COVINGTON & BURLING

1201 PENNSYLVANIA AVENUE NW
WASHINGTON, DC 20004-2401
TEL 202.662.6000
FAX 202.662.6291
WWW.COV.COM

WASHINGTON
NEW YORK
SAN FRANCISCO
LONDON
BRUSSELS

February 18, 2004

Filed Electronically

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

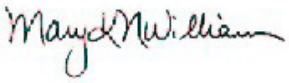
Re: *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45
Ex Parte Notice

Dear Ms. Dortch:

This letter is filed pursuant to Section 1.1206(b)(2) of the Commission's rules to provide notice of a permitted *ex parte* communication in the above-referenced proceeding. On February 17, 2004, Kristine Haskin, Jeffrey Johnson, Jeff Jung, and Thomas McCabe of TDS Telecommunications, Inc. (TDS Telecom) met with Greg Fogleman, Economic Analyst of the Florida Public Service Commission (Florida PSC) and a member of the staff of the Federal-State Joint Board on Universal Service (Joint Board). The discussion centered on issues raised in the attached documents, which were distributed at the meeting, as well as by email to David Dowds of the Florida PSC and Joint Board staff. Exhibit A outlines the issues discussed, while Attachments 1-3 show, using hypothetical numbers, how various proposals pending before the Joint Board would affect a typical rural local exchange carrier.

Please address any questions to the undersigned.

Sincerely,



Mary Newcomer Williams
Counsel to TDS Telecom

Attachments

cc: Greg Fogleman
David Dowds
Kristine Haskin
Jeffrey Johnson
Jeff Jung
Thomas McCabe

EXHIBIT A

USF IMPACTS OF USING PRIMARY LINES (NOT TOTAL LINES) AND FREEZING SUPPORT

1) Limiting Support To Primary Lines Could Be Devastating
   a) USF Support is divided by the ILEC line count only to determine an amount that is available to CETCs
   b) The USF Support amounts for LSS, ICLS, and LTS are not based on line counts, but on revenue requirements
   c) HCL is the only support element that an ILEC receives that is based on line count, but HCL algorithm also uses a study area's investment and expenses
      i) These investment and expenses do not go away
      ii) ILEC still has obligation to serve
   d) See Attachment 1 – PRIMARY LINE IMPACTS
      i) Method 1, Redistribute Current ILEC Support To Primary Lines
         No change initially. In later years, customers moving between line classes can affect support amounts, which does not make sense
      ii) Method 2, Current Support Only To Primary Lines
         Large decrease immediately
   e) Potential increases in local rates may be needed to offset lost USF revenues

2) Impact When Support Is Frozen Depends On The Method, See Attachment 2 – FREEZE IMPACTS
   a) Method 1, Redistribute Current ILEC Support To Primary Lines and Freeze It
   b) Method 2, Current Support Only To Primary Lines and Freeze It
   c) Method 3, Freeze ILEC Support & Distribute Based On % Lines of ILEC & CLEC
      Freeze support dollars that were targeted to ILEC and distribute to ILEC and CETC based on percent of total primary lines each has within the study area
   d) Method 4, Freeze ILEC & CETC Support & Distribute Based On % Lines ILEC & CLEC
      Freeze support dollars that were targeted to ILEC and CETC. Then distribute to ILEC and CETC based on percent of total primary lines each has within the study area
   e) Major disadvantages of freezing support are:
      i) Freezing support can limit future needed investment for:
         (1) Advanced services because DSA/DSCs are needed to offer DSL
         (2) Switching investment
      ii) A CETC with a small number of lines in the ILEC's study area can invoke the freeze
      iii) Only HCL, as explained in #1, is determined by line count. LSS, ICLS, and LTS are based on revenue requirements, not lines.
      iv) Potential increases in local rates may be needed to offset lost USF revenues

