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April 7, 2004

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

RE: CC Docket Nos. 02-33, 01-92 and 96-45

Dear Ms. Dortch:

On April 6, 2004, Jack Rhyner, Evelyn Jerden and Gerry Duffy of the Western Alliance met with Commissioner Kevin J. Martin and his Senior Legal Advisor Daniel Gonzalez to discuss the impact of proposals in various pending Commission proceedings, as well as the impact of the uncertainties produced by such proposals and proceedings, upon investment in rural communications infrastructure.

The topics included: (1) the proposal in CC Docket No. 02-33 to classify Digital Subscriber Line (DSL) and other broadband services as Title I information services; (2) the proposal in CC Docket No. 96-45 to limit High Cost support to primary lines; and (3) the proposal in CC Docket No. 01-92 to replace access charges with a "bill and keep" system. The Western Alliance representatives noted that rural telephone companies and their rural service areas are subject to economic conditions and constraints much different from those in urban and suburban areas. Whereas Title I classification of broadband services may make sense in urban/suburban areas, it will prevent pooling, and disrupt cost allocation and cost recovery, of broadband facilities by the rural telephone companies that serve large portions of Rural America. Likewise, "bill and keep" mechanisms may be attractive to urban and suburban carriers, but they will produce large increases in transport expenses for rural telephone companies, and force them to recover substantial costs currently in access charges via a new or expanded Universal Service Fund mechanism. These latter disruptions and uncertainties are exacerbated by the possibility that future High Cost Fund support may be limited to primary lines, and/or may be determined on a basis other than embedded costs. With all of these uncertainties affecting critical revenue streams and cost recovery mechanisms, the Western Alliance representatives indicated that managers and directors of rural telephone companies are being forced into positions where they cannot reasonably propose additional capital expenditures.

Consistent with section 1.1206 of the Commission's rules, 47 C.F.R. §1.1206, one copy of this notice is being filed electronically in the above-captioned proceedings.

Respectfully submitted,

/s/ Gerard J. Duffy
Gerard J. Duffy

cc: Daniel Gonzalez
(Attachment)

Stimulating Rural Investment

The Need for

Regulatory Predictability and Stability

Intercarrier Compensation & USF

- Rate-of-return RLECs are concerned about intercarrier compensation reform combined with potential USF reform.
  - “Bill and Keep” does not work in the highest cost, most rural portions of the nation.
  - One approach suggested would be to transfer significant amounts to USF.
  - HOWEVER…USF is also subject to reform.

