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

In the Matter of	)	
	)	
Federal-State Joint Board	)	CC Docket No. 96-45
On Universal Service	)	
	)	

PETITION FOR RECONSIDERATION
OF THE
UNITED STATES TELECOM ASSOCIATION

The United States Telecom Association (USTA) hereby submits this petition for reconsideration of the Commission's Ninth Report and Order and Eighteenth Order on Reconsideration in the above-captioned proceeding,[1] pursuant to Section 1.429 of the Commission's rules.[2] USTA is the principal trade association of the local exchange carrier (LEC) industry. Its members provide over 95 percent of the exchange carrier-provided access lines in the United States. Incumbent LECs traditionally have been the sole providers of universal service.

In the Methodology Order, the Commission adopted a forward-looking high-cost support mechanism for non-rural carriers. Embodied in that determination were rules for implementing the mechanism, which included Long Term Support (LTS) in the interim hold-harmless calculation for individual carriers. According to the Methodology Order, the federal universal service support, including LTS, is to be considered by the states as intrastate revenue and recovered in their individual rate-making proceedings.

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[1] *Federal-State Joint Board on Universal Service,* CC Docket No. 96-45, 64 Fed. Reg. 67416 (1999) (Methodology Order).

[2] 47 C.F.R. э1.429.

USTA seeks reconsideration of the Commission's adoption of the forward-looking economic cost model as a basis for determining universal service support for non-rural carriers. USTA also seeks reconsideration of the Commission's inclusion of LTS in the forward-looking cost mechanism for non-rural carriers adopted in the Methodology Order. For the reasons set forth below, USTA petitions the Commission to reverse these aspects of the Methodology Order.

1. Forward-looking Economic Cost Model

USTA has consistently opposed the use of a forward-looking economic cost model to size the universal service fund for non-rural carriers.[3] The deficiencies of such a model persist and USTA continues to object to the Commission's determination. Specifically, the current model adopted by the Commission as the basis for its high cost support mechanism is not designed to measure subsidies. The costs determined using the cost proxy model do not reflect economic costs incurred by efficient incumbent LECs, and even the most efficient LEC can expect its actual costs to exceed the costs produced by the engineering "bottoms up" hypothetical model. The implicit message that any cost in excess of the cost calculated by the model is evidence of inefficiency is utterly misleading. Only real costs have consequences. A firm's ability to survive and function in a dynamic, competitive environment depends upon its real costs governed by real market and regulatory circumstances.

Because the model is purely speculative, it cannot be used to represent real costs for policy-making purposes. The Commission should reverse its determination to size its

[3] *See* USTA Comments in CC Docket No. 96-45, filed August 9, 1996, Comments filed December 19, 1996, Reply Comments filed January 10, 1997, Comments on Second Recommended Decision filed December 23, 1998, and Comments on Further Notice of Proposed Rulemaking filed July 23, 1999.

high cost support mechanism for non-rural carriers on the forward-looking economic cost model.

2. Inclusion of Long Term Support

USTA is concerned about the effect of the Commission's assumption that LTS is part of the intrastate support amounts calculated by the newly adopted cost mechanism and that such payments would be ended after the hold-harmless support is phased out. As has already been established on the record in this proceeding, LTS is an interstate support mechanism.[4] As such, it will not be embodied in the new forward-looking economic cost mechanism for non-rural carriers.

Since the purpose of LTS is to assure comparability of interstate carrier common line rates among NECA Common Line Pool carriers and non-pool carriers, the Commission's current erroneous treatment of LTS will not provide the anticipated support for interstate access rates. It will have an adverse effect on a number of entities: (1) the three non-rural carriers that participate in the NECA Common Line Pool and currently receive LTS[5] in the amount of $96.8 million;[6] (2) all the NECA Common Line Pool participants; (3) the interstate access customers who could be faced with rate increases of as much as 42%;[7] (4) the interexchange carriers; and (5) the state regulators who must deal with these reductions under the current plan.

[4] Comments of the National Exchange Carrier Association, Inc. (NECA) and Comments of Roseville Telephone Company on the Federal-State Joint Board on Universal Service Interim Hold-Harmless Provision request for comments, filed on December 1, 1999, and Reply Comments of USTA filed on December 15, 1999.

[5] Roseville Telephone Company, North State Telephone Company, and Puerto Rico Telephone Company.

[6] Comments of NECA at 4; Comments of Roseville at 10.

[7] Comments of NECA at 5. Roseville estimates that if its hold-harmless support were totally eliminated, customer rates could increase approximately $4.00 per month. Comments of Roseville at 9.

This loss of LTS revenues, as embodied in the Commission's access charge plan, seriously jeopardizes NECA pool participants, both non-rural and rural. Similarly, the impact of both the non-rural and the rural universal service plans must be calculated and analyzed before the Commission can pass off to the states the enormous task of assuming this additional support burden.

Since LTS is an interstate revenue stream to the carrier common line pool, it would be inappropriate to include such costs in the new universal service support mechanism, because, by the Commission's own determination, the universal service mechanism is to address support for the comparability of intrastate rates. Since LTS is a post-separations supplement to interstate access charge revenues, it is not used to offset intrastate revenue requirements. The current situation created in the Commission's Methodology Order must be satisfactorily addressed before the Commission removes the current level of support from non-rural carriers and leaves them, their customers and the states exposed to the potential rate shock that these extreme changes would impose.

Conclusion

USTA urges the Commission to reconsider its reliance on the forward-looking economic cost model for sizing universal service support for non-rural carriers. Furthermore, USTA advocates that the Commission remove Long Term Support from the amounts calculated for hold-harmless support for non-rural carriers. The LTS mechanism should be continued to maintain reasonable comparability of interstate access rates.

Respectfully submitted,

UNITED STATES TELECOM ASSOCIATION

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