

APPENDIX A – FINAL RULES

Part 36 of Title 47 of the Code of Federal Regulations is amended as follows:

PART 36 – JURISDICTIONAL SEPARATIONS PROCEDURES; STANDARD PROCEDURES FOR SEPARATING TELECOMMUNICATIONS PROPERTY COSTS, REVENUES, EXPENSES, TAXES AND RESERVES FOR TELECOMMUNICATIONS COMPANIES**Subpart F – Universal Service Fund**

1. Section 36.601 is amended as follows.

§ 36.601 General

(a)-(b) * * * [unchanged]

(c) Until June 30, 2001, * * *

2. Sections 36.602, 36.603, 36.604, and 36.605 are added to subpart F to read as follows:

§ 36.602 Calculation of non-rural carrier portion of nationwide loop cost expense adjustment.

Effective July 1, 2001, for purposes of determining non-rural carrier interim hold-harmless support, pursuant to § 54.311 of this chapter, the annual amount of the total nationwide loop cost expense adjustment calculated pursuant to this subpart F shall not exceed the amount of the total loop cost expense adjustment for the immediately preceding calendar year, increased by a rate equal to the rate of increase in the total number of working loops during the calendar year preceding the July 31st filing. The total loop cost expense adjustment shall consist of the loop cost expense adjustments, including amounts calculated pursuant to § 36.612(a) and § 36.631. The rate of increase in total working loops shall be based upon the difference between the number of total working loops on December 31 of the calendar year preceding the July 31st filing and the number of total working loops on December 31 of the second calendar year preceding that filing, both determined by the company's submissions pursuant to § 36.611. Non-rural incumbent local exchange carriers and eligible telecommunications carriers serving lines in the service area of non-rural incumbent local exchange carriers shall only receive support pursuant to this subpart F to the extent that they qualify pursuant to § 54.311 of this chapter for interim hold-harmless support. Support amounts calculated pursuant to this subpart F but not received due to the phase down of interim hold-harmless support or the receipt of forward-looking support pursuant to § 54.311 of this chapter shall not be redistributed to other carriers.

§ 36.603 Calculation of rural incumbent local exchange carrier portion of nationwide loop cost expense adjustment.

(a) Effective July 1, 2001, the rural incumbent local exchange carrier portion of the annual nationwide loop cost expense adjustment will be recomputed by the fund administrator as if the indexed cap calculated pursuant to § 36.601(c) and the corporate operations expense limitation calculated pursuant to § 36.621 had not been in effect for the calendar year 2000. For the period July 1, 2001, to December 31, 2001, the annualized amount of the rural incumbent local exchange carrier portion of the nationwide loop cost expense adjustment calculated pursuant to this subpart F shall not exceed the non-capped amount of the total rural incumbent local exchange carrier loop cost expense adjustment for the calendar year 2000,

multiplied times one plus the Rural Growth Factor calculated pursuant to § 36.604. Beginning January 1, 2002, the annual amount of the rural incumbent local exchange carrier portion of the nationwide loop cost expense adjustment calculated pursuant to this subpart F shall not exceed the amount of the total rural incumbent local exchange carrier loop cost expense adjustment for the immediately preceding calendar year, multiplied times one plus the Rural Growth Factor calculated pursuant to § 36.604.

(b) The annual rural incumbent local exchange carrier portion of the nationwide loop cost expense adjustment shall be reduced to reflect the transfer of rural incumbent local exchange carrier access lines that are eligible for expense adjustments pursuant to § 36.631. The reduction shall equal the amount of the § 36.631 expense adjustment available to the transferred access lines at the time of the transfer and shall be effective in the next calendar quarter after the access lines are transferred.

(c) Safety net additive support calculated pursuant to § 36.605, and transferred high-cost support and safety valve support calculated pursuant to § 54.305 of this chapter shall not be included in the rural incumbent local exchange carrier portion of the annual nationwide loop cost expense adjustment.

§ 36.604 Calculation of the rural growth factor.

The Rural Growth Factor (RGF) is equal to the sum of the annual percentage change in the United States Department of Commerce's Gross Domestic Product – Chained Price Index (GPD-CPI) plus the percentage change in the total number of rural incumbent local exchange carrier working loops during the calendar year preceding the July 31st filing submitted pursuant to § 36.611. The percentage change in total rural incumbent local exchange carrier working loops shall be based upon the difference between the total number of rural incumbent local exchange carrier working loops on December 31 of the calendar year preceding the July 31st filing and the total number of rural incumbent local exchange carrier working loops on December 31 of the second calendar year preceding that filing, both determined by the company's submissions pursuant to § 36.611. Loops acquired by rural incumbent local exchange carriers shall not be included in the RGF calculation.

§ 36.605 Calculation of safety net additive.

- (a) *“Safety net additive support.”* A rural incumbent local exchange carrier shall receive safety net additive support if it satisfies the conditions set forth in subsection (c). Safety net additive support is support available to rural telephone companies, as conditioned in subsection (c), in addition to support calculated pursuant to § 36.631 of this subpart. Safety net additive support shall not be available to rural telephone companies for exchange(s) that are subject to § 54.305 of this chapter.
- (b) *Calculation of safety net additive support:* Safety net additive support is equal to the amount of capped support calculated pursuant to this subpart F in the qualifying year minus the amount of support in the year prior to qualifying for support subtracted from the difference between the uncapped expense adjustment for the study area in the qualifying year minus the uncapped expense adjustment in the year prior to qualifying for support as shown in the following equation: Safety net additive support = (Uncapped support in the qualifying year – Uncapped support in the base year) – (Capped support in the qualifying year – Amount of support received in the base year).
- (c) *Operation of safety net additive support:*
- (1) In any year in which the total carrier loop cost expense adjustment is limited by the provisions of § 36.603 a rural incumbent local exchange carrier shall receive safety net additive support as calculated in subsection (b), if in any study area, the rural incumbent local exchange carrier realizes growth in end of period Telecommunications Plant in Service (TPIS), as prescribed in §

32.2001, on a per loop basis, of at least 14 percent more than the study area's TPIS per loop investment at the end of the prior period.

