McLean & Brown

ISSUE UPDATE

March 2, 2001

Comments Filed on RTF recommendation and MAG plan

On February 26, 2001 the FCC received comments from interested parties on both the Rural Task Force (RTF) recommendation for reform of universal service mechanisms for non-rural carriers, and the proposal of the Multi-Association Group (MAG) for comprehensive access charge and universal service reform for rate-of-return carriers. The following ***Issue Update*** briefly summarizes the comments filed by the parties:

Alabama Rural LECs

- The MAG plan's elective structure of Path A and Path B avoids a "one size fits all" mechanism that fails to accommodate differences.
- The current interstate rate of return should be retained.
- IXCs should offer rural customers the same discount plans offered in urban areas.

Ad Hoc Telecommunications Users Committee

- The Commission should reject the proposals of the RTF and MAG to:
  - Use an embedded cost model to size rural carrier support.
  - Make a distinction between rural and non-rural carriers that both serve rural, high cost areas.
  - Re-base the cap on the HCL fund, or eliminate the cap entirely.
  - Establish "above-the-cap" Safety Valve and Safety Net mechanisms.
  - Disaggregate support to multiple areas below the wire center.
  - Adjust the corporate operations expense limitation to reflect growth.
  - Adopt a "no barriers to advanced services" policy.
- In its endorsement of an embedded cost model to size the fund, the RTF is encouraging economic inefficiency and creating barriers to competition.
- The proposals of RTF and MAG to disaggregate support below the wire center lack necessary regulatory oversight and provide rural carriers both an opportunity and incentive to "game" the system.
- The Commission should adopt an annual productivity factor to be applied to the indexed cap on the HCL fund.

Alaska Telephone Association (MAG Comments)

- The MAG plan should be adopted in its entirety.
- The existing rate-of-return should be maintained.
- Merger and acquisition caps should be eliminated.
- Alaska carriers vigorously support geographic toll rate averaging.
- The interim HCL cap and corporate operations expense cap should be lifted.
- The MAG plan balances a need for control of the size of the fund by instituting a per-line freeze while facilitating comparable rates and services.

Alaska Telephone Association (RTF Comments)

- Because the RTF plan is an arduously crafted compromise, the Commission must accept it in its entirety.
- Before the Commission opens a proceeding to review the plan it must wait for a sufficient period of time (at least as long as it took to craft the plan).

Alaska Rural Calition (MAG Comments)

- The Commission should expeditiously adopt the MAG plan as filed.

Alaska Rural Calition (RTF Comments)

- The Commission should adopt, without change, the RTF recommendation.
- Rural companies need assurance that there will be a predictable and sufficient level of universal service support to justify investment. The RTF recommendation will provide the economic stability and regulatory certainty necessary to encourage investment in rural Alaska.
- The Commission should not delay consideration of the RTF recommendation while other reforms are considered. Adoption of the RTF recommendation can take place immediately, while other reforms are worked out in a considered fashion.

Regulatory Commission of Alaska

- The MAG plan is a useful starting point but it has not been tempered by industry consensus and will require considerable modification.
- Approval of the RTF recommendation should not be delayed while the MAG issues are debated.
- RCA questions many of the "efficiency" benefits that the MAG plan attributes to Path A incentive regulation, particularly the notion that it will flow through significant benefits to end users.
- While supporting the intent to pass through access reductions to end users, will this be enforceable if left to the discretion of the IXCs?
- The MAG plan proposal to provide advanced service in rural areas is flawed.
- RCA supports the concept of desegregating universal service support within study areas.
- The proposed rule regarding the pricing of new access services at "current market rates" requires further detail.

Arizona Local Exchange Carriers Association

- The Commission should adopt the MAG plan in its entirety, and should implement it as soon as possible.
- Because the MAG plan was developed with input from affected companies, the regulation plan takes into consideration the diversity of the small and mid-sized rural telephone companies while at the same time preserving rate of return regulation for those companies that need it.
- In today's slowing economy, the Commission's current authorized rate of return reflects the minimum realistic cost of capital. To alter that rate of return would create serious investment disincentives.

Association of Communications Enterprises

- The MAG plan appears to have been disigned to insulate the participating ILECs from adverse market forces and provides them with a veritable windfall.

