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FEDERAL COMMUNICATIONS COMMISSION
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In the Matter of	)	
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Federal-State Joint Board on Universal Service	)	**CC Docket No. 96-45**
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WORLDCOM COMMENTS ON THE RURAL TASK FORCE RECOMMENDATION

WorldCom, Inc. (WorldCom) hereby submits its comments on the Rural Task Force (RTF) Recommendation to the Federal-State Joint Board on Universal Service (RTF Recommendation), released September 29, 2000.

The Commission should not adopt the RTF's recommendation of an open-ended extension of embedded-cost mechanisms for rural carrier universal service support. This recommendation is inconsistent with the Universal Service Order's conclusion that universal service support for rural carriers should be determined on a forward-looking economic cost basis.

WorldCom recognizes, however, that additional analysis may be required before a forward-looking methodology can be applied to rural carriers, and also recognizes that rural carriers require a stable and predictable universal service support mechanism in the interim. For this reason, WorldCom does not oppose extension of existing embedded-cost mechanisms for an interim period, not to exceed five years, provided that the Commission outlines a timetable for a transition to forward-looking cost methodologies by the end of the interim period.

I. The Task Force's Criticisms of the Model are Misplaced

In the First Recommended Decision, the Joint Board recommended that the Commission use forward-looking economic costs calculated through the use of a proxy model to determine high cost support for all carriers, both rural and non-rural.[1] The Commission adopted this recommendation in the Universal Service Order, concluding that a forward-looking economic cost methodology would comply with the Act's requirements that support be specific, predictable, and sufficient.[2]

Nothing in the RTF Recommendation provides a basis for the Commission to reconsider its selection of a forward-looking cost approach to high-cost support for rural LECs. There is, moreover, no merit to the RTF's conclusion that the current model is not an appropriate tool for determining the forward-looking cost of rural carriers. Without exception, the issues identified in the RTF Recommendation merely reflect input questions, not problems with the model structure itself. For example, the RTF complains that the model uses an incorrect number of lines for many companies; places a mix of aerial, buried, and underground plant that differs from actual plant; and understates Network Operations and Customer Operations expense.[3] All of these issues are related to the model inputs, not to the model structure. Accordingly, these issues indicate, at most, that the Commission may have to conduct a further proceeding to determine

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[1]Federal-State Joint Board on Universal Service, Recommended Decision, 12 FCC Rcd 87, 184 (1997) (First Recommended Decision).

[2]Federal-State Joint Board on Universal Service, Report and Order, 12 FCC Rcd 8776, ¶ 293 (1997) (Universal Service Order).

[3]RTF Recommendation at 17-18.

whether the inputs adopted for non-rural carriers may need to be adjusted in order to use the model to determine rural carrier support. They do not justify rejection of the model.

Similarly, variation between the Synthesis Model's estimates of switching investment and actual switching investment, or variation between the model's estimates of general support investment and actual general support investment,[4] do not provide a basis to reject the model. Given that the model is designed to determine the forward-looking economic cost of an efficient network, variation between the model's outputs and actual investment is hardly surprising. If the model is indeed placing a smaller dollar amount of investment in switching than is reflected in the rural companies' books, this may be due simply to the declining-cost trend in switch prices, or to embedded inefficiencies in the rural companies' network. Or, as the RTF Recommendation implies, this may also be due to the rural companies' inability to purchase switches at as low a price as the non-rural companies can, due to their lack of economies of scale.[5] A further proceeding that examines the switch prices that the rural companies face can determine the extent to which this is true.

Finally, the RTF makes two criticisms of the Synthesis Model that apply equally to the use of the model for non-rural carriers. First, the RTF notes that the model overall places more route miles of outside plant than exists in the actual networks. This is also true for the non-rural companies, a fact that was previously noted in comments filed by WorldCom. This results primarily from the Commission's use of road surrogate customer locations rather than actual

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[4] Id. at 18.

[5] Id.

geocoded customer locations, a methodology that fails to take account of the clustering of customers that actually occurs.

Second, the RTF claims that the Commission's method of computing density zones leads to a significant underestimate of wire center area. However, the computation of density does not affect anything in the model other than the choice of inputs that vary by density zone. Here again, the RTF has identified an input issue that does not invalidate the use of the model.