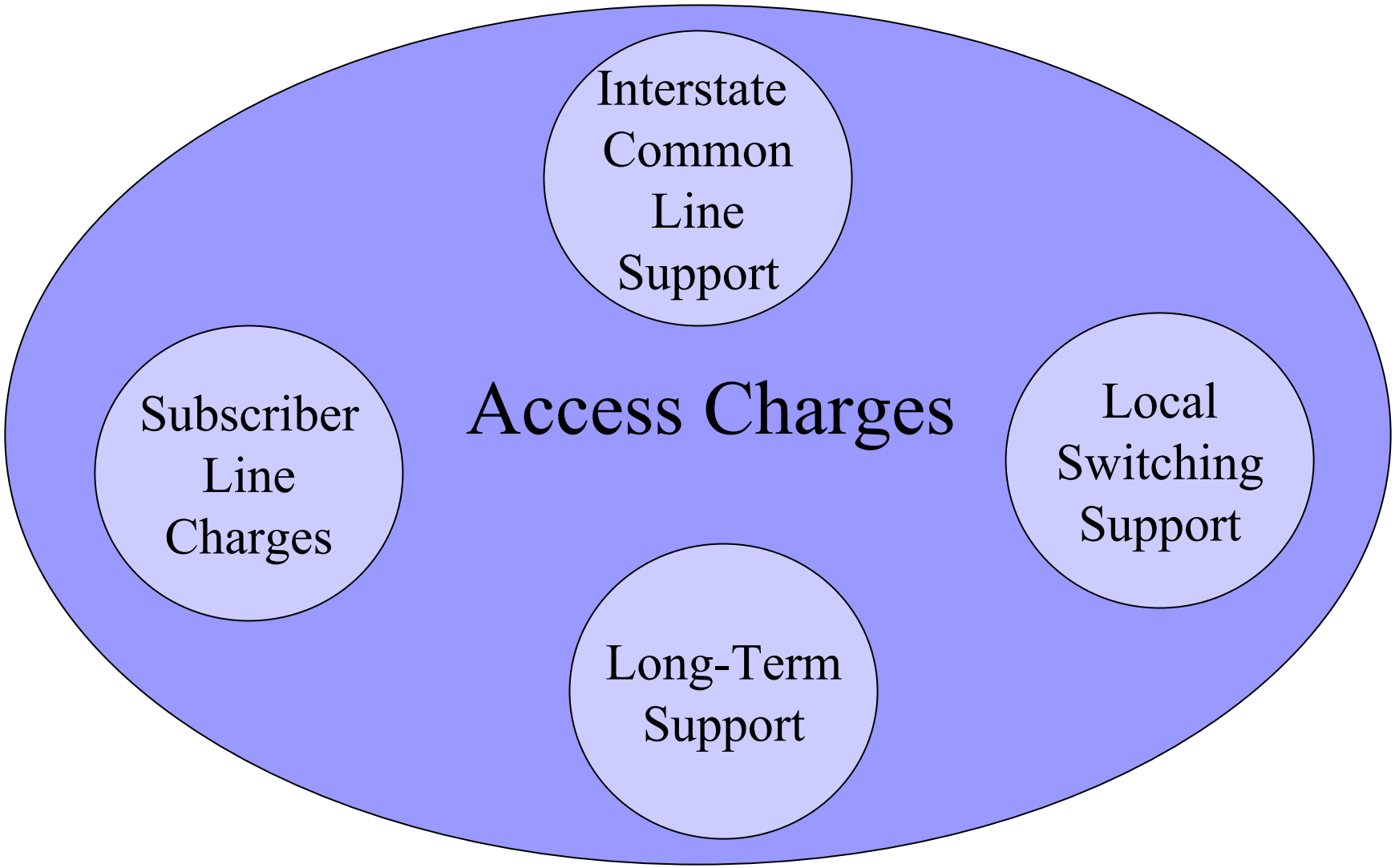
Intercarrier Compensation & USF

- RLECs are concerned about investing in infrastructure given the regulatory uncertainty.
  - Will Intercarrier Compensation Reform Eliminate Access Revenues?
  - Will USF mechanisms for rural carriers be converted to FLEC?

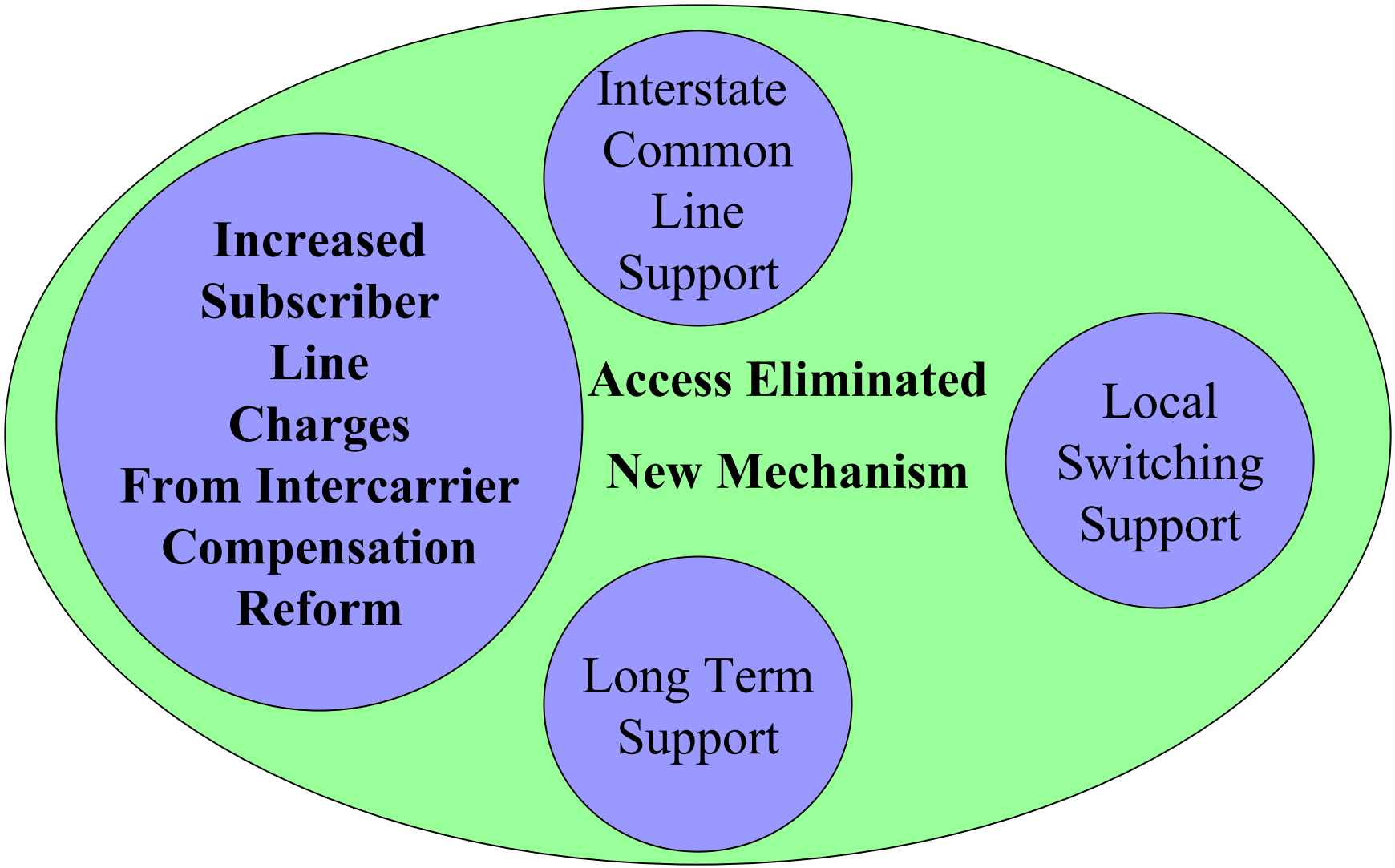
Two Rounds of USF Reform

- RLECs are concerned about USF reform for items such as Primary Lines
- AND…
  - Will USF mechanisms for rural carriers be converted to FLEC?
  - Will statewide averaging be used?