AT&T (MAG Comments)

- The MAG plan contains a number of features that , with certain modifications, could be incorporated into access reform for rate-of-return carriers.
- Implicit subsidies must be removed from access charges and recovered explicitly through USF and RAS for all rate-of-return carriers, including Path B.
- SLC caps should be increased to CALLS levels and the TS rate should be reduced to the CALLS rural rate of $0.0095 and not the $$0.016 proposed in the MAG plan.
- The MAG universal service proposals provide additional support that is not linked to increased investment. Accordingly, AT&T recommends that the Commission adopt the reforms recommended by the RTF.
- The MAG incentive provisions allow revenues to grow based on line growth plus inflation without any productivity offset would allow unbounded revenue growth. The Commission should consider incentive regulation for rate-of-return carriers in a separate proceeding.

AT&T (RTF Comments)

- Supports the RTF plan as a carefully-crafted compromise that strikes a reasonable balance between the need for increased USF support, and containment of USF growth.
- A failure to remove implicit subsidies from access and maintaining disparity between rural and non-rural access rates threatens universal service, thwarts competition and puts pressure on geographic toll rate averaging.
- Access should be revised through higher SLC charges, lower traffic sensitive rates to IXCs and the establishment of HCF III.
- It is critical that the Commission eliminate the USF "lag" prior to adoption of the plan.
- If the RTF's proposal for access reform and USF "lag" are delayed beyond 7/1/01, then all of the other universal service enhancements in the plan should be likewise delayed.

BellSouth

- The essence of the MAG plan is to introduce more efficient cost recovery mechanisms for non-price cap local exchange carriers.
- Supports the MAG plan and encourages the Commission to adopt it so that it may be implemented with the next annual access filing.
- The MAG plan sends the proper market signals such as a reduction of terminating per minute access charges.

California PUC (MAG Comments)

- The proposal removes the cap on universal service support; expands the scope of universal service funding to include special access services, and new state and federal regulations; provides inflation-based and access line-based increases in existing universal service funding; and creates new RAS universal service funding – while at the same time providing no evidence whatsoever that such changes are cost-based or necessary to maintain universal service.
- The MAG proposal's incentive regulation plan lacks a productivity offset to ensure that even a portion of any efficiency gains inure to the benefit of customers in the form of reduced rates and/or reduced universal service funding.
- The incentive regulation plan contains an overly-generous low end adjustment that would protect a carrier from almost all risk.
- The proposal would lock in the use of universal service funding to support non-primary residential and multi-line business customers.
- The MAG proposal would allow excessive deaveraging of SLCs and universal service support, which could be used to disadvantage potential competitors.
- Merger/acquisition safeguards would be eliminated, so that excessive universal service funding could be obtained for acquired properties.

California PUC (RTF Comments)

- A methodology for funding universal service to high-cost areas should be guided by the following principles:
  - It should use forward-looking cost.
  - It should narrowly target areas of actual need.
  - It should produce a federal fund that is modestly sized.
  - It should minimize the burden on those states that are net contributors.
- The RTF recommendation thwarts these principles:
  - It relies on embedded costs and does nothing to promote efficiency in the operation of rural carriers.
  - It implicitly assumes that interstate access charges solely support universal service.
  - It fails to eliminate NECA pooling despite the fact that pools violate the universal service funding requirements in Section 254.
  - It provides no evidence that the cap on universal service funding has had an adverse impact on rural LEC's investment in advanced services.
- The Commission should reject the RTF recommendation and base funding on forward-looking costs and recover funding in a competitively neutral manner.

Century Tel

- The Commission should move forward quickly to implement the RTF recommendation.
- Reform is critically needed since support that is averaged across an entire study area fails to provide sufficient support to a rural carrier's highest cost lines.
- The safety valve mechanism is necessary to bring services to customers of exchanges where the selling carrier has invested least.
- Section 54.305 is beginning to impede rather than promote the Commission's universal service goals.
- In implementing the safety valve mechanism the Commission should:
  - Define "meaningful investment" broadly.
  - Not artificially limit safety valve support.
  - Not subject safety valve support to the "freeze" mechanism applied to HCL support.
  - Eliminate the study area waiver process for sale and purchase transactions.

