

GVNW CONSULTING

July 21, 2005

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

Dear Ms. Dortch: [VIA ECFS]

RE: Ex parte filing in CC Docket No. 01-92 and CC Docket No. 96-45

On July 20, 2005, Jeff Smith from GVNW Consulting met with Commissioner Ray Baum, Phil Nyegaard and Andy Margeson at the Oregon PUC offices in Salem, Oregon.

We provided some additional information regarding the GVNW concerns with respect to the NARUC block grant proposal, including but not limited to: the degree of predictability of the funds, the sufficiency of the funding for infrastructure deployment, administrative issues, and issues of jurisdiction and oversight. The discussions that occurred are summarized in the one page attachment to this cover letter. We also discussed GVNW's reply comment filing in the intercarrier compensation docket and rural carrier concerns surrounding the recent Brand X Supreme Court decision.

If there are any questions, please call me on 503.612.4409, or via electronic mail at jsmith@gvnw.com.

Sincerely,

[electronically filed]

Jeffrey H. Smith
Vice-President and Division Manager, Western Region
Chairman of the Board of Directors

Attachment is page 2 of this electronically filed document

Copy to Commissioner Ray Baum
Phil Nyegaard, OPUC
Andy Margeson, OPUC
Brant Wolf, OTA Executive Director

Rick Finnigan, OTA Counsel
Carsten Koldsbaek, GVNW

ISSUES CONCERNING PROPOSAL TO DISTRIBUTE UNIVERSAL SERVICE FUNDS UNDER A STATE ALLOCATION MECHANISM

NARUC has proposed that federal universal service funds be provided to individual states via a “block grant” basis (State Allocation Mechanism – SAM) for distribution to carriers based on decisions rendered by the state commission. The current block grant proposal offered by the NARUC in its Version 7 proposal raises several important issues.

Predictability. First and foremost, Section 254 mandates that universal service support be “specific, predictable, and sufficient.” Implementing a block grant approach to distributing federal universal service funding allows state commissions with such a large degree of discretion so as to render the achievement of the “predictable” tenet impossible.

In its June 14, 2005 Universal Service NPRM, the FCC is evaluating the use of “formulaic” methods to distribute schools and libraries funds to eliminate certain problems experienced in those programs. The current high-cost fund process is already “formulaic,” and thus not prone to arbitrary decision-making.

Sufficiency. Similarly, the metric of “sufficiency” may well not be achieved. In order for RLECs to continue to deploy rural infrastructure in the highest-cost areas, reliable access to support funding must continue **throughout the investment cycle**. The arbitrary nature of even a well-intended block grant program could severely retard investment in rural areas as lenders will not provide capital, and carriers will be unwilling to assume the degree of uncertainty that would result from block grant funding decisions. Capping the funding at the 2004 level will not promote the deployment of broadband infrastructure in rural areas.

Administration. There are examples of block grant administration that could be problematic if replicated in distributing monies that would otherwise be used for rural infrastructure deployment. For example, in Alaska there are programs related to mothers and children that spend nearly 25% of its funds on administration before any monies reach the intended recipients. State legislatures may be tempted to use support funds to meet operating budgets for state utility commissions.

Jurisdiction. The block grant issue is further complicated with the challenges that would be placed on state regulators in states where the PUC has no or limited authority over certain carriers. In these cases, a conflict would arise between the properly enacted state statutes and the state commission's desire to review certain operating company data that prior to the implementation of a block grant program would not have been subject to state commission review.