**BEFORE THE**
**FEDERAL COMMUNICATIONS COMMISSION**
**WASHINGTON, D. C.**

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| 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 |

**COMMENTS OF THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI**

The Public Service Commission of the State of Missouri ("MoPSC") offers the following comments in response to the Federal Communication Commission's ("Commission") December 21, 2000 Notice of Proposed Rulemaking issued in the above docketed cases. The Commission seeks comment on a Petition for Rulemaking ("Petition") submitted by the Multi-Association Group ("MAG"). The Petition sets forth an interstate access reform and universal service support proposal ("Plan") for incumbent local exchange carriers ("LECs") subject to rate-of-return regulation.

In reviewing the Petition, the MoPSC has identified several specific areas of concern that are addressed in these comments. However, as a general observation the Plan as proposed is extremely complex and requires additional clarification and impact analysis from the MAG before being considered by the Commission.

The MoPSC offers the following suggestions and observations to be considered when reviewing the merits of the Plan.

The Plan is described as a form of incentive regulation; yet, the "incentive" remains unclear. The MoPSC suggests that any positive results realized from this incentive regulation should directly benefit end users and encourage competition in rural areas. To demonstrate the Plan's benefits for end users, IXCs and non-price cap LECs, MAG submitted an *Estimates of Quantitative Effects* Ex Parte. This document was designed to provide "estimates of the effects of [MAG's] holistic plan for the Commission's regulation of those incumbent local exchange carriers ("LECS") not subject to price cap regulation ("non-price cap LECS") and interexchange carriers ("IXCs")." The Ex Parte includes three possible scenarios as illustrative of the various potential combinations of study area results for Path A and/or Path B LECs. However, the estimates are extremely high level and based on assumptions that "the Group cannot predict … might actually occur." For example, Ex Parte *Table B: Estimated Savings to End Users*, predicts a savings of $84 million to end users if all non-price cap study areas elect Path A incentive regulation. The MoPSC would request an explanation of the distribution of the $84 million in the form of a table that illustrates a state-specific analysis of the impact of the various Plan components. Therefore, the MoPSC respectfully asks the Commission to request the MAG to provide thorough, quantifiable, state-specific estimates and supporting documentation for the various components of the Plan.

These state-specific analyses become even more important when considering the Universal Service Support ("USF") and Rate Averaging Support ("RAS") subsidies set forth as integral components of the Plan. During calendar year 2000, Missouri's rate of return companies (or as referred to in the MAG plan, non-price-cap companies) collected $43,599,981 in Federal Universal Service High Cost Support for high cost loop ("HCL"), long term support ("LTS") and local switching support ("LSS"). For the

companies' 179,745 access lines in Missouri, the average USF high cost support is $243 per line. Under the MAG Plan, the USF high cost support would be frozen, adjusted annually for inflation and supplemented with a new, explicit universal service support element known as RAS to guarantee a return of 10.25 percent to 10.75 percent based on the LEC's number of study areas. The USF support and RAS would be calculated based on a revenue per line basis. Mr. James H. VanderWeide, in his testimony, Exhibit 2 to the MAG Petition for Rulemaking, states, "The initial RPL will be based on the most recent cost study or average schedule revenue requirement data, prior to conversion to incentive regulation, adjusted for inflation…Thus the revenue requirements of these companies will be targeted to inflation rather than to changes in company-specific expenses and investments". Pages 2-19. Earlier in his testimony, Mr. VanderWeide states the incentive regulation would "seek to encourage technical efficiency, allocative efficiency, and dynamic efficiency." Pages 2-4. Once again, however, the "incentive" is unclear. If the LECs are ensured a guaranteed rate of return through RAS, what is the incentive to promote these efficiencies? To take this concept one step further, the MoPSC questions the appropriateness of guaranteeing an authorized rate of return in a Plan that is supposedly based on incentive regulation.

Following is a summary of Missouri Tables 1 and 2, attached to these Comments, outlining the average current revenue streams for Missouri Rural Carriers:

| | | | Per access line | |
|---|---|---|---|---|
| Missouri Rural Carriers | With Alltel[1] | without Alltel | with Alltel | without Alltel |
| access lines | 179,745 | 115,463 | | |
| Basic local service revenue | $22,746,064 | $15,538,606 | $124 | $129 |
| Local network service revenue | $8,131,598 | $6,207,504 | $44 | $52 |
| Total network access | $103,660,527 | $85,200,252 | $563 | $712 |
| USF high cost support | $43,599,981 | $33,861,492 | $237 | **$243** |

[1] Alltel has over 50,000 access lines in Missouri compared to fewer than 20,000 access lines for any other rural LEC.