Competitive Universal Service Coalition (MAG Comments)

- Reform of rural ILEC access charges should be based on three principles"
  1. Competitive neutrality.
  2. Economic efficiency.
  3. Transparency.
- Two elements of the MAG plan are consistent with these principles:
  - The increases in rural ILEC SLC charges.
  - The proposal that all explicit funding be portable to all ETCs.
- Most of the MAG proposals fail to satisfy these criteria. The Commission should not:
  - Give the rural ILECs revenue guarantees.
  - Give the rural ILECs opportunities to "game" the regulatory process.
  - Impose unnecessary and inappropriate regulation on non-dominant carriers.
- The RAS should recover only the amount necessary to maintain universal service and should not guarantee rural ILEC revenue levels.
- Path B ILECs should not be allowed to "opt out" of eliminating implicit support. Rather, funding to all rural ILECs must be explicit and portable to CETCs.
- The Commission should implement increased SLCs and determine appropriate access charge levels based on cost justification, including a re-initialized rate of return.
- Incentive regulation for rate-of-return LECs must be mandatory and should not contain a low-end adjustment.

Competitive Universal Service Coalition (RTF Comments)

- Generally supports the RTF recommendation which will advance the goal of competitive neutrality and will prevent excessive growth in the fund.
- The Commission should reject the proposed "safety valve" mechanism.
- There should be no increase in fixed funding levels to support the cost of catastrophic events.

Evans Telephone, et. al. (MAG Comments)

- The MAG plan represents a balanced solution to the many unresolved issues affecting non-price cap carriers and appropriately provides for the wide diversity that exists among small LECs.
- Adoption of the plan will reduce long distance rates and ensure the availability of discount calling plans for rural customers.

Evans Telehone, et. al. (RTF Comments)

- The RTF recommendation should be adopted by the Commission for immediate implementation to govern universal service funding for areas served by rural LECs.
- The USF III principles of the RTF recommendation are consistent with the MAG plan's proposal for reform of interstate access charges.

Florida PSC

- Opposes the MAG plan.
- There is insufficient detail on the impact of the proposed plan on consumers, and FPSC has considerable doubt about realization of consumer benefits under this proposal.
- The Commission should require that IXCs pass through savings from access reductions and that low usage minimum charges be eliminated.
- The universal service fund component of the MAG plan should be referred to the Joint Board.
- The 54.305 rule should be retained.
- It is incumbent upon the MAG proponents to demonstrate that their plan will produce sufficient, and only sufficient federal support. They have failed to do so.
- The FPSC has concerns over whether this proposal is good for competition and consumers, or whether it merely insulates rate-of-return carriers from market pressures on access rates and preserves ILEC revenues at unreasonably high levels.
- The five year transition may encourage ILECs to buy excessive amounts of equipment prior to electing Path A and guaranteed recovery of costs.
- The elimination of data reporting requirements will hamper state regulation.

Fred Williamson & Associates (MAG Comments)

- Recommends the following changes for Path B LECs:
  - RAS should not be limited to Path A.
  - SLCs should not be increased to CALLS levels on an unconditional basis.

Fred Williamson & Associates (RTF Comments)

- Support for infrastructure investment and advanced services should only be made available to ETCs actually capable of deploying the infrastructure and advanced services.
- A stranded cost mechanism must be developed.
- Portability support should be based on the ETC's costs.
- Identification of service locations must be resolved for wireless ETCs.
- Corporate operations caps must be eliminated.
- The merger and acquisition cap (54.305) must be eliminated.

General Communications Inc.

- The MAG plan offers a useful framework for interstate access charge and universal service reform, much of which should be adopted.
- The plan was developed solely by the rural ILECs and provides a smorgasbord of advantageous choices and benefits

General Communications Inc. (Continued)

- CGI encourages the Commission to modify the plan for overall balance in the public interest.
- The CAR should be set at 0.95 cents.
- Path B access rates should be set at the CAR.
- There should be a productivity factor.
- GCI opposes "dollar-for-dollar" flow through of access reductions.

Global Crossings

- The MAG plan is a step in the right direction, however it needs to be modified to share the risks of incentive regulation, while removing economic distortions in the current pricing structure.
- The CAR should be set at the $0.0095 level that CALLS sets for rural areas.
- There should be a productivity factor so that consumers share efficiency benefits.
- Under no circumstances should the Commission impose new regulations or rate structure requirements on IXCs.
- The Commission should retain caps on the HCL fund and corporate operating expenses.
- The Commission should retain the all-or-nothing rule to avoid gaming the system.

