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December 15, 1999

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

VIA HAND-DELIVERY
Magalie Salas, Esq.
Secretary
Federal Communications Commission
Room TW-B204
445 12th Street, S.W.
Washington, D.C. 20554

Re: CC Docket No. 96-45, FCC 99J-2
Reply Comments of Roseville Telephone Company
On the Interim Hold-Harmless Provision

Dear Ms. Salas:

On behalf of Roseville Telephone Company, I enclose an original and four copies of Reply Comments in response to the Commission's November 3, 1999 Public Notice in CC Docket No. 96-45, regarding the interim hold-harmless provision of the Commission's high-cost support mechanism. If there are any questions regarding this matter, please contact me.

Very truly yours,

Paul Feldman

Paul J. Feldman
Counsel for Roseville
Telephone Company

PF:jpg
Enclosure
cc: Mr. Mike Campbell (w/encl.)
Mr. Greg Gierczak (w/encl.)
Mr. Glenn Brown (w/encl.)
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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	FCC 99J-2

REPLY COMMENTS OF ROSEVILLE TELEPHONE COMPANY
ON THE INTERIM HOLD-HARMLESS PROVISION

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REPLY COMMENTS OF ROSEVILLE TELEPHONE COMPANY
ON THE INTERIM HOLD-HARMLESS PROVISION

Roseville Telephone Company ("RTC") hereby submits these Reply Comments in response to the Public Notice released by the Federal-State Joint Board on Universal Service in the above-captioned proceeding on November 3, 1999. In these Reply Comments, RTC demonstrates that the record supports different treatment for Long Term Support ("LTS") and the Universal Service Fund ("USF"). RTC also demonstrates that there was significant support in the record for the principle that hold-harmless support should be continued at least until the completion of the Commission's comprehensive review of the new mechanism based on forward-looking costs. Lastly, RTC discusses the need, for purposes of federal high cost support, to replace the "rural"/"non-rural" demarcation point for different treatment of large and small companies, with a distinction between companies that serve more or less than 200,000 access lines.

I. NECA's Comments Support the Principle that LTS Should Not be Phased Out Until a Holistic Solution to the Pricing of Interstate Common Line Costs is Implemented.

In our initial Comments, RTC demonstrated that LTS represents recovery of interstate costs and should not be subject to the hold-harmless or phase-out provisions of the FCC's new explicit support mechanism which, by design, recovers only intrastate costs. In evaluating this important point, the Joint Board should be mindful that the National Exchange Carrier Association ("NECA") supported RTC's recommendation that the interstate LTS be treated differently. This is significant since under the FCC's rules[1] NECA administers the current USF and LTS mechanisms. It cannot be understated that LTS represents IS costs as defined per the Commission's current separations rules. The proposal to phase this cost recovery to zero for the interstate jurisdiction will have a direct impact of substantially increasing the NECA Carrier Common Line rate. NECA provides support for RTC's assertion that elimination of LTS will have an impact on the small rural LECs which participate in the NECA Common Line Pool, and quantifies the potential increase in the Pool CCL rate at "up to 42%".[2]

RTC believes that many of the commenters who did not support extension of the hold harmless principle, do not understand the important distinction made by RTC and NECA regarding LTS. As was noted in our Comments, LTS recovers only interstate revenue requirements. The new explicit high-cost mechanism is designed to cover only intrastate costs. It would be totally inappropriate, indeed it would be confiscatory, to

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[1] Section 69.60

[2] NECA at 5.

eliminate interstate LTS payments as part of implementing the new intrastate explicit support mechanism. LTS represents a portion of the 25% of loop costs which the separations rules allow to be recovered in interstate rates. The new explicit high-cost support mechanism specifically excludes these costs. Before LTS can be removed there must be a comprehensive revision in the rules by which "non-rural" LECs that are in the NECA Pool recover their interstate common line costs.

Furthermore, as was noted in our Comments, phasing out LTS would have unintended consequences on other parties. If LTS were to be eliminated, NECA would be forced to file significant increases in Common Line rates on behalf of the members of the Pool. This would increase the rate disparity between large non-pooling LECs and members of the NECA Common Line Pool. This in turn would threaten the requirements of the 1996 Act for nationwide averaged long distance rates.[3]

As stated in our Comments,[4] the ultimate disposition of LTS must be addressed by the FCC through a holistic and comprehensive review of interstate access pricing for companies which participate in the NECA pools. LTS is an interstate rate phenomenon which must be addressed in the interstate arena. Its inclusion in the revamping of intrastate support mechanisms is an unfortunate mistake that must be rectified.

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[3] Telecommunications Act of 1996, Section 254(g).

[4] RTC at 6.