- (2) If subsection (c)(1) is met, the rural incumbent local exchange carrier must notify the Administrator; failure to properly notify the Administrator of eligibility shall result in disqualification of that study area for safety net additive, requiring the rural incumbent local exchange carrier to again meet the eligibility requirements in subsection (c)(1) for that study area in a subsequent period.
- (3) Upon completion of verification by the Administrator that the study area meets the above stated criterion, the Administrator shall:
 - (A) pay to any qualifying rural telephone company, safety net additive support for the qualifying study area in accordance with the calculation set forth in subsection (b); and
 - (B) continue to pay safety net additive support for the succeeding four years. Support in the four succeeding years shall be the lesser of:
 - (i) the amount of support paid in the qualifying year; or
 - (ii) the amount of support based on recalculation of support pursuant to subsection (a) above.

3. Section 36.611 is amended by revising the first paragraph of introductory text to read as follows:

§ 36.611 Submission of information to the National Exchange Carrier Association (NECA).

In order to allow determination of the study areas and wire centers that are entitled to an expense adjustment pursuant to § 36.631, each incumbent local exchange carrier (LEC) must provide the National Exchange Carrier Association (NECA) (established pursuant to Part 69 of this Chapter) with the information listed below for each study area in which such incumbent LEC operates, with the exception of the information listed in subsection (h), which must be provided for each study area and, if applicable, for each wire center, as defined in Part 54 of this Chapter, and each disaggregation zone as established pursuant to § 54.315 of this chapter. This information is to be filed with NECA by July 31st of each year. The information provided pursuant to subsection (h) must be updated pursuant to § 36.612. Rural telephone companies that acquired exchanges subsequent to May 7, 1997, and incorporated those acquired exchanges into existing study areas shall separately provide the information required by paragraphs (a) through (h) of this section for both the acquired and existing exchanges.

4. Section 36.612 is amended by revising paragraph (a) to read as follows:

§ 36.612 Updating information submitted to the National Exchange Carrier Association.

(a) Any rural telephone company, as that term is defined in § 51.5 of this chapter, may update the information submitted to the National Exchange Carrier Association (NECA) on July 31st pursuant to § 36.611 (a) through (h) one or more times annually on a rolling year basis according to the schedule, except that rural telephone companies in service areas where an eligible telecommunications carrier has initiated service and has reported line count data pursuant to § 54.307(c) of this chapter must update the information submitted to NECA on July 31st pursuant to § 36.611(h) according to the schedule. Every non-rural telephone company must update the information submitted to NECA on July 31st pursuant to § 36.611 (h) according to the schedule.

5. Section 36.621 is amended by revising the last sentence of paragraph (a)(4) introductory text, paragraph (a)(4)(i), the first sentence of paragraph (a)(4)(ii), and paragraphs (a)(4)(ii)(A) through (C), and adding paragraph (a)(4)(ii)(D) to read as follows:

§ 36.621 Study area total unseparated loop cost.

(a) * * *

(4) * * * Total Corporate Operations Expense, for purposes of calculating universal service support payments beginning July 31, 2001, shall be limited to the lesser of:

(i) The actual average monthly per-loop Corporate Operations Expense; or

(ii) A monthly per-loop amount computed according to paragraphs (a)(4)(ii)(A), (a)(4)(ii)(B), (a)(4)(ii)(C), and (a)(4)(ii)(D) of this section. * * *

(A) For study areas with 6,000 or fewer working loops the amount monthly per working loop shall be $\$33.30853 - (.00246 \times \text{the number of working loops})$, or, $\$50,000 \div \text{the number of working loops}$, whichever is greater;

(B) for study areas with more than 6,000 but fewer than 18,006 working loops, the monthly amount per working loop shall be $\$3.83195 + (88,429.20 \div \text{the number of working loops})$; and

(C) for study areas with 18,006 or more working loops, the monthly amount per working loop shall be $\$8.74472$.

(D) Beginning January 1, 2002, the monthly per-loop amount computed according to paragraphs (a)(4)(ii)(A), (a)(4)(ii)(B), and (a)(4)(ii)(C) of this section shall be adjusted each year to reflect the annual percentage change in the United States Department of Commerce's Gross Domestic Product-Chained Price Index (GDP-CPI).

6. Section 36.622 is amended by adding a sentence at the end of paragraph (a) as follows:

§ 36.622 National and study area average unseparated loop costs.

(a) * * * Effective July 1, 2001, the national average unseparated loop cost for purposes of calculating expense adjustments for rural incumbent local exchange carriers, as that term is defined in § 54.5 of this chapter, is frozen at \$240.00.

7. Section 54.5 is amended by adding the following definition:

PART 54 – UNIVERSAL SERVICE**Subpart A – General Information****§ 54.5 Terms and definitions.**

Rural Incumbent Local Exchange Carrier. “Rural incumbent local exchange carrier” is a carrier that meets the definitions of “rural telephone company” and “incumbent local exchange carrier,” as those terms are defined in § 51.5 of this chapter.

8. Amend section 54.305 by adding ‘(a)’ at the beginning of the first sentence of the current § 54.305 and by adding paragraphs (b), (c), (d), and (f) to read as follows:

Subpart D – Universal Service Support for High Cost Areas**§ 54.305 Sale or transfer of exchanges.**

(b) Transferred exchanges in study areas operated by rural telephone companies that are subject to the limitations on the transfer of high-cost universal service support in paragraph (a) of this section may be eligible for a safety valve loop cost expense adjustment based on the difference between a rural incumbent local exchange carrier's index year expense adjustment and subsequent year expense adjustments for the acquired exchanges. Safety valve loop cost expense adjustments shall only be available to rural incumbent local exchange carriers that, in the absence of restrictions on the transfer of high-cost support in § 54.305(a), would qualify for high-cost loop support for acquired exchanges under § 36.631 of this chapter.