As Missouri Table 1 indicates, for year 2000, Missouri rural carriers received high cost support per access line ranging from $81 to $916. With Missouri carriers, on the average, receiving greater revenue from subsidies than revenue generated by basic local and local network service revenue and a future subsidy payout based on revenue per line, supported by a guaranteed return for Path A LECs, the MoPSC fails to see the "incentive" that encourages rural carriers to achieve "technical efficiency, allocative efficiency, and dynamic efficiency" as Mr. VanderWeide suggests.

In addition to not providing an incentive to maintain efficiencies and the underlying service quality, the Plan seems to be a disincentive to end users for purchasing advanced services. Although the Plan is estimated to save end users $84 million, as previously stated, that savings is based on the assumption that interexchange carriers ("IXCs") pass access charge reductions on to the consumer. It is unclear as to what assurance the Commission will have that any access savings will be passed through to the end user. As noted in the Ex Parte, "The plan is estimated to save end users about $84 million dollars in the first year…the savings depend on IXCs passing through to end users the savings from access charge reductions, net of universal service contributions. These passed-through savings are estimated to be about $301 million, which exceeds by $84 million the estimated increases in the subscriber line charges, which are expected to total about $217 million". With the potential impact of increasing subscriber line charges by $217 million in addition to potentially increasing consumer surcharges to recover a larger federal USF assessment, and only an assumption that end users will realize an ultimate savings because minimally-regulated IXCs pass access charge reductions on to their customers, it is feasible to assume that although this is proposed as a revenue neutral plan for the LECs, consumers will realize an increase in their telephone bills.

According to the National Exchange Carriers Association's ("NECA") Access Market Survey of NECA's Traffic Sensitive Pool Members, Keeping America Connected: the Broadband Challenge,

December 1999, of the 32 (out of 38) Missouri rural carriers surveyed, 41percent provided ISDN, 41 percent had SONET provisioning, 16 percent provided xDSL, 69 percent provided internet and 89 percent of the 150 offices were SS7 provisioned. The Rural Task Force, in The Rural Difference, White Paper 2, section B, "The Advanced Services Challenge-The Digital Divide", January 2000, page 62, interprets a recent National Telecommunications Industry Association's ("NTIA") study, Falling Through the Net: Defining the Digital Divide, July 1999, which suggests **urban/rural differences as providing causative basis for shortcomings in advanced services in rural areas**. A more recent study, The Digital Divide Confronts the Telecommunications Act of 1996, Dr. Mark Cooper and Gene Kimmelman, February 1999, documents that **household income is, statistically speaking, the real cause for the "digital divide"**. On one end of the divide are "Modest" households and on the other end "Premier" households with significantly different usage patterns of both basic and advanced telecommunications services. In the middle are the "Mobile" and "Transitional" households. To the extent that a case can be made for lower incomes in rural areas, an urban versus rural dichotomy can be assumed. But research seems to indicate the predictive factor is **household income, not geography** as suggested by the rural LECs. As previously mentioned, 69 percent of the 32 Missouri rural carriers surveyed provide Internet. This, however, does not mean that Internet access is available to all customers that want it at a reasonable or fair price. Historically, innovations diffuse first to the risk takers and/or the financially secure. Competition has a singular ability to accelerate the rate of diffusion of most innovations. In rural areas, where competition has made little, if any, progress, a solid argument can be made that the rate of diffusion of advanced services in rural areas lags behind urban areas. The lack of advancement in rural areas will only be further exacerbated if end user telephone bills increase by the estimated $217 million. Again, the MoPSC would ask the Commission to request the MAG to provide thorough, quantifiable, state-specific estimates and supporting documentation for

the various components of the Plan. In addition, the MoPSC respectfully asks that the Commission use this rulemaking as an opportunity in a minimally regulated environment to require IXCs to pass on any realized access reductions to consumers.

Finally, the Plan as proposed is extremely complex, administratively challenging and therefore, perhaps almost non-portable, from the point of view of promoting competition. The Rural Task Force emphasized that portability of subsidies was a strong requirement for competition. If the USF high cost support and the RPL subsidy were attached to the customer for Path A carriers, this segment of the plan would be much easier to administer and more conducive to portability.

In summary, the MoPSC asks the Commission to seek further clarification on the many complex and confusing aspects of the Plan. Additional, state-specific supporting documentation may provide the particulars as to the benefits to consumers, which should be instrumental in any access reform methodology. In addition, any Plan should promote a strong commitment to maintaining or improving service quality and the deployment of advanced services to the areas served by the rural carriers. Finally, the MoPSC would respectfully ask the Commission to request input on the Plan and any additional supporting documentation from the Joint Board on Universal Service (96-45), the Joint Board on Separations (80-286) and the Rural Task Force.

Respectfully submitted,

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