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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

October 30, 2001

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Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: Ex Parte Presentation, CC Docket No. 96-45

Dear Ms. Roman Salas:

On Monday, October 29, 2001, John Ricker of the National Exchange Carrier Association (NECA), John Rose of the Organization for the Promotion and Advancement Of Small Telecommunications Companies (OPASTCO), David Cohen of the United States Telecom Association (USTA) and I, representing the National Rural Telecom Association (NRTA), met with Sharon Webber, Katie King and Paul Garnett of the Commission's Common Carrier Bureau. We discussed the need to change the Commission's rules implementing its decision in the above-referenced proceeding, adopting most of the Rural Task Force (RTF) recommendation, because the amount of rebased support for 2002 and subsequent years is significantly less than what the Commission and the RTF intended.

Using the attached materials, which we provided to the Common Carrier Bureau representatives, we explained that the RTF proposal and the resulting increase in support adopted by the Commission and referenced in the Chairman's separate statement were based on implementation on January 1, 2001. In adjusting the rules for midyear implementation, the Commission did not reflect the intention to continue to grow support in later years on the basis of a full year's rebased support. We urged the Commission to clarify or amend its rules to remedy this decrease in the intended support for rural carriers.

Very truly yours,

Margot Smiley Humphrey

cc: Sharon Webber, Esq.
Katie King, Esq.
Paul Garnett, Esq.

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List A B C D E

2002 Rural ILEC High Cost Loop Support

Issue: Establishment of Indexed Cap Level for 2002 Rural High Cost Loop Support. Mid-Year versus Calendar Year Implementation

Background

On September 29, 2000, the Rural Task Force (RTF) submitted a comprehensive Recommendation to the Federal-State Joint Board on Universal Service, CC Docket 96-45, which among other things proposed changes in the methodology for the establishment of the indexed cap on the high cost loop support funding for incumbent rural telephone companies. In its recommendation, the RTF proposed that, "In order to provide appropriate incentives to invest in rural America while maintaining the fund at a reasonable level, the Task Force recommends that the Joint Board and FCC enact the following modifications to the caps and limitations which currently exist related to the universal service support mechanisms for Rural Carriers:"

- The rural portion should initially be recomputed by the fund administrator at the level required for Rural Carriers as if the indexed fund cap and the corporate limitation had not been in effect for support for the calendar year 2000 (i.e., based on 1998 calendar year data using the October 1, 1999 data submission).
- For calendar year 2001 and future years, the Rural Carrier fund should be calculated using the existing methods as modified by the recommendations outlined below:
 1. The national average loop cost should be frozen at \$240.00,
 2. new indexed cap on the ILECs' portion of the HCL fund should be imposed with annual maximum growth derived by the "Rural Growth Factor" (RGF)
 3. The maximum support under the indexed HCL fund cap for 2001 for the ILECs' portion of the HCL fund should be the year 2000 HCL amount described in Subsection IV(B)(1)(a)(i)(A) times one plus the RGF
 4. For each of the succeeding years, the cap should be computed by taking the total loop cost expense adjustment for the immediately preceding calendar year, times one plus the RGF.
- The elements of this comprehensive package should be considered in concert with each other and implemented immediately.
- RTF projected funding for rural carriers for calendar year 2001 was \$961 Million

On December 22, 2000, the Joint Board restated the Task Force recommendation for immediate implementation and recommended that the Commission adopt the Rural Task Force Recommendation as a foundation for implementing a rural universal service plan.

On May 10, 2001, the Commission adopted new rules for Universal Service funding for rural carriers which were to become effective on July 1, 2001. The rules adopted by the Commission essentially adopted the RTF recommendation as a framework, stating at ¶39 with respect to the indexed cap on funding; “we adopt the Rural Task Force’s proposal to increase the portion of the high-cost loop support fund that is distributed to rural incumbent local exchange carrier study areas by a rural growth factor equal to annual increases in the GDP-CPI and growth in the total number of working loops of rural incumbent local exchange carriers”, continuing at ¶40 to state “Effective July 1, 2001, rural carriers shall receive increased high-cost loop support based on uncapped support amounts for the calendar year 2000, plus a rural growth factor equal to the sum of annual changes in the total number of working loops for rural carriers and the GDP-CPI.”