(c) The index year expense adjustment for acquired exchange(s) shall be equal to the rural incumbent local exchange carrier's high-cost loop cost expense adjustment for acquired exchanges calculated at the end of the company's first year operating the acquired exchange(s). The index year expense adjustment for the acquired exchange(s) shall be established through cost data submitted in accordance with § 36.611 and § 36.612 and shall be calculated in accordance with § 36.631 of this chapter. For carriers establishing an index year for acquired exchanges pursuant to § 36.611, the index year for the acquired exchange(s) shall commence at the beginning of the next calendar year after the transfer of said exchanges. For carriers establishing an index year for acquired exchanges pursuant to § 36.612, the index year for the acquired exchange(s) shall commence at the beginning of the next calendar quarter after the transfer of said exchanges. The index year expense adjustment for rural telephone companies that have operated exchanges subject to this section for more than a full year on the effective date of this subsection shall be based on loop cost data submitted in accordance with § 36.612 for the year ending on the nearest calendar quarter following the effective date of this subsection. At the end of each subsequent year, a loop cost expense adjustment for the acquired exchanges will be calculated pursuant to § 36.631 and will be compared to the index year expense adjustment. A rural incumbent local exchange carrier's subsequent year expense adjustments shall end on the same calendar quarter as its index year expense adjustment. If acquired exchanges are incorporated into an existing rural incumbent local exchange carrier study area, the rural incumbent local exchange carrier shall exclude costs associated with the acquired exchanges from the costs associated with its pre-acquisition study area in its universal service data submissions filed in accordance with § 36.611 and § 36.612. Such excluded costs shall be used to calculate the rural incumbent local exchange carrier's safety valve loop cost expense adjustment.

(d) Up to fifty (50) percent of any positive difference between the subsequent year loop cost expense adjustment and the index year expense adjustment will be designated as the study area's safety valve loop cost expense adjustment and will be available in addition to the amounts available to the study area under § 54.305. In no event shall a study area's safety valve loop cost expense adjustment exceed the difference between the carrier's uncapped study area loop cost expense adjustment calculated pursuant to § 36.631 and transferred support amounts available to the acquired exchange(s) under paragraph (a) of this section. Safety valve support shall not transfer with acquired exchanges.

(e) The sum of the safety valve loop cost expense adjustment for all eligible study areas operated by rural telephone companies shall not exceed five (5) percent of the total rural incumbent local exchange carrier portion of the annual nationwide loop cost expense adjustment calculated pursuant to § 36.603. The five (5) percent cap on the safety valve mechanism shall be based on the lesser of the rural incumbent local exchange carrier portion of the annual nationwide loop cost expense adjustment calculated pursuant to § 36.603 or the sum of rural incumbent local exchange carrier expense adjustments calculated pursuant to § 36.631. The percentage multiplier used to derive study area safety valve loop cost expense adjustments

for rural telephone companies shall be the lesser of fifty (50) percent or a percentage calculated to produce the maximum total safety valve loop cost expense adjustment for all eligible study areas pursuant to this paragraph. The safety valve loop cost expense adjustment of an individual rural incumbent local exchange carrier also may be further reduced as described in subsection (d).

(f) Once an acquisition is complete, the acquiring rural incumbent local exchange carrier shall provide written notice to the Administrator that it has acquired access lines that may be eligible for safety valve support. Rural telephone companies also shall provide written notice to the Administrator of when their index year has been established for purposes of calculating the safety valve loop cost expense adjustment.

9. Amend § 54.307 by revising paragraph (a)(1), by revising the second sentence in paragraph (b) and adding a sentence at the end of paragraph (b), and by revising the first sentence in paragraph (c) to read as follows:

§ 54.307 Support to a competitive eligible telecommunications carrier.

(a) * * *

(1) A competitive eligible telecommunications carrier serving loops in the service area of a rural incumbent local exchange carrier, as that term is defined in § 54.5 of this chapter, shall receive support for each line it serves in a particular service area based on the support the incumbent LEC would receive for each such line, disaggregated by cost zone if disaggregation zones have been established within the service area pursuant to § 54.315 of this subpart. A competitive eligible telecommunications carrier serving loops in the service area of a non-rural incumbent local exchange carrier shall receive support for each line it serves in a particular wire center based on the support the incumbent LEC would receive for each such line.

(b) * * * For a competitive eligible telecommunications carrier serving loops in the service area of a rural incumbent local exchange carrier, as that term is defined in § 54.5 of this chapter, the carrier must report the number of working loops it serves in the service area disaggregated by cost zone if disaggregation zones have been established within the service area pursuant to § 54.315 of this subpart. * * * Competitive eligible telecommunications carriers providing mobile wireless service in an incumbent LEC's service area shall use the customer's billing address for purposes of identifying the service location of a mobile wireless customer in a service area.

(c) A competitive eligible telecommunications carrier must submit the data required pursuant to paragraph (b) of this section according to the schedule. * * *

10. Section 54.313 is renamed "State certification of support for non-rural carriers" and amended by creating a new subsection (b), revising and re-designating subsection (c), and re-designating current subsection (c) as subsection (d):

§ 54.313 State certification of support for non-rural carriers.

(b) *Carriers Not Subject to State Jurisdiction.* A non-rural incumbent local exchange carrier not subject to the jurisdiction of a state or an eligible telecommunications carrier not subject to the jurisdiction of a state serving lines in the service area of a non-rural incumbent local exchange carrier that desires to receive support pursuant to §§ 54.309 and/or 54.311 of this subpart must file an annual certification with the Administrator and the Commission stating that all federal high-cost support provided to such carriers will be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. Support provided pursuant to §§ 54.309 and/or

54.311 of this subpart shall only be provided to the extent that the carrier has filed the requisite certification pursuant to this section.

- (c) *Certification Format.* A certification pursuant to this section may be filed in the form of a letter from the appropriate regulatory authority for the State, and must be filed with both the Office of the Secretary of the Commission clearly referencing CC Docket No. 96-45, and with the Administrator of the high-cost universal service support mechanism, on or before the deadlines set forth below in subsection (d). If provided by the appropriate regulatory authority for the state, the annual certification must identify which carriers in the State are eligible to receive federal support during the applicable 12-month period, and must certify that those carriers will only use support for the provision, maintenance, and upgrading of facilities and services for which support is intended. A State may file a supplemental certification for carriers not subject to the State's annual certification. All certificates filed by a State pursuant to this section shall become part of the public record maintained by the Commission. Non-rural incumbent local exchange carriers not subject to the jurisdiction of a state or eligible telecommunications carrier not subject to the jurisdiction of a state serving lines in the service area of a non-rural incumbent local exchange carrier, shall file a sworn affidavit executed by a corporate officer attesting to the use of the support for the provision, maintenance, and upgrading of facilities and services for which support is intended. The affidavit must be filed with both the Office of the Secretary of the Commission clearly referencing CC Docket No. 96-45, and with the Administrator of the high-cost universal service support mechanism, on or before the deadlines set forth below in subsection (d). All affidavits filed pursuant to this section shall become part of the public record maintained by the Commission.