GSA

- The MAG plan will help competition in rural areas by implementing an access structure that more nearly reflects costs.
- The plan will ensure that consumers benefit from access charge reductions.
- The plan motivates carriers to reduce costs, expand services and invest in technology through incentive regulation.
- The commission should not freeze the interstate rate of return.
- The Commission should adopt further revisions in access charges to reduce disparities in charges between business and residence lines.
- The Commission must develop more information on the costs of the RAS.

GVNW Consulting Inc.(MAG Comments)

- MAG plan offers solutions to a number of challenges that face high-cost rural LECs
- RAS should be available for Path B LECs.
- The current interstate rate-of-return should be maintained.
- The Commission should remove caps on universal service support
  - In the event the Commission does not accept this aspect of the MAG they should adopt the re-basing approach of the RTF.
- There should not be a productivity factor.
- It is almost impossible to develop a business case for rural broadband development without some form of subsidy.
- The 54.305 rule should be eliminated.
- IXCs should be required to offer the same discount plans to urban and rural areas.

GVNW Consulting Inc. (RTF Comments)

- The needs of all rural customers should be considered in placing limits on the proposed Safety Valve mechanism.
  - The Commission should re-calibrate the safety valve cap if it serves to stifle needed infrastructure investment.
- The rebasing of the HCL fund cap is an important step in promoting infrastructure investment.
- It is important to implement the recommendations for a five year period.

ICORE, Inc.

- The MAG plan, if adopted, must include a rate-of-return option for small rural carriers.
- If complete optionality for all non-price cap ILECs is seen as too broad, the Commission should at least consider optionality (or exemption from Path A incentive regulation) for small LECs with fewer than 50,000 access lines.
- The five year transition must be included in the MAG plan.
- SLCs must be flexible for those LECs choosing to remain under traditional regulation.
- All support elements, including RAS, must be available to all LECs.

Illinois Commerce Commission

- Filed for an extension of time to file comments and replies.

Innovative Telephone (MAG Comments)

- (Formerly Virgin Islands Telephone)
- Insular carriers face unique challenges such as isolation, weather and topography. Hurricanes and tropical storms devastate infrastructure with alarming frequency.
- The MAG plan does not allow small carriers to recover their reasonable expenses in the event of catastrophic loss.
- The LEAF should be modified to allow carriers to recover up to the 11.25% rate-of-return in the event of a catastrophic loss.
- The 54.305 cap should be eliminated.

Innovative Telephone (RTF Comments)

- Insular areas are different. The RTF found that insular carriers face higher costs.
- Universal service support for catastrophic events must be continued.
- Insurance, RUS loans and federal and state emergency relief will not cause double recovery.

Interstate Telcom Group (MAG Comments)

- The option to remain on rate-of-return regulation (Path B) must be retained.
- The MAG plan should be adopted for at least a seven-year initial term.
- SLC increases should not begin until 1/1/02, and SLCs should be lower than those of large carriers serving urban markets.
- There should be no productivity factor.
- The low end adjustment constitutes a safety net that is essential for the investment capability and operating viability of Path A LECs.
- The present 11.25% rate of return should be retained.

Interstate Telcom Group (RTF Comments)

- Supports the RTF recommendation only if the complete compromise package is adopted. To the extent that the full recommendation is not adopted:
  - _ No cap should be imposed on HCL support.
  - _ Per-line support should not be frozen when a competitor enters a service area.
  - _ Rural exchanges acquired by rural carriers should be treated the same as their pre-existing exchanges with no caps on support.
- The RTF plan should be given 24 to 30 months to work before the Joint Board begins its next review.

ITCs, Inc.

- Portable RAS and universal service support will result in customer skimming , but not effective competition.
- Disaggregation of USF support and/or RAS will combat skimming, but only if rural carriers are afforded sufficient time to develop their cost studies.
- The MAG plan and RTF recommendation will result in accounting nightmares for ILECs with carrier of last resort obligations.