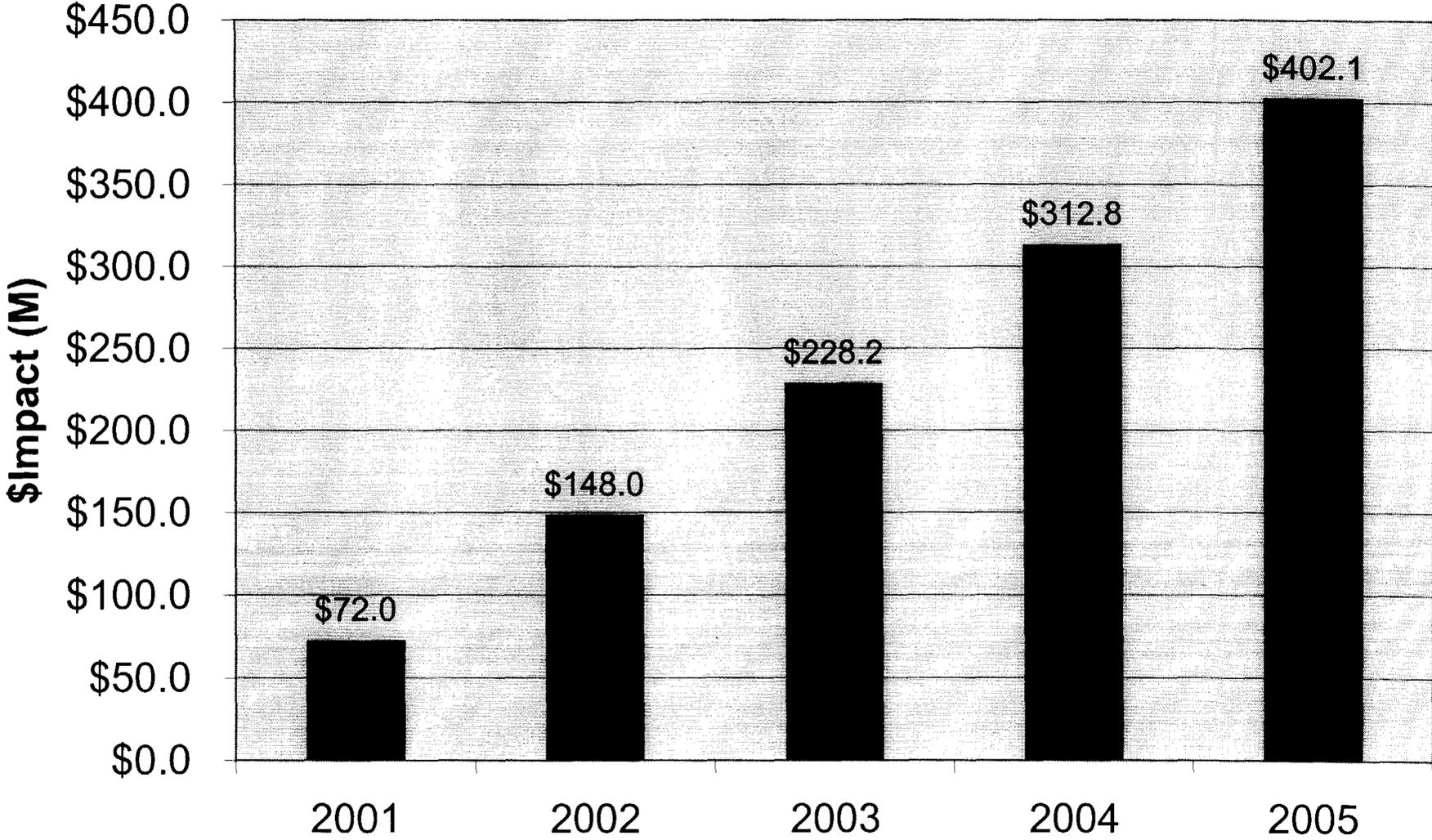
Contrary to the text of the Order, a literal reading of the new rules indicated that the administrator should rebase calendar year 2000 support for rural carriers removing both the indexed cap and corporate operations expense limitations, grow the resulting amount by the rural growth factor, and apply one half of that annual amount serving as the indexed cap on support for the balance of 2001.

The methodology for establishing the indexed cap for 2002, while mirroring the RTF recommendation (*i.e., calendar year 2001 support grown by the rural growth factor*), does not appear to have taken into account the mid-year implementation of the new rules, in that it includes support amounts that were derived using the rules that were in effect during the first half of 2001, nullifying, in part, the results intended by the Rural Task Force, the Joint Board and the Commission Order.

Implications

The accompanying charts display the monthly support amounts for calendar year 2001, and the future year impacts on funding for rural carriers when the support amounts from the first six months of 2001 (established under a different set of rules) are introduced into the process used for determining the subsequent year indexed cap levels and the cumulative impact over the five year life of the program. The immediate impact of the rules is to **REDUCE** monthly support payments to rural carriers from \$80.6 million in December 2001 to \$78.8 million per month beginning in January 2002.

Cumulative Impact of Mid-Year Implementation



Indexed Cap on Rural High Cost