11. Section 54.314 is added to subpart D as follows:

§ 54.314. State certification of support for rural carriers.

- (a) *State Certification.* States that desire rural incumbent local exchange carriers and/or eligible telecommunications carriers serving lines in the service area of a rural incumbent local exchange carrier within their jurisdiction to receive support pursuant to §§ 54.301, 54.305, and/or 54.307 of this part and/or part 36, subpart F of this chapter must file an annual certification with the Administrator and the Commission stating that all federal high-cost support provided to such carriers within that State will be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. Support provided pursuant to §§ 54.301, 54.305, and/or 54.307 of this subpart and/or part 36, subpart F of this chapter shall only be provided to the extent that the State has filed the requisite certification pursuant to this section.
- (b) *Carriers Not Subject to State Jurisdiction.* A rural incumbent local exchange carrier not subject to the jurisdiction of a state or an eligible telecommunications carrier not subject to the jurisdiction of a state serving lines in the service area of a rural incumbent local exchange carrier that desires to receive support pursuant to §§ 54.301, 54.305, and/or 54.307 of this subpart and/or part 36, subpart F of this chapter shall file an annual certification with the Administrator and the Commission stating that all federal high-cost support provided to such carriers will be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. Support provided pursuant to §§ 54.301, 54.305, and/or 54.307 of this subpart and/or part 36, subpart F of this chapter shall only be provided to the extent that the carrier has filed the requisite certification pursuant to this section.
- (c) *Certification Format.* A certification pursuant to this section may be filed in the form of a letter from the appropriate regulatory authority for the State, and shall be filed with both the Office of the Secretary of the Commission clearly referencing CC Docket No. 96-45, and with the Administrator of the high-cost universal service support mechanism, on or before the deadlines set forth below in

subsection (d). If provided by the appropriate regulatory authority for the state, the annual certification must identify which carriers in the State are eligible to receive federal support during the applicable 12-month period, and must certify that those carriers will only use support for the provision, maintenance, and upgrading of facilities and services for which support is intended. A State may file a supplemental certification for carriers not subject to the State's annual certification. All certificates filed by a State pursuant to this section shall become part of the public record maintained by the Commission. Rural incumbent local exchange carriers not subject to the jurisdiction of a state or eligible telecommunications carriers not subject to the jurisdiction of a state serving lines in the service area of a rural incumbent local exchange carrier, shall file a sworn affidavit executed by a corporate officer attesting to the use of the support for the provision, maintenance, and upgrading of facilities and services for which support is intended. The affidavit must be filed with both the Office of the Secretary of the Commission clearly referencing CC Docket No. 96-45, and with the Administrator of the high-cost universal service support mechanism, on or before the deadlines set forth below in subsection (d). All affidavits filed pursuant to this section shall become part of the public record maintained by the Commission.

- (d) *Filing Deadlines.* Upon the filing of the certification described in subsection (c), support shall be provided pursuant to the following schedule:
- (1) *Certifications filed on or before October 1.* Carriers for which certifications are filed on or before October 1 shall receive support pursuant to §§ 54.301, 54.305, and/or 54.307 of this subpart and/or part 36, subpart F of this chapter, in the first, second, third, and fourth quarters of the succeeding year.
 - (2) *Certifications filed on or before January 1.* Carriers for which certifications are filed on or before January 1 shall receive support pursuant to §§ 54.301, 54.305, and/or 54.307 of this subpart and/or part 36, subpart F of this chapter, in the second, third, and fourth quarters of that year. Such carriers shall not receive support pursuant to §§ 54.301, 54.305, and/or 54.307 of this subpart and/or part 36, subpart F of this chapter in the first quarter of that year.
 - (3) *Certifications filed on or before April 1.* Carriers for which certifications are filed on or before April 1 shall receive support pursuant to §§ 54.301, 54.305, and/or 54.307 of this subpart and/or part 36, subpart F of this chapter, in the third and fourth quarters of that year. Such carriers shall not receive support pursuant to §§ 54.301, 54.305, and/or 54.307 of this subpart and/or part 36, subpart F of this chapter in the first and second quarters of that year.
 - (4) *Certifications filed on or before July 1.* Carriers for which certifications are filed on or before July 1 shall receive support pursuant to §§ 54.301, 54.305, and/or 54.307 of this subpart and/or part 36, subpart F of this chapter, in the fourth quarter of that year. Such carriers shall not receive support pursuant to §§ 54.301, 54.305, and/or 54.307 of this subpart and/or part 36, subpart F of this chapter in the first, second, or third quarters of that year.
 - (5) *Certifications filed after July 1.* Carriers for which certifications are filed after July 1 shall not receive support pursuant to §§ 54.301, 54.305, and/or 54.307 of this subpart and/or part 36, subpart F of this chapter, in that year.

12. Section 54.315 is added to subpart D as follows:

§ 54.315 Disaggregation and targeting of support by rural incumbent local exchange carriers.

(a) Within 270 days of the effective date of this rule, all rural incumbent local exchange carriers for which high-cost universal service support pursuant to §§ 54.301, 54.303, and/or 54.305 of this subpart and/or part 36, subpart F of this chapter is available must select a disaggregation path as described in subsections (b), (c), or (d) below. In study areas in which a competitive carrier has been designated as a competitive eligible telecommunications carrier prior to the effective date of this rule, the rural incumbent local exchange carrier may only disaggregate support pursuant to subsection (b), (c), or (d)(iii). A rural incumbent local exchange carrier failing to select a disaggregation path as described in subsections (b), (c), or (d) within 270 days of the effective date of this rule will not be permitted to disaggregate and target federal high-cost support unless ordered to do so by the state commission as that term is defined in § 54.5 of this part.

(b) Path 1: Carriers Not Disaggregating and Targeting High-Cost Support:

- (1) A carrier may certify to the state commission that it will not disaggregate and target high-cost universal service support.
- (2) A carrier's election of this path becomes effective upon certification by the carrier to the state commission.
- (3) This path shall remain in place for such carrier for at least four years from the date of certification to the state commission except as provided in subsection (b)(4) below.
- (4) A state commission may require, on its own motion, upon petition by an interested party, or upon petition by the rural incumbent local exchange carrier, the disaggregation and targeting of support under subsections (c) or (d).
- (5) A carrier not subject to the jurisdiction of a state, *e.g.*, certain tribally owned carriers, may select Path 1, but must certify to the Federal Communications Commission as described in subsections (1)-(4) above.