II. The Record Supports the Principle That Significant Review of the Impact of the New Model Should Occur Before Phase-Out of the USF Portion of Hold-Harmless Support.

In its December 1st Comments, RTC asserted that phase-out of USF payments not be considered until completion by the Commission of the comprehensive three year review of the new explicit high-cost mechanism. Other commenters offered similar proposals. Sprint recommends that hold-harmless be retained until the full impact of the new universal service program is known, and the States have an opportunity to implement their companion support programs.[5] In RTC's experience, implementation of state companion support programs or replacement revenue will take a year at minimum, and likely longer. Similarly, GTE recommends that the hold-harmless provisions be retained until the FCC adopts the new universal service mechanism for rural companies.[6] U S. WEST maintains that the hold-harmless provisions should remain in place until support for rural LECs and non-rural LECs is determined on the same basis.[7]

Puerto Rico Telephone Company points out that "Federal universal service support plays a critical role in its efforts to provide affordable, basic telephone service...."[8] This is just as true for RTC, as well as other LECs. Sprint echoes these concerns by noting that "[r]egardless of the manner in which costs are calculated ... the

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[5] Sprint at 5.

[6] GTE at 5.

[7] U S WEST at 2.

[8] Comments at page 2.

supported services must be made available."[9] It would be reckless to remove the existing support until alternative means have been shown to be plausible and have been put in place.

Section 254(b)(1) of the Communications Act establishes that "quality services should be available at just, reasonable, and affordable rates." The Joint Board and the Commission must remain focused on this central goal of the Act's universal service principles. In this regard, hold-harmless support plays a critical role in efforts of companies to achieve universal service and provide affordable basic services. GTE notes that the hold-harmless funding is critical to ensuring that customers are not subjected to rate shock as the new Federal universal service mechanism is implemented.[10] The elimination of hold-harmless support could have a devastating impact in providing universal service and affordable telephone service, and may subject customers to rate shock. These issues must be reviewed and understood prior to the adoption of any phase-out of the hold-harmless support. Further, as many parties note, the Commission's mechanism is new and a significant change in policy. Thus, time is needed to understand the new process, and its impact on supported services. Even the California Public Utilities Commission appears to misunderstand the results when it asserts that impact on its state will be $0.27 per line when, as shown below, the actual impact on a company-specific basis is as high as $48.50 per line.[11]

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[9] Comments at page 4.

[10] Comments at page 1.

[11] Comments at Attachment 2.

Entities other than ILECs recognized the need to prevent rate shock. For example, while the New York State Department of Public Service recommends that companies with less than a $1 per line per month impact be phased out immediately, companies with monthly impacts ranging from $1.57 to $2.88 per line should be phased out over a period of not more than 3 years.[12] Likewise, the California PUC states that an increase of 27 cents could probably be handled by a state in one years' time. RTC hopes that these state regulators are correct, and that these levels of intrastate rate relief will be forthcoming in an expedited manner, so that local service levels are not affected. However, RTC believes that the States will need more time to deliberate over the $20-$48 increases described below.

In their Comments, the California PUC provides a chart which shows the per-line impact of hold harmless support by state.[13] The chart below modifies the CPUC's chart to separate out the interstate LTS from the intrastate USF. As can be seen, LTS accounts for over half of the total "hold-harmless" impact.

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[12] New York reasons (Comments at page 2) that such a transition would limit the potential intrastate rate increase to a maximum of $1 per line per month.

[13] CPUC Comments Attachment 2.

State	USF ($millions)	LTS ($millions)	Total ($millions)	Number of USF Loops	Average HH/Loop	Maximum HH/Loop
AR	$3.7		$3.7	1.369	$2.72	$2.72
AZ	$1.7		$1.7	2.732	$0.61	$0.61
CA	$1.1	$4.7	$5.8	21.483	$0.27	$48.50
CO	$2.0		$2.0	2.644	$0.75	$0.75
GA	$1.9		$1.9	4.770	$0.39	$0.39
MI	$0.6		$0.6	6.258	$0.09	$0.84
MO	$6.7		$6.7	3.324	$2.00	$31.45
MT	$1.7		$1.7	0.508	$3.32	$3.32
NC	$2.4	$5.3	$7.7	4.695	$1.65	$34.61
NM	$4.4		$4.4	0.901	$4.91	$4.91
PR	$43.6	$89.7	$133.3	1.257	$106.06	$281.66
SC	$5.2		$5.2	2.147	$2.42	$2.42
TX	$5.2		$5.2	12.006	$0.44	$23.02
VA	$1.2		$1.2	4.381	$0.27	$4.46
VT	$1.4		$1.4	0.394	$3.46	$3.46
WY	$1.1		$1.1	0.284	$3.91	$3.91
Total	$83.9	$99.7	$183.6			

The CPUC's chart shows the annual impact of hold-harmless support on a statewide average basis. The FCC specifically decided that to minimize potential customer impact, the hold-harmless provisions should be administered on a company-by-company rather than a state-by-state basis.[14] The maximum impact shows the hold-harmless amount per loop based on the support to be received on a company basis. For example, California's average per loop impact is $0.27 per loop per year. Again, this represents only an average for the State. While the average impact in California is only 27 cents, the maximum impact on a company-by-company basis is $48.50. Accordingly, the impact to RTC of the phase-out of hold harmless funds will be an increase in annual rates of $48.50.

