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March 12, 2001

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

By Messenger
Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: In the Matter of Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, CC Docket No. 00-256.

Dear Ms. Salas:

Enclosed for filing please find an original and four (4) copies of the Reply Comments filed on behalf of the Western Alliance in the above-captioned proceeding. Also enclosed are two (2) copies to be filed in each of the following dockets: Federal-State Joint Board on Universal Service, CC Docket No. 96-45; Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of Return Regulation, CC Docket No. 98-77; Prescribing the Authorized Rate of Return For Interstate Services of Local Exchange Carriers, CC Docket No. 98-166.

As required by the FCC's Public Notice and the Notice that subsequently appeared in the *Federal Register*, properly labeled 3.5-inch diskette copies of the Reply Comments were also delivered on this date to the Competitive Pricing Division and to International Transcription Service, Inc., the FCC commercial contractor.

Please acknowledge receipt of this transmittal by affixing a date-stamped copy of the enclosed duplicate of the Reply Comments market "RECEIPT".

Respectfully submitted,

Gerard J. Duffy

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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

In the Matter of	)	
	)	
Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers	)	CC Docket No. 00-256
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation	)	CC Docket No. 98-77
	)	
Prescribing the Authorized Rate of Return For Interstate Services of Local Exchange Carriers	)	CC Docket No. 98-166

TO: The Commission

REPLY COMMENTS OF THE WESTERN ALLIANCE

The Western Alliance, by its attorney, hereby submits its reply comments in the captioned proceeding. The purpose of these reply comments is to furnish further support for adoption of that portion of the Multi-Association Group (MAG) Plan that permits local exchange carriers (LECs) to remain on rate-of-return regulation (Path B).

The Western Alliance continues to support the MAG Plan's interstate access reform proposals generally. It has not changed or reconsidered any of the positions taken in its February 26, 2001 comments.

In those initial comments, the Western Alliance showed that the size, scale, business cycles, network designs, investment patterns and operating conditions of some rural LECs render incentive regulation wholly unsuitable for them. Combining the

stable, inflation-adjusted revenue mechanisms of incentive regulation with rural LEC infrastructure upgrade investments and operating expenses that can fluctuate significantly from year to year would only constitute a recipe for excessive and harmful financial volatility. Rural LECs whose lumpy investment patterns and fluctuating expenses result in negative cash flows will suffer not only short-term disruptions to their operations, but also long-term financial instability.

A separate factor supporting retention of the Path B rate of return option is the fact that, through no fault or inefficiency of their own, some rural LECs in the western United States are experiencing decreases in their customers and access lines. For example, throughout the mining regions of the West, cutbacks in mining operations and employment are producing significant reductions in the customers and access lines of the rural LECs serving the affected areas. One Western Alliance member recently saw the access lines served by one of its exchanges decrease from 400 to 100 during a 45-day period, due to layoffs by the principal mining company located in the area. Some of these customers may resume service in several months when they are rehired by the mining company or by other local employers; others may leave the area for good. Meanwhile, the Western Alliance member is a carrier of last resort that has constructed local exchange facilities to serve 400 or more access lines. It must now maintain these facilities indefinitely, both for the local residents who are remaining in its service area and for those individuals and families who may return or relocate to the area when the local economy recovers.

Similar customer and access line reductions are being experienced by rural LECs serving agricultural areas. For example, Western Alliance members in North Dakota,

Kansas and Nebraska have experienced reductions in customers and access lines due to recent downturns in various farming sectors. Like in the mining industry, no one knows at this time whether the recent customer losses are permanent, or whether some of the people will move back in the future when economic conditions improve. Nevertheless, the Western Alliance members serving these areas have already invested in the networks and plant necessary to serve the larger customer bases, and must maintain these facilities indefinitely for their remaining customers, as well as for potential future returnees and newcomers.

If the Revenue Per Line (RPL) mechanism of Path A were mandatory for these Western Alliance members experiencing temporary or long-term customer and access line reductions, they would suffer substantial access revenue reductions without any significant offsetting decreases in their costs. In the case of the Western Alliance member affected by the mining company layoffs noted above, access revenues for the exchange under the proposed RPL would drop by 75 percent in a month and a half, without any concomitant cost reduction. For small rural LECs, such sudden and sharp drops in critical access revenues will cause major disruptions in their operations, and could threaten bankruptcy.

In the longer term, the danger of such disruptions will discourage infrastructure investment in rural areas. If a rural LEC considering a significant infrastructure upgrade believes that a local economic downturn might result in a short-term or long-term reduction of customers and access lines during the life of the new plant, it may well decline to incur the risk of future cash flow shortages or the inability to recover sunk costs.

In sum, in rural areas susceptible to customer and access line reductions due to mining, agricultural and other economic downturns, the predominant impact of incentive regulation will be to threaten the financial stability and viability of the rural LECs serving such areas, and to discourage them from investing in significant, long-term infrastructure upgrades. This demonstrates further that incentive regulation is not a "one size fits all" solution for rural LECs. Rather, the diverse size, scale, business cycles, network designs, investment patterns and operating conditions of rural LECs require that a rate of return regulatory option be retained for those carriers that cannot maintain their short-term or long-term viability under incentive regulation. As indicated in the Western Alliance's initial comments, retention of the Path B option will not impair competition (which will not come during the foreseeable future to many rural areas) and will not perceptibly impact the interstate access costs or toll rates of interstate carriers (because they represent far less tnan 9 percent of aggregate interstate access charge revenues).

The Western Alliance continues to support the access provisions of the MAG Plan, and urges that the option for rural LECs and other carriers to remain subject to rate-of-return regulation (Path B) be adopted as an integral part of the MAG access reform proposals.

Respectfully submitted,
THE WESTERN ALLIANCE

By _____
Gerard J. Duffy

Its Attorney

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Dated: March 12, 2001

CERTIFICATE OF SERVICE

I, Douglas W. Everette, hereby certify that I am an attorney with the law firm of Blooston, Mordkofsky, Dickens, Duffy & Prendergast, and that a copy of the foregoing **reply comments of Western Alliance** concerning the proposals of the Multi-Association Group to be served by first class mail or hand delivery this 12th day of March, 2001, to the persons listed below.

Magalie Roman Salas
Office of the Secretary
Federal Communications Commission
445 Twelfth Street, S.W. – Suite TW-A325
Washington, D.C. 20554

Wanda Harris
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Common Carrier Bureau
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Douglas W. Everette