(c) Path 2: Carriers Seeking Prior Regulatory Approval for the Disaggregation and Targeting of Support.

- (1) A carrier electing to disaggregate and target support under this subsection must file a disaggregation and targeting plan with the state commission.
- (2) Under this subsection a carrier may propose any method of disaggregation and targeting of support consistent with the general requirements detailed in subsection (e) of this provision.
- (3) A disaggregation and targeting plan under this subsection becomes effective upon approval by the state commission.
- (4) A carrier shall disaggregate and target support under this path for at least four years from the date of approval by the state commission except as provided in subsection (c)(5) below.
- (5) A state commission may require, on its own motion, upon petition by an interested party, or upon petition by the rural incumbent local exchange carrier, the disaggregation and targeting of support in a different manner.
- (6) A carrier not subject to the jurisdiction of a state, *e.g.*, certain tribally owned carriers, may select Path 2, but must seek approval from the Federal Communications Commission as described in subsections (1)-(5) above.

(d) Path 3: Self-Certification of the Disaggregation and Targeting of Support.

- (1) A carrier may file a disaggregation and targeting plan with the state commission along with a statement certifying each of the following:
 - (i) it has disaggregated support to the wire center level; or

- (ii) it has disaggregated support into no more than two cost zones per wire center; or
 - (iii) that the carrier's disaggregation plan complies with a prior regulatory determination made by the state commission.
- (2) Any disaggregation plan submitted pursuant to this subsection must meet the following requirements:
- (i) The plan must be supported by a description of the rationale used, including the methods and data relied upon to develop the disaggregation zones, and a discussion of how the plan complies with the requirements of this subsection (c)(2). Such filing must provide information sufficient for interested parties to make a meaningful analysis of how the carrier derived its disaggregation plan.
 - (ii) The plan must be reasonably related to the cost of providing service for each disaggregation zone within each disaggregated category of support.
 - (iii) The plan must clearly specify the per-line level of support for each category of high-cost universal service support provided pursuant to §§ 54.301, 54.303, and/or 54.305 of this subpart and/or part 36, subpart F of this chapter in each disaggregation zone.
 - (iv) If the plan uses a benchmark, the carrier must provide detailed information explaining what the benchmark is and how it was determined. The benchmark must be generally consistent with how the total study area level of support for each category of costs is derived to enable a competitive eligible telecommunications carrier to compare the disaggregated costs used to determine support for each cost zone.
- (3) A carrier's election of this path becomes effective upon certification by the carrier to the state commission.
- (4) A carrier shall disaggregate and target support under this path for at least four years from the date of certification to the state commission except as provided in subsection (d)(5) below.
- (5) A state commission may require, on its own motion, upon petition by an interested party, or upon petition by the rural incumbent local exchange carrier, modification to the disaggregation and targeting of support selected under this path.
- (6) A carrier not subject to the jurisdiction of a state, *e.g.*, certain tribally owned carriers, may select Path 3, but must certify to the Federal Communications Commission as described in subsections (1)-(5) above.

(e) *Additional Procedures Governing the Operation of Path 2 and Path 3:*

- (1) Disaggregation and targeting plan adopted under subsections (c) or (d) shall be subject to the following general requirements:
- (i) Support available to the rural incumbent local exchange carrier's study area under its disaggregation plan shall equal the total support available to the study area without disaggregation.
 - (ii) The ratio of per-line support between disaggregation zones for each disaggregated category of support shall remain fixed over time, except as changes are allowed pursuant to subsection (c) and (d) above.
 - (iii) The ratio of per-line support shall be publicly available.
 - (iv) Per-line support amounts for each disaggregation zone shall be recalculated whenever the rural incumbent local exchange carrier's total annual support amount changes using the changed support amount and lines at that point in time.
 - (v) Per-line support for each category of support in each disaggregation zone shall be determined such that the ratio of support between disaggregation zones is maintained and that the product of all of the rural incumbent local exchange carrier's lines for each disaggregation zone multiplied by the per-line support for those zones when added together equals the sum of the rural incumbent local exchange carrier's total support.
 - (vi) Until a competitive eligible telecommunications carrier is certified in a study area, monthly payments to the rural incumbent local exchange carrier will be made based on total annual amounts for its study area divided by 12.

(vii) When a competitive eligible telecommunications carrier is certified in a study area, per-line amounts used to determine the competitive eligible telecommunications carrier's disaggregated support shall be based on the rural incumbent local exchange carrier's then-current total support levels, lines, and disaggregated support relationships.

(f) *Submission of Information to the Administrator:*

- (1) A rural incumbent local exchange carrier certifying under subsection (b) that it will not disaggregate and target high-cost universal service support shall submit to the Administrator a copy of the certification submitted to the state commission, or the Federal Communications Commission, when not subject to state jurisdiction.
- (2) A rural incumbent local exchange carrier electing to disaggregate and target support under subsection (c) shall submit to the Administrator a copy of the order approving the disaggregation and targeting plan submitted by the carrier to the state commission, or the Federal Communications Commission, when not subject to state jurisdiction, and a copy of the disaggregation and targeting plan approved by the state commission or the Federal Communications Commission.
- (3) A rural incumbent local exchange carrier electing to disaggregate and target support under subsection (d) shall submit to the Administrator a copy of the self-certification plan including the information submitted to the state commission pursuant to (d)(2)(A) and (d)(2)(C) or the Federal Communications Commission.
- (4) A rural incumbent local exchange carrier electing to disaggregate and target support under subsection (c) or (d) must submit to the Administrator maps which precisely identify the boundaries of the designated disaggregation zones of support within the carrier's study area.