ITTA

- The Commission has previously concluded that one size does not fit all in the LEC world.
- The MAG plan embodies a flexible set of principles that would give mid-size and smaller LECs the correct incentives to move to incentive regulation while permitting them to continue to acquire and serve rural exchanges cast off by others.

John Staurulakis, Inc. (MAG Comments)

- Applying price-cap access reform to rate-of-return carriers would lead to dramatic increases in the costs to all end-user customers from increases in SLCs and the direct pass-through of PICCs.
- Large increases in end-user charges are not in the public interest.
- IXCs should pay for their share of non-traffic-sensitive costs on a non-traffic-sensitive basis. To the extent that the MAG plan accomplishes this cost recovery adjustment, JSI is supportive of this effort.
- Path B ILECs higher composite access rate (CAR) should be reasonably comparable to the Path A ILEC rate in a manner similar to the comparability of Path A ILEC rates to the CALLS rate for price-cap ILECs serving rural areas.
- The Commission should create an access recovery mechanism for Path B ILECs that would operate in a manner similar to the current LTS with the exception that it would not be portable to CETCs.
- All federal universal service caps and recovery limitations should be removed.
- The current authorized rate-of-return should be retained.

John Staurulakis, Inc. (RTF Comments)

- Retain the foundation of the RTF recommendation – the continued use of actual embedded cost to determine support.
- Remove all caps and limitations on current HCL support.
- Do not implement RTF caps and limitations on federal support.
- Do not impose a competitive freeze on per-line support, or alternatively establish a market share threshold of 5 or 10 percent of access lines.
- Instead of safety-net and safety-valve regulation, utilize the existing state certification process for rural carriers.
- Clarify the disaggregated support method and allow for one year to file plans with the appropriate regulatory authority.
- Require that wireless CETCs use the billing address as the "fixed location" for disaggregating support for end-user customers using mobile stations.
- Provide specific guidelines to state commissions to determine whether federal support is used in the manner intended.
- Use an embedded cost methodology to determine the level of implicit support in rural carrier interstate access rates.

LEC Multi-Association Group

- The MAG plan resolves, in a unified way, the numerous interstate regulatory issues that face the non-price cap LECs.
- The two-path approach is necessary to accommodate the diversity that the Commission and the RTF have recognized among non-price cap carriers.
- The plans similarities with the CALLS plan and the continuation of NECA's centralized tariff and pooling system will help minimize the practical effects of any purported regulatory complexity.
- The adoption of similar SLCs for price cap LECs and non-price cap LECs is consistent with the rural-urban rate comparability provisions of Section 254(g).
- The current funding caps artificially limit support to all carriers. Even areas that are most in need of upgrades must make do with less in any given year that the cap operates.
- The RAS in Path A will insure sufficient support while motivating non-price cap LECs to move to Path A incentive regulation.
- RPL-based regulation provides enhanced incentives for cost reduction and investment in new technologies by breaking the link between Path A LECs' costs and their revenues.
- As a policy matter, the plan is not designed to require the use of universal service funding to support advanced services.
- Section 54.305 discourages non-price cap LECs from acquiring and upgrading inferior telephone plant, contrary to the Act's universal service goals.
- Although IXCs are non-dominant carriers for which the Commission does not actively regulate rates, the Commission has ample authority to enforce IXCs' obligations pursuant to Section 254(g) and the regulations proposed in the plan.

NASUCA

- The MAG plan seriously conflicts with the Telecommunications Act of 1996, and the basic components of the MAG plan are flawed.
- The plan virtually assures higher prices and lower service quality without meaningful reduction in regulation.
- The plan fails to promote innovation and fails to promote competition in either the local exchange markets or the long distance markets.
- The MAG plan presents no data to allow the FCC or other parties to make reasoned judgments about the impact of the recommended changes on consumers and telephone companies.

NASUCA (Continued)

- On the surface it appears that residential and small business customers will be worse off while IXCs and ILECs will benefit from the plan and receive implicit subsidies.

National Exchange Carrier Association (NECA)

- The non-rural synthesis model will not work for rural carriers.
- The Commission should adopt the recommendation for continued use of the embedded cost mechanism with the RTF modifications.
- The proposal to re-base the overall cap on the HCL fund represents a major step forward, although the Commission should take account of the risks of re-imposing a cap.
- The 54.305 rule should be eliminated entirely, although a second-best solution is the safety valve mechanism with pro rata adjustments if the cap is exceeded.