II. Embedded Cost Methodologies Should be Used Only on an Interim Basis

The RTF's recommendation of an embedded-cost approach to rural carrier universal service support is inconsistent with the mission assigned to the RTF by the Joint Board. The Joint Board did not ask the RTF to reevaluate the Commission's selection of a forward-looking cost methodology; rather, the Joint Board specified that the RTF would "focus solely on studying the establishment of a forward-looking economic cost (FLEC) mechanism for rural telephone carriers."[6] Specifically, the RTF would examine "specific issues of platform design, input values, and the timing of the transition to the FLEC mechanism."[7]

By recommending an embedded-cost approach, the RTF has, unfortunately, failed to provide the analysis of platform design and input values sought by the Joint Board. The Commission should, nonetheless, proceed with the Further Notice of Proposed Rulemaking (FNPRM) that it announced in the Universal Service Order. Pursuant to the Universal Service Order, this FNPRM would initiate a proceeding to "determine what mechanisms incorporating

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[6] Federal-State Joint Board on Universal Service Announces the Creation of a Rural Task Force; Solicits Nominations for Membership on Rural Task Force, Public Notice, 12 FCC Rcd 15752 (1997).

[7] Id.

forward-looking economic cost principles would be appropriate for rural carriers."[8] Among other things, this proceeding would "develop appropriate cost inputs" that "account for the special characteristics of rural carriers,"[9] thereby addressing many of the concerns identified in the RTF Recommendation.

Because analysis of input issues will take some time, the Commission may find it necessary to extend the use of embedded-cost mechanisms for rural carriers for an interim period. WorldCom recognizes, moreover, that both incumbent and competitive rural local exchange carriers require a stable and predictable universal service fund during this interim period. For these reasons, WorldCom does not oppose an extension of the current high-cost support mechanisms for an interim period of five years or less.

The Commission should make clear, however, that by extending the use of embedded-cost mechanisms it is not reconsidering its selection of forward-looking approaches for rural carriers or endorsing the RTF's recommendation that support for rural carriers be based on embedded costs. It should, instead, provide a timetable for the transition to forward-looking cost methodologies, and make clear that it will use embedded cost approaches only on an interim basis until it completes work on adapting the synthesis model for rural carriers.

III. There is no Basis for an Increase in Support Levels

While WorldCom does not oppose extension of embedded-cost mechanisms for an interim period, the Commission should not adopt the RTF's proposal for a substantial increase in

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[8] Universal Service Order at ¶ 255.

[9] Id., ¶¶ 254-255.

support levels. Instead, support levels during the interim period should be determined using the mechanisms for rural carriers adopted in the Universal Service Order.

A. There is No Evidence that Current Support Levels are not "Sufficient"

In the Universal Service Order, the Commission adopted modified versions of the High Cost Loop (HCL), DEM weighting (renamed Local Switching Support or LSS), and LTS mechanisms. The Commission concluded that these mechanisms would provide sufficient support for rural LECs to maintain their quality of service and upgrade facilities until a forward-looking approach could be adopted.[10]

The Commission should reject the RTF's proposal to increase rural carrier support levels because the RTF has presented no evidence that the support provided by the mechanisms adopted in the Universal Service Order is not "sufficient" to deliver supported services. There is, in particular, no evidence that rural LECs have been unable to maintain their quality of service or upgrade facilities at the support levels provided by the existing mechanisms.

To the extent that the RTF provides an explanation for its proposal to increase support levels, it suggests that "the federal universal service support fund should be sized so that it presents no barriers to investment in plant needed to provide access to advanced services."[11] But the RTF presents no evidence that the mechanism adopted in the Universal Service Order presents any "barriers to advanced services." Indeed, the RTF admits that "the available data on the extent of advanced service deployment . . . in areas served by Rural Carriers is very limited" and that "additional data is required to fully assess the extent that advanced services

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[10] Universal Service Order at ¶¶ 297-308.

[11] RTF Recommendation at 23.

infrastructure deployment is available in areas served by Rural Carriers compared with those served by non-Rural Carriers."[12]

Similarly, there is no evidence to support the RTF's suggestion that Section 54.305 of the Commission's rules (which limits the support available to rural LECs that acquire exchanges) has "doomed" customers of these exchanges to poor service. In fact, rural carriers that have purchased exchanges from larger carriers have routinely claimed that the transaction will result in modernization of the exchange and improved service to customers.[13]

B. Higher Support Levels will Reduce Incentives for Rural LECs to Operate Efficiently

The Commission stressed, in the Universal Service Order, that its objective was to develop universal service support mechanisms that "will be specific, predictable and sufficient to deliver service efficiently."[14] The indexed cap and other limits in the rural carrier support mechanisms adopted in the Universal Service Order are intended to address, at least in part, the efficiency concerns associated with an embedded-cost approach. For example, the indexed cap is designed to "encourage carriers to operate more efficiently by limiting the support they receive."[15]

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[12] RTF White Paper 2, January 2000, at 63-64.