APPENDIX B

PARTIES FILING COMMENTS AND REPLY COMMENTS

Comments:

<u>Commenters</u>	<u>Abbreviation</u>
Ad Hoc Telecommunications User Committee	
Alaska Rural Coalition	
Alaska Telephone Association	Alaska Tel. Assn.
AT&T Corp.	AT&T
Arizona Local Exchange Carriers Association	Arizona LEC Assn.
CenturyTel, Inc.	CenturyTel
Competitive Universal Service Coalition	CUSC
Evans Telephone Co.	Evans Tel. Co., et al.
Humboldt Telephone Co.	
Kerman Telephone Co.	
Oregon-Idaho Utilities, Inc.	
Pine Tree Telephone & Telegraph Co.	
Pinnacles Telephone co.	
The Ponderosa Telephone Co.	
The Siskiyou Telephone Co.	
The Volcano Telephone Co.	
War Telephone Co.	
Florida Public Service Commission	Florida Commission
Fred Williamson & Associates, Inc.	Fred Williamson & Assoc.
General Communications, Inc.	
GVNW Consulting, Inc.	GVNW Consulting
Illinois Commerce Commission	Illinois Commission
Innovative Telephone	
Interstate Telecom Group	
John Staurulakis, Inc.	
Maine Public Utilities Commission and Vermont Public Service Board	Maine and Vermont Commissions
National Exchange Carrier Association, Inc.	NECA
National Rural Telecom Association, Organization for the Promotion and Advancement of Small Telecommunications Companies, and the United States Telecom Association	NRTA, OPASTCO, & USTA
National Telephone Cooperative Association	NTCA
New York State Dept. of Public Service	NYDPS
Public Service Commission of the U.S. Virgin Islands	Virgin Islands Commission
People of the State of California and California Public Utilities Commission (filing jointly)	California Commission
Public Utility Commission of Texas	Texas Commission
Rural Independent Competitive Alliance	
Rural Leadership Coalition	
Rural Task Force	
Rural Utilities Service	RUS

Sprint Corporation	Sprint
South Dakota Independent Telephone Coalition	
Telecom Consulting Associates	
Townes Telecommunications, Inc.	Townes Telecommunications
Universal Service Administrative Company	USAC
Verizon Telephone Companies	Verizon
Western Alliance	
Wisconsin Public Service Commission	Wisconsin Commission
Wyoming Public Service Commission	Wyoming Commission

Reply Comments:Commenter**Abbreviation**

Ad Hoc Telecommunications Users Committee	
Alaska Rural Coalition	
Alliance of Incumbent Rural Independent Telephone Companies	
AT&T Corp.	AT&T
CenturyTel, Inc.	CenturyTel
GVNW Consulting, Inc.	
Illinois Commerce Commission	Illinois Commission
Innovative Telephone	
Iowa Telecommunications, Inc.	Iowa Telecommunications
McLean & Brown	
National Exchange Carrier Association	NECA
National Rural Telecom Association, Organization for the Promotion and Advancement of Small Telecommunications Companies, and the United States Telecom Association	NRTA, OPASTCO, & USTA
New York State Department of Public Services	NYDPS
Roseville Telephone Company	Roseville Tel. Co.
Rural Task Force	
Southwestern Bell Telephone Company	SBC
Sprint Corporation	Sprint
Telecom Consulting Associates	

**APPENDIX C
PARTIES FILING COMMENTS
IN MAG PROCEEDING (CC DOCKET NO. 00-256)**

Comments:

<u>Commenter</u>	<u>Abbreviation</u>
Ad Hoc Telecommunications Users Committee	
Alabama Rural Local Exchange Carriers	Alabama Rural LECs
Alaska Rural Coalition	
Alaska Telephone Association	Alaska Tel. Assn.
Arizona Local Exchange Carriers Association	Arizona LEC Assn.
Association of Communications Enterprises	
AT&T Corp.	AT&T
BellSouth Corporation and BellSouth Telecommunications, Inc.	BellSouth
People of the State of California and California Public Utilities Commission (filing jointly)	California Commission
Competitive Universal Service Coalition	
Evans Telephone Co.	Evans Tel. Co., et. al
Humboldt Telephone Co.	
Kerman Telephone Co.	
Oregon-Idaho Utilities, Inc.	
Pine Tree Telephone & Telegraph Co.	
Pinnacles Telephone co.	
The Ponderosa Telephone Co.	
The Siskiyou Telephone Co.	
The Volcano Telephone Co.	
War Telephone Co.	
Florida Public Service Commission	Florida Commission
Fred Williamson & Associates, Inc.	Fred Williamson & Assoc.
General Communications, Inc.	
General Services Administration	GSA
Global Crossing North America, Inc.	Global Crossing
GVNW Consulting, Inc.	GVNW Consulting
Illinois Commerce Commission	Illinois Commission
Independent Telephone & Telecommunications Alliance	
ICORE, Inc.	
Innovative Telephone	
Interstate Telcom Group	
ITCs, Inc.	
John Staurulakis, Inc.	
Multi-Association Group	
Missouri Public Service Commission	Missouri Commission
New York State Dept. of Public Service	NYDPS
National Association of State Utility Consumer Advocates	NASUCA
Ohio Telecommunications Industry Association	

Plains Rural Independent Companies	
Public Service Commission of the State of Missouri	Missouri Commission
Public Service Commission of Wisconsin	Wisconsin Commission
Public Utility Commission of Texas	Texas Commission
Qwest Communications International Inc.	Qwest
Rate-of-Return Coalition	
Regulatory Commission of Alaska	Alaska Commission
Roseville Telephone Company	Roseville Tel. Co.
Rural Independent Competitive Alliance	
Small Company Members of the Telephone Association of New England	
Sprint Corporation	Sprint
Telecom Consulting Associates, Inc.	
TDS Telecommunications Corporation	TDS
Townes Telecommunications, Inc.	
Western Alliance	
WorldCom, Inc.	WorldCom