3) Changing From "All" Lines To "Primary" Lines Can Severely Affect Each Company's USF HCL Algorithm Differently, See Attachment 3 - COMPARISON

4) Administrative Issues With Determining Primary Line
   a) How do you identify and track primary lines in a multi-carrier environment
   b) Potential for abuse
      i) Wireless carriers could offer to deeply cut monthly rates if customer designates the wireless line as the primary line
      ii) ILECs don't have that option

5) CETCs Should Get Support Based On The CETC Cost, Not ILEC Cost

a) Today - Support On All Lines

Type of Support	Monthly Support Amounts	Monthly Support Amt Per Line	
Total HCL, LSS, LTS, ICLS	$15,000	$16.67	
All Lines	900		
Support per "All Lines" ==========>			$16.67
Year 1 Line Make Up:			
Single Line Res	485	54%	
Single 2nd Res	145	16%	
Singl Line Bus	90	10%	
Multi Bus	180	20%	
Total	**900**	**100%**	

b) Method 1 - Redistribute Current ILEC Support To Primary Lines of SL Residence & SL Business

Type of Support	Monthly Support Amounts	Monthly Support Amt Per Line	
Total HCL, LSS, LTS, ICLS	$15,000	$26.09	
Primary Lines (SL Res/Bus)	575		
Support per Primary Line ==========>			$26.09
Year 1 Line Make Up:			
Single Line Res	485	54%	$12,652
Single 2nd Res	145	16%	
Singl Line Bus	90	10%	$2,348
Multi Bus	180	20%	
Total	**900**	**100%**	**$15,000**
		Change	**$0**

b) Method 2 - Current Support Only To Primary Lines of SL Residence & SL Business

Type of Support	Current Monthly Support Per "All Lines"	Primary Lines	Monthly Support
Total HCL, LSS, LTS, ICLS	$16.67	575	$9,583
Primary Lines (SL Res/Bus)	575		
Support per Primary Line ==========>			$16.67
Year 1 Line Make Up:			
Single Line Res	485	54%	$8,083
Single 2nd Res	145	16%	
Singl Line Bus	90	10%	$1,500
Multi Bus	180	20%	
Total	**900**	**100%**	**$9,583**
		Change	**-$5,417**

Method 1, 2nd Year If Customers Move Between Classes

Single Line Res	485	54%	$12,652
Single 2nd Res	145	16%	
Singl Line Bus	50	6%	$1,304
Multi Bus	220	24%	
Total	**900**	**100%**	**$13,957**
		Change	**-$1,043**
		Change From Year 1	**-7.0%**

Current Method

	ILEC	CETC	Total Study Area	Support Per "All Lines"
All Lines	900	800	1,700	$16.67
Support	$15,000	$13,333	$28,333	

Method 1 - Redistribute Current ILEC Support To Primary Lines and Freeze It

	ILEC	CETC	Total	"Primary" Support Per Line
Initial				
Primary Lines (SL Res/Bus)	575	40	615	$26.09
Support	$15,000	$1,043	$16,043	
Support Change Vs Current	**$0**	**-$12,290**	**-$12,290**	
% Support Change	0.0%	-92.2%	-43.4%	
1 Year Later				
Primary Lines (SL Res/Bus)	500	115	615	
Support	$13,043	$3,000	$16,043	
Support Change Vs Current	-$1,957	-$10,333	-$12,290	
% Support Change	-13.0%	-77.5%	-43.4%	

Method 2 - Current Support Only To Primary Lines and Freeze It

	ILEC	CETC	Total	Support Per "All" Lines
Initial				
Primary Lines (SL Res/Bus)	575	40	615	$16.67
Support	$9,583	$667	$10,250	
Support Change Vs Current	**-$5,417**	**-$12,667**	**-$18,083**	
% Support Change	-36.1%	-95.0%	-63.8%	
1 Year Later				
Primary Lines (SL Res/Bus)	500	115	615	
Support	$8,333	$1,917	$10,250	
Support Change Vs Current	-$6,667	-$11,417	-$18,083	
% Support Change	-44.4%	-85.6%	-63.8%	

