lieu of comments in the above-captioned proceeding were sent via Airborne Express to Magalie Roman Salas, Secretary of the Federal Communications Commission. In addition, a copy was filed using the Commission's Electronic Filing System and copies were sent by First Class Mail, postage prepaid, to all parties on the attached service list.

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