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October 15, 2001

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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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 Docket 96-45
Roseville Telephone Company

Dear Ms. Salas:

This letter is to inform you that on October 12, 2001, an *ex parte* presentation was made to Commissioner Kevin Martin and Sam Feder of his staff regarding a Petition for Reconsideration and a Petition for Limited Waiver previously filed by Roseville Telephone Company and pending in CC Docket 96-45. The status of the two petitions was discussed, as well as issues set forth in the attached written presentation which was given to Commissioner Martin and Mr. Feder.

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

Very truly yours,

Paul J. Feldman
Counsel for Roseville Telephone Company

PJF:jpg

Enclosure

cc: Sam Feder, Esquire

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Roseville Telephone Company

October 12, 2001

The Problem

- With 134,000 access lines in its single study area, Roseville is classified as a "non-rural" carrier for federal high cost support 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 other companies its size normally receives, placing pressure on local rates.
- Other ILECs may soon be in the same situation.

Two Items Pending Before the Commission

- **PFR of the 10th Report & Order in CC Docket 96-45 – Filed December, 1999**
  - Small "non-rural" LECs have cost structures 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
    - 200,000 access lines in a study area, consistent with the significant break point in the current Part 36 Rules.

- **Limited Petition for Waiver – Filed November, 2000**
  - Requested that Roseville continue to receive high cost loop support under Part 36 Rules until Commission rules on Roseville's PFR of the 10th Report & Order in CC Docket 96-45.
  - Anticipated that the Commission would not be able to rule on Roseville's PFR prior to the phase down of hold-harmless support for non-rural LECs starting 1/1/01.
  - Documented why application of "non-rural" rules constitutes a unique burden on Roseville and why grant of waiver would be in public interest.
  - Roseville later filed a Supplement to the Petition for Waiver asking for grant of waiver on an on-going basis, in an attempt to suggest a remedy to the Commission that was more limited than that in the PFR.

Special Circumstances Re 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.

Company	Loops (000)	Wire Centers
Verizon	62,276	6,248
SBC	58,919	3,217
BellSouth	24,780	1,591
Qwest	16,884	1,259
Sprint	7,874	1,371
Roseville	**124**	**2**

- High cost loop support represents 5.81% of Roseville's current unseparated loop revenue requirements.

Company	USF as % of Loop Rev. Req.
Verizon	0.54%
Verizon (w/o PR)	0.19%
SBC	0.03%
BellSouth	0.18%
Qwest	0.29%
Sprint	0.10%
Roseville	**5.81%**

- Roseville is the only non-rural company receiving hold-harmless support that is rate-of-return regulated (other than Puerto Rico Telephone Company, pursuant to a waiver).

Public Interest Considerations for Waiver and PFR

- Smaller LECs lack the economies of scale and scope of the non-rural giant holding companies, and thus their actual cost of providing service is not well predicted by the proxy model.
- The RTF 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.
- The Commission has found that there is no statutory requirement to use the Section 3(37) "rural/non-rural" definition as the break point for determining which carriers are subject to the proxy model for large companies.
- Under Part 36 Rules in place since 1987, study areas with under 200,000 access lines receive 6 ½ times more support than those with comparable costs but over 200,000 access lines: smaller companies have a much greater reliance on federal high cost support than larger companies. 200,000 lines is thus a more natural break point for distinguishing study areas.
- Under Part 36 rules Roseville would currently qualify for $1.43/loop/month in USF support. An increase in monthly local rates of $1.43 is significant, particularly if it is due to the application of a model and inputs that are not appropriate for Roseville.
- By the time hold harmless is completely phased down in 2003, Roseville would be eligible for approximately $4.3 million per year in federal high cost support under Part 36 of the Rules, but will not be able to receive this funding.
- Companies such as Roseville are apparently subject to conflicting high cost support and access charge policies. Due to having 134,000 access lines in its study area, Roseville is subject to "non-rural" high cost support mechanisms designed for large price cap carriers. Yet as a rate-of-return carrier, Roseville may also be subject to the new high cost support mechanisms enacted in the MAG Report & Order (Interstate Common Line Support). Similarly, the company is subject to access policies designed for smaller rate-of-return companies while perhaps being subject to high cost support policies designed for large price cap carriers. These conflicts are contrary to the Commission policy of a holistic approach to cost recovery and reform.

Response to Staff Concerns

- The assertion that Roseville has below average costs is incorrect and based on the application of a proxy model designed for companies with much greater economies of scale and scope.
- The assertion by the California Commission that the loss of federal support will not put pressure on local rates is inconsistent with prior CPUC decisions to limit rate increases for basic services. Yet, when Roseville follows the CPUC's guidance and expresses concern about the increase in local rates that could result from the loss of federal high-cost support, the CPUC appears to trivialize that concern. The CPUC's apparent lack of concern is also out-of-date in light of increases in the SLC enacted in the MAG Report & Order, and in light of a recent proceeding looking into eliminating payment of interim state high cost support to Roseville.

Summary

- The waiver was originally sought to cover the needs of Roseville's customers during the pendancy of the PFR. Roseville has demonstrated that it is uniquely burdened by "non-rural" status, and that the public interest warrants grant of a waiver.
- The Commission will face similar issues as existing carriers have study areas that grow above 100,000 lines. These issues can and should be addressed by response to Roseville's PFR, which has been pending since December of 1999.