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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY



NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION
The Voice of Rural Telecommunications
www.ntca.org

April 26, 2002

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street S.W., TW-A325
Washington, D.C. 20554

Re: *Ex Parte* Notice
In the Matter of the Federal-State Joint Board on Universal Service
CC Docket No. 96-45, Fourteenth Report and Order

Dear Ms. Dortch:

On Thursday, April 25, 2002, Kyle Dixon, Legal Advisor to Chairman Powell met with Sr. Regulatory Counsel Daniel Mitchell and Sr. Telecommunications Specialist Scott Reiter of the National Telecommunications Cooperative Association. We discussed issues raised by NTCA's petition for reconsideration in the above-captioned proceeding. Attached is a handout given to Kyle Dixon as part of the discussion.

In accordance with the FCC's rules, an original and two copies of this letter are being filed with the Secretary's office. If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,

/s/ Daniel Mitchell
Daniel Mitchell
Sr. Regulatory Counsel

Attachment

cc: Kyle Dixon, FCC

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Ex Parte on the Need to Amend
the Rule for Determining the
Expense Adjustment Cap for 2002

Meeting with Kyle Dixon
April 25, 2002

The Cap Rebasing Problem

- Preliminary rules drafted prior to the RTF order did not envision a mid-year implementation
- Language from preliminary rules was incorporated into final rules without revision and consequently did not produce the intended rebasing for 2002 and subsequent years

Background

- The RTF order adjusted the cap on the high cost fund as if there was no cap for the year 2000 and also adjusted the Corporate Operations Expense cap
- All numerical analysis supporting the RTF assumed rebasing effective January 1, 2001 >>> THIS DID NOT HAPPEN
- Only the 2nd half of 2001 was rebased:
2001 Actuals = 6 mo. Old Cap + 6 mo. Rebased Cap
- The Problem -- Rules say:
2002 Cap = (actual 2001 Expense Adj) x (1 + RGF)
- Thus the 2002 cap is much lower than intended

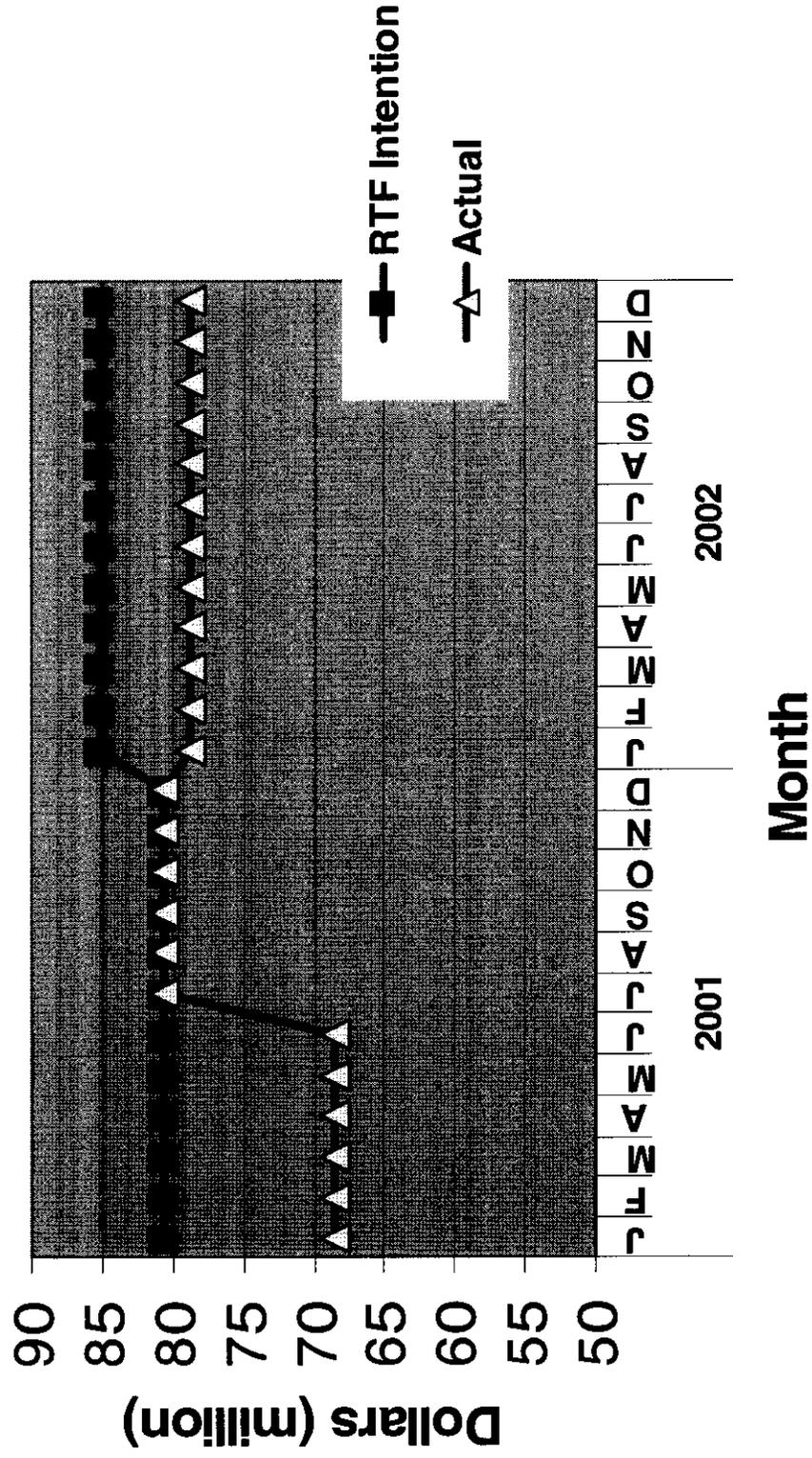
§ 36.603 Calculation of rural incumbent local exchange carrier portion of nationwide loop cost expense adjustment.