[13] See, e.g., Rye Telephone Company, Inc. and U S West Communications, Inc., Memorandum Opinion and Order, CC Docket No. 96-45, released July 18, 2000, at ¶ 10. (Rye would receive no universal service support for the acquired exchange, but stated that it would convert the transferred customers to a digital architecture, "which will improve transmission quality and provide other benefits to the customers.")

[14] Universal Service Order at ¶ 19 (emphasis added).

[15] Id., ¶ 302.

"Efficiency" is notably lacking from the list of criteria used by the RTF to evaluate its proposal, and it is clear that the RTF did not take efficiency concerns into account when it developed its proposal to increase funding levels. For example, the proposed increase in the indexed cap and the corporate operations expense cap, and the more rapid growth in fund size that would be permitted under the RTF's proposal, would make it more likely that rural carriers would receive support for additional investment and expenses, reducing their incentive to seek out ways to deliver supported services efficiently. Similarly, increasing the level of support following the transfer of exchanges would provide artificial incentives to transfer exchanges from larger carriers to rural carriers with fewer economies of scale. And the "safety net" proposal, by providing additional support to rural LECs experiencing large cost increases, would reward those LECs with the weakest controls on their spending.

III. Other Issues

A. HCF III

The Task Force has "identified the potential need for an additional universal service support fund, High Cost Fund III, to replace support implicit within current interstate access charges collected by Rural Carriers."[16] HCF III would be an uncapped fund designed to recover the difference between rate of return carriers' revenue requirement and those revenues recovered through access charges; the fund would be "sized" by first identifying "appropriate unit prices of interstate access."[17]

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[16] RTF Recommendation at 30.

[17] Id. at 31.

While WorldCom supports the replacement of implicit support with explicit support, WorldCom does not support the Task Force's approach to sizing HCF III. By treating all revenues beyond those recovered at a particular access rate as "universal service support," it is all but certain that HCF III would be larger than necessary to provide "sufficient" support. Furthermore, because HCF III would be an uncapped "make whole" fund, it would provide no incentive for rural LECs to deliver supported services efficiently. By contrast, when the Commission adopted a similar fund for the price cap carriers in the CALLS Order, it relied on record evidence concerning the level of implicit support in access charges, and it also placed a cap on the size of the fund.[18]

B. Disaggregation

The Commission should not permit the disaggregation of rural carrier universal service support until work on the rural carrier-specific inputs to the synthesis model has been completed. As the Commission has recognized, the only reasonable approach to disaggregation is to use a forward-looking cost model to allocate support among the zones.[19] The RTF itself has identified the many deficiencies in other approaches to disaggregating universal service support.[20]

The Commission should not adopt the RTF's proposal that state commissions be given the authority to approve ILEC-proposed disaggregation plans. As an initial matter, it is unclear

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[18]Access Charge Reform, Sixth Report and Order, CC Docket No. 96-262, released May 31, 2000, at ¶¶ 201-202 (CALLS Order).

[19]The Commission found, in the Universal Service Order, that the ability to target support to smaller areas is one of the benefits of a forward-looking economic cost methodology. Universal Service Order at ¶ 203. Forward-looking cost models are used to disaggregate support from the non-rural fund. TELRIC UNE rates are used to disaggregate support from the interstate access fund adopted in the CALLS Order.

[20]Rural Task Force White Paper 6, September 2000, at 8-9.

whether the Commission can delegate to the states the authority to craft rules governing the disbursement of <u>federal</u> universal service support. At a minimum, the RTF's proposal would result in a patchwork of disaggregation schemes, rather than a consistent national policy. And, by allowing the ILECs to propose their own disaggregation schemes, or even "self-certify," the RTF proposal could allow the ILECs to disaggregate support in an anticompetitive manner.

Before allowing any disaggregation of universal service support, the Commission should, at a minimum, conduct a further proceeding to (1) examine the extent to which disaggregation is compatible with an embedded-cost approach to universal-service support; (2) examine the relationship between disaggregation and the service areas of competitive eligible telecommunications carriers; (3) develop rules for drawing zones; and (4) develop rules for distributing support among zones.

IV. Conclusion

For the reasons stated herein, the Commission should not adopt the <u>RTF Recommendation</u>. At most, the Commission should extend the existing embedded-cost mechanism for an interim period of five years or less.

Respectfully submitted,
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November 3, 2000

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