Reply Comments:CommenterAbbreviation

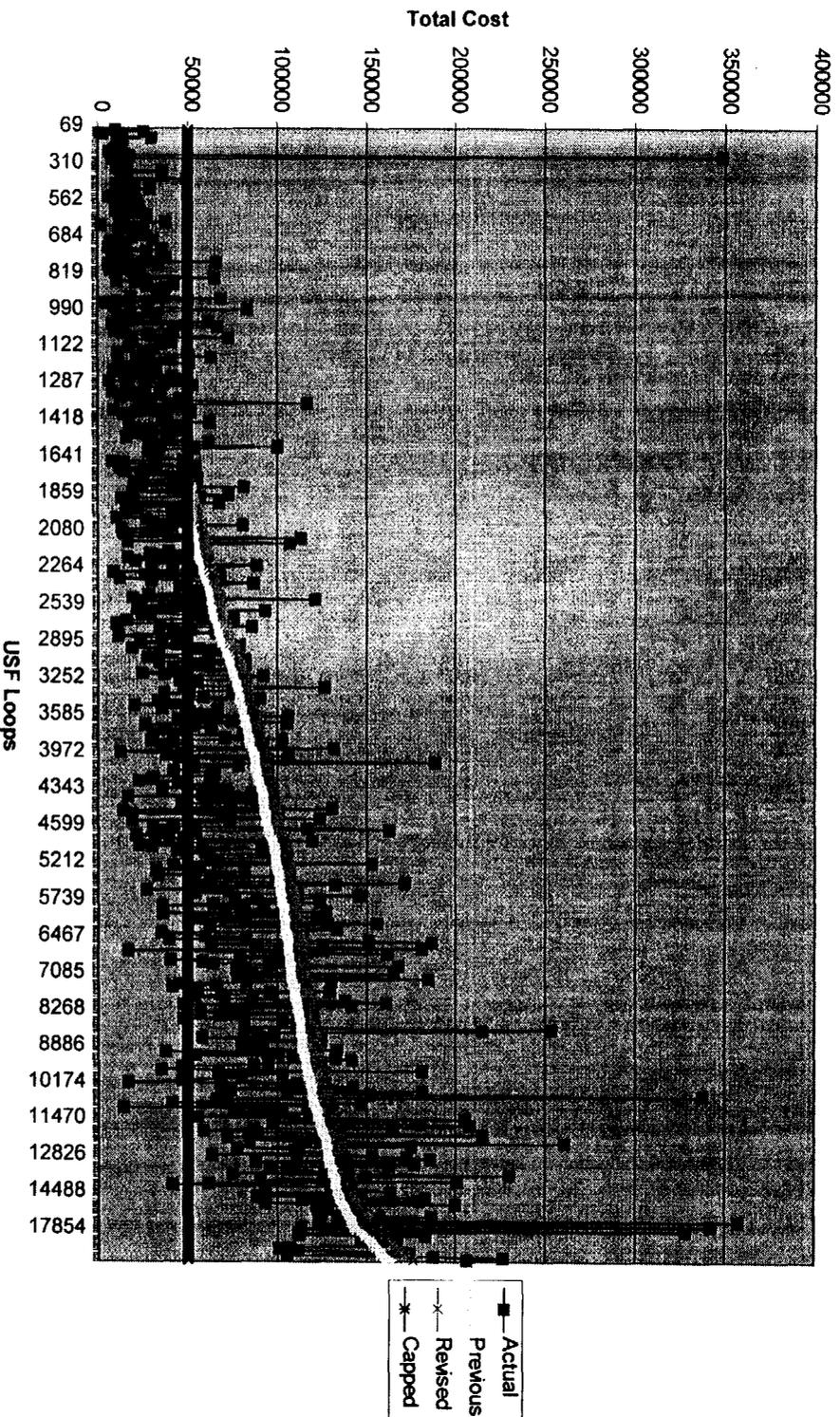
Ad Hoc Telecommunications Users Committee	
Alaska Rural Coalition	
Alliance of Incumbent Rural Independent Telephone Companies	
AT&T Corp.	AT&T
Dunkirk and Fredonia Telephone Company	Dunkirk and Fredonia Tel. Co.
Excel Communications, Inc.	Excel
General Service Administration	GSA
GVNW Consulting, Inc.	GVNW Consulting
Indiana Utility Regulatory Commission	Indiana Commission
Innovative Telephone	
Interstate Telcom Group	
Iowa Utilities Board	
John Staurulakis, Inc.	
Minnesota Independent Coalition	
Multi-Association Group	MAG
Plains Rural Independent Companies	
Puerto Rico Telephone Company, Inc.	Puerto Rico Tel. Co.
Rate-of-Return Coalition	
Regulatory Commission of Alaska	Alaska Commission
Ronan Telephone Company	Ronan Tel. Co.
Ronan Telephone Consumer Advisory Committee	
Roseville Telephone Company	Roseville Tel. Co.
Rural Independent Competitive Alliance	
State of Alaska	Alaska
State of Hawaii	Hawaii
Summit Telephone and Telegraph Company of Alaska, Inc.	Summit Tel. Co.

Telcom Consulting Associates, Inc.
TDS Telecommunications Corporation
Verizon Telephone Companies
Western Alliance
WorldCom, Inc.
Wyoming Public Service Commission

TDS
Verizon

WorldCom
Wyoming Commission

Appendix D - 1999 Corporate Operations Expense



SEPARATE STATEMENT OF CHAIRMAN MICHAEL K. POWELL

Re: Fourteenth Report and Order and Twenty-Second Order on Reconsideration, Federal-State Joint Board on Universal Service and Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers (CC Dkt. Nos. 96-45, 00-256).

I am pleased to support this Order because, today, the Commission finally takes action to fill in the third piece of the four-part universal service puzzle: high-cost loop support for rural carriers. The Commission filled in the first piece of this difficult puzzle in 1999 when it reformed high-cost loop support for non-rural carriers based on a forward-looking cost model. We moved the second piece of the puzzle into place in 2000 with the adoption of access reform and interstate access support for price cap carriers in the CALLS Order. Today's action on the third piece of the puzzle, rural high-cost loop support - and the pending proceeding on the puzzle's fourth piece, rural access reform - are two of the most important actions the Commission will take this year. Viewed as a whole, this comprehensive package of access and universal service reforms will ensure that consumers in all areas of the country, especially those living in high-cost rural areas, have access to telecommunications services at affordable rates.

A number of innovative rural carriers have begun to meet the challenge of ensuring that their customers benefit from the same twenty-first century telephone infrastructure that other Americans are starting to enjoy. Many others, however, have been less able to meet this challenge. In particular, in many cases, the costs of serving far-flung customers has outstripped rural carriers' financial resources. This has, in some cases, hindered these carriers from making much-needed improvements and upgrades to their networks to provide basic supported services.

With this Order, we adjust rural high-cost loop support to address a facet of this pressing problem. The increases to rural high-cost loop support will begin relatively modestly (roughly \$126 million total support for Year 1) and then ramp up to a total price tag over the five year term of the plan of over \$1 billion. Together with our other existing universal service programs, our total support for rural carriers during this five year period is projected to be well over \$9 billion - before we address rural access reform.