(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.

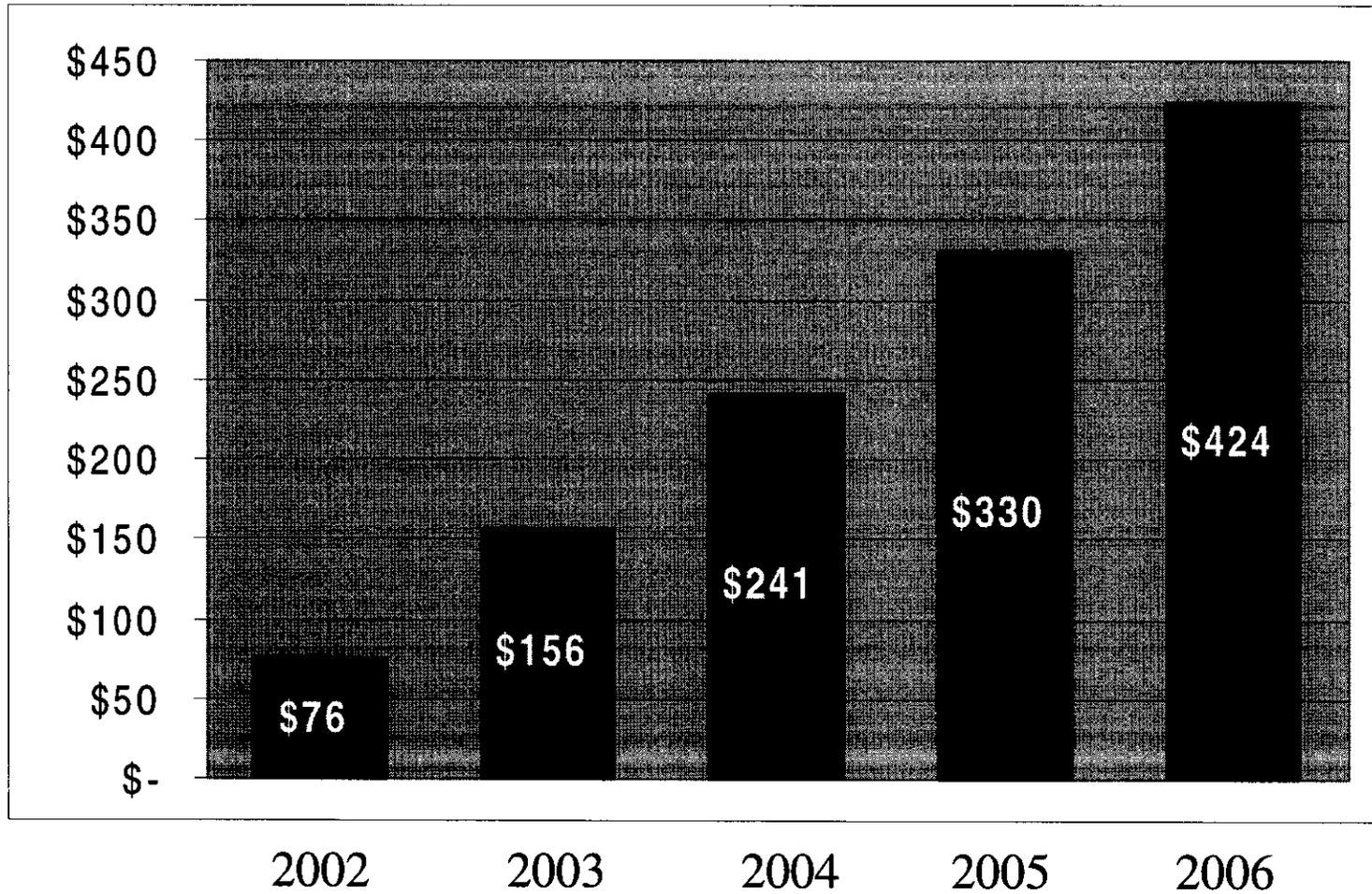
Beginning January 1, 2002, the annual amount of the rural incumbent local exchange carrier portion of the nationwide loop cost expense adjustment calculated pursuant to this subpart F shall not exceed the amount of the total rural incumbent local exchange carrier loop cost expense adjustment for the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

Monthly High Cost Fund



Cumulative Impact of One-Half Year Re-basing

\$ Million



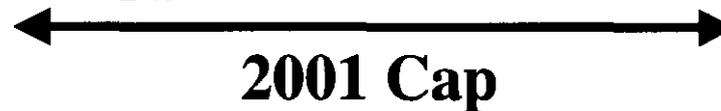
Two Possible Remedies

1. NTCA Petition for Reconsideration:

- **Annualize 2nd half of 2001**

2. Start with the uncapped fund for 2000 per the RTF and Joint Board recommendations and directly calculate the 2002 cap by growing it for 2001 and 2002

- **2002 Cap = [(uncapped 2000) (1 + RGF₂₀₀₀)](1 + RGF₂₀₀₁)**



* RGF = Rural Growth Factor

Need to Fix Rebasing Now

- NTCA requested correction in its petition for reconsideration
- Correction was requested last fall so the problem could be resolved before 2002 started
- Absent FCC action High Cost Fund payments have gone down in 2002
- Retroactivity to the first of the year 2002 is needed
- Third Quarter correction will be smoother than Fourth Quarter