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MAY 24 2001

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

May 24, 2001

BY HAND

Magalie Roman Salas, Esquire
Secretary
Federal Communications Commission
The Portals
445 12th Street, SW, Room TWB204
Washington, D.C. 20554

Re **Ex Parte Presentation**
CC Dockets 96-45/97-160
Roseville Telephone Company

Dear Ms. Salas:

This letter is to inform you that on May 24, 2001, an *ex parte* presentation was made to the staff of Chairman Powell's office regarding a Petition for Reconsideration and a Petition for Limited Waiver previously filed by Roseville Telephone Company and pending in CC Dockets 96-45 and 97-160. An original and four copies of the written presentation given to the staff member is attached hereto.

Should any questions arise concerning this matter, please contact me.

Sincerely,

Paul J. Feldman
Counsel for Roseville Telephone Company

PJF:jpg

Enclosures

cc (w/encls.): Kyle Dixon, Esq.

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Roseville Telephone Company
May 24, 2001

MAY 24 2001

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

The Problem

- With 123,000 loops in its single study area, Roseville is classified as a “non-rural” carrier for universal service purposes.
- Roseville (a rate of return carrier) finds itself uniquely grouped with large price cap holding companies hundreds of times its size.
- As a result, Roseville has been denied high-cost support that our customers need, and other companies our size would normally receive.

Two Items Pending Before the Commission

- **PFR to the 10th Report & Order in CC Docket 96-45 – December, 1999**
 - Small LECs experience transitional problems more like those of the rural LECs.
 - The dividing line between “small” and “large” carriers should be changed to either:
 - Carriers with less than 2% of the nation’s subscriber lines, or
 - 200K access lines in a study area, consistent with the significant break point in the current Part 36 Rules.
- **Limited Petition for Waiver – November, 2000**
 - Requests that Roseville continue to receive high cost loop support under Part 36 Rules until Commission rules on Roseville’s PFR to the 10th Report & Order in CC Docket 96-45.
 - Anticipates that the Commission will not be able to rule on Roseville’s PFR prior to the elimination of hold-harmless support for non-rural LECs starting 1/1/01.
 - Documents special circumstances why a deviation from the current rules will be in the public interest.

Special Circumstances

- **In General:**
 - Under rules in place since 1987, study areas with under 200K access lines receive 6 ½ times more support than those with comparable costs but over 200K lines.
 - Smaller LECs lack the economies of scale and scope of the giant holding companies.
 - The Commission has found that there is no statutory requirement to use the Section 3(37) “rural/non-rural” study area definition as the break point for support determination.
 - The RTF study has found that:
 - The forward-looking cost model is not sufficiently accurate at the individual wire center level for support determination when a LEC has a limited number of wire centers.
 - Rural LECs have a higher dependency on explicit support than non-rural LECs.

- **Specific to Roseville:**

- Roseville is the smallest non-rural LEC by a wide margin.
- Roseville is the only non-rural study area receiving hold-harmless support that is not served by a large holding company.
- Roseville has 2 wire centers. All of the other non-rural holding companies serve over 1000 wire centers.

<u>Company</u>	<u>Loops (000)</u>	<u>Wire Centers</u>
Verizon	62,276	6,248
SBC	58,919	3,217
BellSouth	24,780	1,591
Qwest	6,884	1,259
Sprint	7,874	1,371
Roseville	123	2

- High cost loop support represents 6.68% of Roseville's unseparated loop revenue requirements.

<u>Company</u>	<u>USF as % of Loop Rev. Req.</u>
Verizon	0.54%
Verizon (w/o PR)	0.19%
SBC	0.03%
BellSouth	0.18%
Qwest	0.29%
Sprint	0.10%
Roseville	6.68%

- Roseville is the only non-rural company receiving hold-harmless support that is rate-of-return regulated.

Public Interest Considerations

- Under Part 36 rules Roseville qualifies for \$1.65/line/month in USF support. If this is eliminated, basic rates could increase from \$18.90 to \$20.55.
- Roseville's \$2.4M of annual USF is less than 0.3% of the total fund, but loss of this support would require a 9% increase in local rates.
- Since the RTF has determined that the HCPM is not accurate for companies such as Roseville, reducing support based solely on this model is not in the public interest.
- Roseville should be afforded the same opportunity for the holistic review and reform of universal service and access charge structures through the MAG as all other similarly situated rate of return carriers.

Response to Staff Concerns

- An increase in monthly local rates of \$1.65 is significant, particularly if it is due to the application of a model and inputs that are not appropriate for Roseville.
- Other "mid-size" companies similar to Roseville receive high-cost support under the Part 36 Rules.
- Roseville's situation is different from that of Puerto Rico Telephone Company, since Roseville is not part of a large price cap holding company. Furthermore, the relief requested by Puerto Rico Telephone Company is fundamentally different.

Summary

- Roseville has presented special circumstances and public interest issues that warrant grant of relief.
- Due to the dual nature of the universal service mechanisms for “rural” and “non-rural” carriers for the next five years, the Commission will face similar issues as carriers grow above 100,000 lines.
- Grant of Roseville’s Waiver will allow these issues to be resolved in a comprehensive manner by the new Commission.

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**Excerpts from 14th Report and Order and 22nd Order on Reconsideration
CC Docket 96-45
Adopted 5/10/01, Released 5/23/01**

- The Commission recognized that the forward-looking mechanisms available at that time could not predict the costs of serving rural areas with sufficient accuracy. Because rural carriers generally have higher operating and equipment costs, which are attributable to lower subscriber density, small exchanges, and lack of economies of scale, the Commission recognized that additional effort would be needed to develop a forward-looking mechanism appropriate for rural carriers. (¶15)
- In the mean time, providing support based on embedded costs will provide important certainty to rural carriers, which generally receive a greater proportion of their revenues from universal service support mechanisms than non-rural carriers. (¶25)