



Federal Communications Commission DOCKET FILE COPY ORIGINAL  
Washington, D.C. 20554

August 23, 2001

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Ms. Irene Flannery  
Vice President, High Cost and Low Income Division  
Universal Service Administrative Company  
2120 L Street, N.W., Suite 600  
Washington, D.C. 20037

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

CC: 96-45

Dear Ms. Flannery:

As you know, when the Commission adopted the new forward-looking, high-cost universal service support mechanism for non-rural carriers, it also adopted an interim hold-harmless provision to protect consumers in high-cost areas from potential rate shock as a result of any sudden, significant increases in rates during the shift to the new forward-looking cost mechanism. It has come to our attention that certain GTE study areas are projected to receive significantly more hold-harmless support in the third and fourth quarters of 2001 than they had received in any previous quarter. Specifically, based on the fund size projections submitted by USAC on May 2 and August 2, 2001, the following study areas would receive significant increases in hold-harmless support: Contel of Texas (SAC 442154); GTE North - Missouri (SAC 421186); Contel of North Carolina (SAC 230509); and GTE and Contel of Alabama (SAC 250293).

We understand that USAC plans to send the first payments based on third quarter projections on August 24, 2001. Based upon the information available to us at this time, we are unable to determine why the four GTE study areas are projected to receive such significant increases in hold-harmless support and whether such increases are consistent with our rules and policies. We request that you suspend third quarter payments to these four study areas, pending our investigation and review. Until this issue is resolved, we direct you to base payments to these study areas on USAC's second quarter projections. Specifically, the Texas and North Carolina companies received no high-cost support in the second quarter of 2001; the Missouri company received some hold-harmless support, so its support should be based on the second quarter 2001 projections; and the Alabama company received support based on the new forward-looking, high-cost mechanism in the second quarter of 2001.

Thank you for your cooperation in this matter.

Sincerely,

Dorothy T. Attwood  
Chief, Common Carrier Bureau

CC: D. Scott Barash, USAC  
John Ricker, NECA  
Don Evans, Verizon  
Vincent Callahan, Verizon

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