Method 3 - Freeze ILEC Support & Distribute Based On % Lines ILEC & CLEC

	ILEC	CETC	Total	ILEC $ Support
Initial				
Primary Lines (SL Res/Bus)	575	40	615	$15,000
% of Primary Lines	93.50%	6.50%	100%	
Support	$14,024	$976	$15,000	
Support Change Vs Current	**-$976**	**-$12,358**	**-$13,333**	
% Support Change	-6.5%	-92.7%	-47.1%	
1 Year Later				
Primary Lines (SL Res/Bus)	500	115	615	
	81.30%	18.70%	100%	
Support	$12,195	$2,805	$15,000	
Support Change Vs Current	-$2,805	-$10,528	-$13,333	
% Support Change	-18.7%	-79.0%	-47.1%	

Method 4 - Freeze ILEC & CETC Support & Distribute Based On % Lines ILEC & CLEC

	ILEC	CETC	Total	ILEC & CETC $ Support
Initial				
Primary Lines (SL Res/Bus)	575	40	615	$28,333
% of Primary Lines	93.50%	6.50%	100%	
Support	$26,491	$1,843	$28,333	
Support Change Vs Current	**$11,491**	**-$11,491**	**$0**	
% Support Change	76.6%	-86.2%	0.0%	
1 Year Later				
Primary Lines (SL Res/Bus)	500	115	615	
	81.30%	18.70%	100%	
Support	$23,035	$5,298	$28,333	
Support Change Vs Current	$8,035	-$8,035	$0	
% Support Change	53.6%	-60.3%	0.0%	

Comparison Of "All" Lines Vs. "Primary" Lines Affect On HCL Algorithm Calculation

ATTACHMENT 3 - COMPARISON

HCL is calculated as follows:

i) Average study area cost per loop (CPL) is developed by taking (ROR on loop related net investment + loop related expenses) divided by "All" Loops.

ii) Through a series of formulas, a HCL expense adjustment per line is developed by comparing the CPL to the capped NACPL.

iii) The HCL expense adjustment per-line amount is then multiplied by the total line count to determine the annual USF HCL expense adjustment.

iv) The HCL fund is a capped fund. The capped NACPL is raised until the fund need equals the fund size.

1) ABC Company - USF HCL Algorithmn

	Currently	Primary SL Residential & SL Business Lines	Change In USF HCL
a. Lines	900	575	-325
b. Annual HCL Study Area Cost Per Loop	$392.00	$613.56	$ 221.56
c. Monthly HCL Study Area Cost Per Loop	$32.67	$51.13	$ 18.46
d. Capped National Average Cost Per Loop	$281.67	$422.51	$ 140.84
e. USF HCL Annual Amount	**$39,827**	**$47,720**	**$7,893**
f. Line Make Up:			(Increase Occurs)
g. Single Line Res	485	54%	
h. Single 2nd Res	145	16%	
I. Single Line Bus	90	10%	
j. Multi Bus	180	20%	
Total	**900**	**100%**	

2) XYZ Company - USF HCL Algorithmn

Type of Support	Currently	Only Primary Residential Lines Supported	Change In USF HCL
a. Lines	900	900	0
b. Annual HCL Study Area Cost Per Loop	$392.00	$392.00	$ -
c. Monthly HCL Study Area Cost Per Loop	$32.67	$32.67	$ -
d. Capped National Average Cost Per Loop	$281.67	$422.51	$ 140.84
e. USF HCL Annual Amount	**$39,827**	**$0**	**-$39,827**
f. Line Make Up:			(Large Decrease)
g. Single Line Res	850	94%	
h. Single 2nd Res	0	0%	
I. Single Line Bus	50	6%	
j. Multi Bus	0	0%	
Total	**900**	**100%**	