Although I vigorously support the Commission taking this important action, I acknowledge that there are limitations to this plan. As the Order emphasizes, this is an interim five-year plan, reflecting the fact that we have more work to do in this area. Specifically, I believe it is important that we develop a permanent support mechanism, based on forward-looking costs or another appropriate measure of costs, by which we can ensure that the rural high-cost loop fund grows no larger than is truly necessary to accomplish its purpose. As I have stated repeatedly, we must guard against allowing universal service programs to grow too large, lest we collect so much from carriers that they are hindered in their ability to compete and bring consumers new and better products and services.

If we could address this concern and adopt a permanent solution today, I would be the first to support it. But these issues are exceedingly complex and will take more time to develop. At the same time, further delay is not an option in my view. The Commission has taken simply

too long to address rural carrier issues in its implementation of the Act's universal service requirements.

I would re-emphasize that this is only one piece of the puzzle for rural carriers. The Bureau intends to prepare a formal recommendation regarding rural access reform, including consideration of the "MAG proposal" within the next few months. It will be one of my top priorities to make significant progress on rural access reform as soon as logistically possible.

In closing, I would like to extend my deepest gratitude to my state colleagues and staff, as well as my fellow commissioners and staff, for their invaluable contributions to this reform effort. The Rural Task Force and the Joint Board on Universal Service are especially commended for their insight and vigor in developing this interim support mechanism.

Separate Statement of Commissioner Susan Ness

Re: Federal-State Joint Board on Universal Service, CC Docket No. 96-45

Today we complete another major chapter in our effort to preserve and advance universal service, one of the fundamental pillars of the Telecommunications Act of 1996. Section 254 of the Act requires us to ensure that all Americans have access to telecommunications services at affordable and reasonably comparable rates. Congress recognized that we need to pay special attention to the needs of (1) low-income consumers, (2) those living in rural, insular, and high-cost areas, and (3) schools, libraries, and rural health care providers.

We have made steady and significant progress in each of these areas. For low-income consumers, we augmented our Lifeline and Link-Up programs to increase the level of federal support and ensure that support is available to the urban and rural poor in every state. For schools, libraries, and rural health care providers, we have successfully implemented the bold vision in the 1996 Act to deliver the tools of the Information Age through discounts on telecommunications and information services.

And for consumers in high-cost areas, we have taken steps to establish universal service support mechanisms that are explicit and sustainable in a competitive market. We previously reformed the high-cost mechanisms for non-rural carriers, and they are making the transition to a support mechanism based on forward-looking costs. Today, we address high-cost reform for rural carriers by adopting a mechanism that works for rural America.

When the FCC undertook its review of the high-cost universal service mechanism following passage of the 1996 Act, we recognized the unique challenges facing rural carriers and did not adopt one-size-fits-all policies that might have impeded rather than supported the provision of affordable service by rural carriers. Instead, working with rural carriers and their associations, the Joint Board convened a Rural Task Force comprised of experts representing a wide range of companies, consumer advocates, and government officials to examine the cost structures and circumstances of rural carriers.

In October, after intensive research and deliberations, the Rural Task Force unanimously recommended a high-cost mechanism for rural carriers that takes into account not only the significant differences *between* rural and non-rural carriers, but also the vastly different cost structures *among* rural carriers. As is the case with any consensus proposal, the framework may not be exactly what any one entity would want. Nevertheless, the plan represents a solid compromise that balances competing interests. I support this order because it will provide the stability necessary for rural carriers to plan for the future and undertake critical investment to benefit rural consumers.

As we celebrate completion of this phase of high-cost reform, however, we note that much remains to be done.

First, we have not yet completed efforts to identify and make explicit the subsidies embedded in rural carriers' access charges. Reforming high-cost mechanisms without addressing access charges is like clapping with one hand. I urge the Commission to make access charge reform and resolution of the other issues raised by the Multi-Association Group a top priority.

For many rural carriers, access charges comprise well over half of their revenue stream. It is not easy for rural carriers to plan for the future and invest in their communities when there is uncertainty about this portion of their revenue base.

Second, even as the Commission works to complete action to reform the federal universal service mechanisms, we must remember that keeping telephone service affordable and accessible is a shared federal and state responsibility. I commend the states that have implemented measures to address rate comparability within their borders and urge other states to undertake such initiatives. State commissions also have a critical role to play in ensuring that subsidies implicit in intrastate rates are made explicit.

Third, we must remain mindful that universal service is an evolving concept that merits our continuing attention. For low-income consumers, we must ensure that those for whom Lifeline and Link-Up are intended know about and have access to these programs. For schools and libraries, we must determine why some communities, including ones in rural and high-poverty areas, are not taking advantage of E-Rate discounts to hook up their classrooms and libraries to the Internet. We should also seek to build on our success with the E-Rate to find ways to leverage for the entire community – especially in remote areas -- the technological resources made available to schools and libraries.

For high-cost areas, our continuing challenge is to ensure that consumers have access to reasonably comparable services at reasonably comparable prices through a high-cost mechanism that is economically rational and competitively neutral. Today, we take an important step by adopting a framework for rural carriers. We must now focus our attention on further steps, including in the near future, a review of the services that are supported by universal service and an examination of ways to facilitate the deployment of advanced services to all Americans in a reasonable and timely manner. As we proceed on these and other measures, I urge the Commission to continue working together with our state colleagues – and with the Joint Board in particular -- to ensure that specific, predictable, and sufficient mechanisms remain in place.

As a final matter, I would like to acknowledge the many people who have demonstrated through hard work their commitment to preserving and advancing universal service for all Americans.

I commend the Rural Task Force for its unwavering efforts for rural consumers. I especially want to thank the chair of the Task Force, Bill Gillis, who worked tirelessly to fashion a consensus.

I would also like to thank the Joint Board and its staff for their dedication to ensuring that all Americans have access to affordable, quality telecommunications services. Together, we have worked hard to forge a federal-state partnership to promote the goals of universal service.

Finally, I would like to thank the Common Carrier Bureau, and in particular, the Accounting Policy Division. Bureau staff members have spent countless hours working through complex issues. They are indeed public servants of the highest caliber.