[14] Ninth Report & Order and Eighteenth Order on Reconsideration, CC Docket No. 96-45 released November 2, 1999, Paragraph 78.

Similarly, Missouri, North Carolina and Texas face situations where at least one company faces an annual impact of over $20 per line. These impacts can hardly be described as minor, and they can affect the provision of universal service. Thus, as shown in this analysis, the impact of phasing out hold-harmless is much more complicated than certain parties have portrayed or acknowledged.

III. USF Payments for Small "Non-Rural" LECs Should Not be Phased Out, But Should be Handled in a Manner Consistent with Small "Rural" LECs.

As stated in our December 1st Comments,[15] RTC believes that non-rural LECs which receive LTS and serve fewer than 200,000 lines in a study area should be treated in a manner similar to the small rural LECs. In their comments, the Rural Telephone Coalition states that many rural telephone companies would liken a three year phase-out to "falling off a cliff". We believes that this image is appropriate and helps to illustrate why the problems faced by under-200,000 line companies are similar, whether they are classified as "rural" or "non-rural".

If a person were to fall off of a 10 foot cliff he would probably survive, but if he were to fall off a 65 foot cliff or higher, he likely would not. This is analogous to the difference between the impact of ending Federal support for over 200,000 line and under 200,000 line companies. The RBOCs and most GTE study areas serve well over 200,000 lines and as a result receive only 10% of any costs over 115% over the nationwide average.[16]

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[15] RTC at 13.

[16] Most of these study areas also contain large metropolitan areas where low costs tend to bring down the study area-wide average cost, and thus the reliance on explicit support.

Companies with study areas of less than 200,000 lines receive support for 65% of costs over 115% of the nationwide average and 75% of costs over 150%. By FCC rules these costs are specifically removed from intrastate revenue requirements and rates. Any reduction in this support would cause an immediate shortfall and the potential for significant local rate increases. The phase-out of Federal high cost support would accordingly create a much greater "fall" for smaller companies, regardless of whether or not those companies meet the arbitrary definition of "rural".

The Rural Task Force (RTF) was created by the Joint Board to carefully think through the many ramifications of applying the large company model to the smaller rural companies.[17] Since the transitional problems faced by RTC and similarly situated "non-rural" companies are identical to those faced by the "rural" companies, the Joint Board and the FCC should wait for the report of the RTF before deciding on transitional plans for those companies.

IV. Conclusion

RTC commends the FCC for its wisdom in establishing the "hold-harmless" provisions in its implementation of the new explicit support high-cost support mechanism. It provides breathing room to carefully evaluate the new mechanism to assure that its final implementation will accomplish the noble objectives of the 1996 Act. There is significant support in the record for treating LTS and USF differently, and preserving hold harmless

[17] The RTF has also been specifically tasked with examining the large company Synthesis Model and inputs to determine if it is applicable and/or what modifications might be necessary for the small companies. Both Sprint at 3 and GTE at 3 echo RTC's concern (RTC at 11) about applying a single set of nationwide inputs to all "non-rural" LEC study areas, those giant and those small.

support until the impact of its withdrawal is properly eliminated. As described above, RTC suggests that the Joint Board recommend to the FCC that:

- Long Term Support not be phased until a holistic solution to the pricing of interstate Common Line costs for NECA Pooling companies is implemented;
- Phase-out of USF payments not be considered until completion of the comprehensive three year review of the new explicit high-cost mechanism; and
- Study Areas with less than 200,000 lines and which receive LTS should be considered under the provisions to be recommended by the Rural Task Force.

WHEREFORE, Roseville Telephone Company requests that the Joint Board incorporate the above proposals into its July 1, 2000 Report to the Federal Communications Commission.

Respectfully submitted,
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December 15, 1999

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I, Joan P. George, a secretary in the law firm of Fletcher, Heald & Hildreth, P.L.C., hereby certify that true copies of the foregoing Reply Comments of Roseville Telephone Company on the Interim Hold-Harmless Provision was served this 15th day of December, 1999, upon:

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