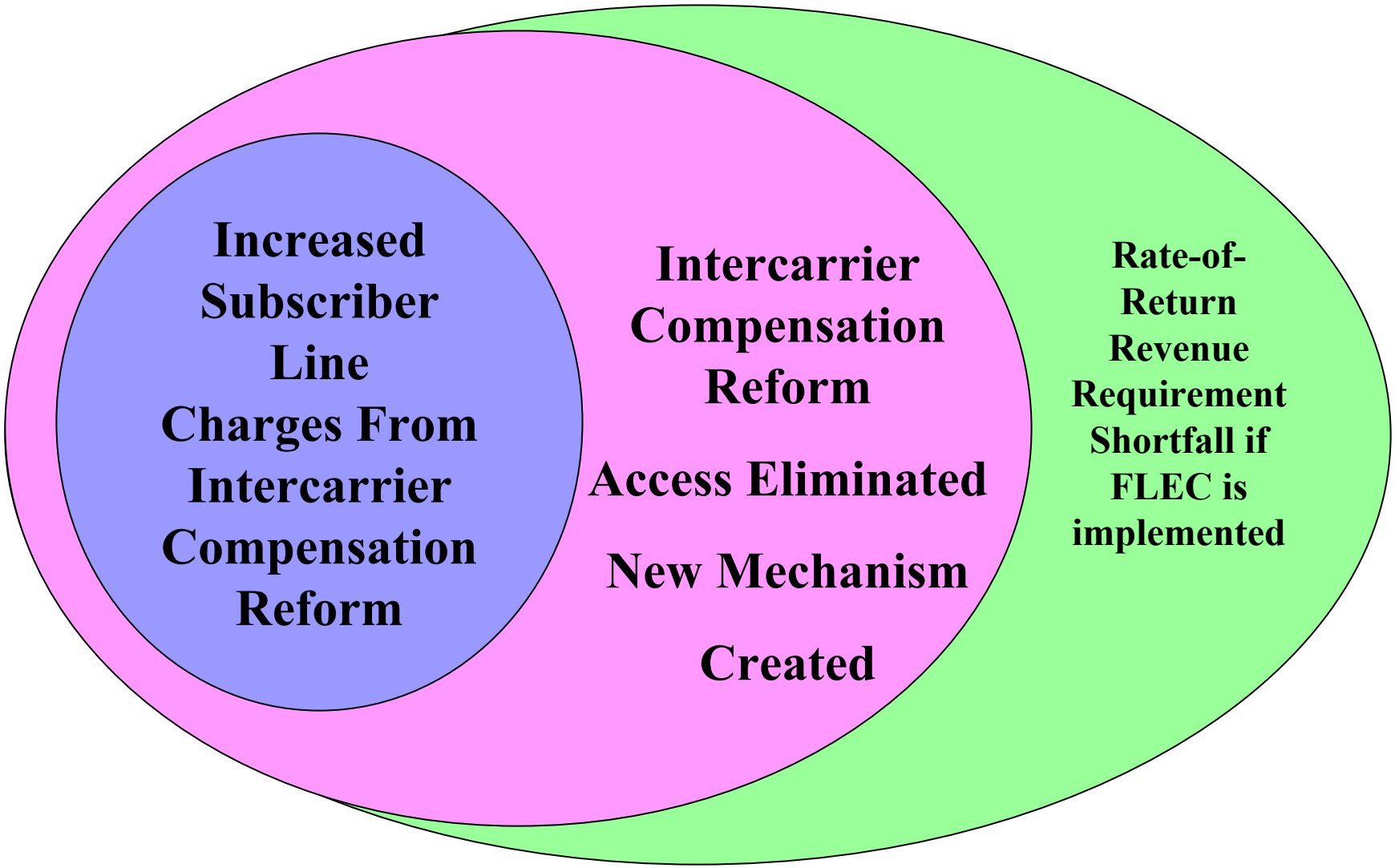
Current Rate-of-Return Revenue Requirement Based on Actual Embedded Cost



Post Intercarrier Compensation Reform



What Happens to Rate-of-Return?



How will the Rate-of-Return Costs Be Recovered?

	Company A	Company B
Interstate Revenue Requirement at 11.25%	$ 7,313,507	$ 562,998
Intrastate Revenues (Excluding Local)	$ 4,362,587	$ 114,274
Total Current Access Charge Revenues which includes LSS, LTS, ICLS and SLC	$ 11,676,094	$ 677,272
Access Lines	7,228	927
Bill and Keep Revenues Required Annually	$ 1,615	$ 731
Bill and Keep Revenues Required Monthly	$ 134.62	$ 60.88