National Telephone Cooperative Association (NTCA)

- The Safety Valve mechanism is necessary, but constraints will render it insufficient.
- Section 54.305 should be repealed.
- A five percent cap on the safety valve mechanism is inappropriate and not based on an evidentiary record.
- The Commission should not freeze support at the point of competitive entry.
  - The incumbent has no way of predicting when service to a single customer will freeze their support.
- The Commission should solve multiple carrier and multiple line support issues when it redefines federally supported services.
- Support to a CETC should be based on that carrier's costs.
- Recovery of costs for catastrophic events should not be limited by the cap.
- High Cost Fund III issues should be dealt with in the MAG proceeding.
- The Commission should not delay the MAG proceeding by referring parts of it to the Joint Board.

New York DPS

- The RTF recommendation may provide excessive federal support in the affected study areas.
- The Commission has observed in the non-rural proceeding that the primary role of the federal fund is to enable reasonable comparability ***among*** states.
- Neither the RTF nor the Joint Board has provided an analysis to show that the proposal will only provide the amount of support that is required.
- The RTF's recommendations for enabling or encouraging investments in advanced service capabilities are premature.
- Re-basing the high cost fund would be an inefficient mechanism for providing investment incentives.
- The Commission must balance the interests of those who will benefit from the high cost funds with the interests of those who must pay for them. Absent a showing that those payors are being asked to fund only the amount sufficient to meet the Act's universal service requirements, the RTF's proposal should be rejected.

NRTA, OPASTCO and USTA

- Where the RTF recommendation is consistent with the MAG plan it should be adopted. Where the MAG plan provides more specific or different proposals, particularly for access reform, it should be adopted.
- With regard to the alleged 5% cap for the safety valve mechanism, the RTF did not advocate a specific percentage for the cap. The 54.305 rule should be eliminated.
- The catastrophic event provisions in the RTF recommendation are necessary and should not be limited.
- The safety net mechanism would not recover more than 100% of incremental investment.

Ohio Telecommunications Industry Association

- The MAG proposal should be adopted without modification and in its entirety

Rate of Return Coalition

- The MAG plan's elective structure provides realistic choices for regulation.
- The current authorized rate of return should be retained.
- Incentive regulation for RoR carriers should not include a productivity factor.
- The Commission should reform its merger and acquisition rules and eliminate Section 54.305.
- Rules ensuring geographic toll rate averaging and pass through of IXC savings will benefit rural customers.
- The HCL and corporate operations caps should be eliminated.

Qwest

- Supports some key elements of the MAG plan:
  - Agrees with the proposal to increase SLCs to levels applicable to price cap carriers.
  - Backs the MAG plan's reduction over time of per-minute access rates to help eliminate implicit subsidies.
  - The rate-of-return docket should be closed leaving RoR at 11.25%.
  - Supports the goal of moving towards incentive-based regulation where carriers are rewarded for increased efficiency and productivity.
- However the plan, at least as presently proposed, should not be adopted.
  - The MAG plan fails to provide crucial details about its suggested changes to the access structure and universal service support systems – particularly the creation of the RAS.
  - It would create significant universal service support burdens for consumers in order to enable rate of return carriers not only to maintain, but to increase, their revenue per line in the absence of any growth in demand.
  - It would expand universal service support to advanced services.
  - The proposed rules for IXC rates both fail to recognize that the Commission no longer regulates those rates and are, in any event, unnecessary to protect consumers.

Ronan Telephone Consumer Advisory Committee

- The MAG plan is contrary to the long term best interests of rural subscribers in Ronan, and other rural areas of Montana and the nation.
- The plan will result in strikingly large rate increases for basic local service for rural subscribers.
- The MAG plan would dramatically decrease rural interstate switched access rates without any foreseeable benefit for consumers. It is very improbable that this decrease will result in any reduction in long distance charges for Ronan subscribers.
- The access rates proposed in the MAG plan are far below costs. The FCC's HCPM produces costs on average for rural Montana of 8.3 cents per minute.
- The current access structure would be replaced by a huge new addition to the Federal "subsidy" mechanism, which will make universal service funding an even more convenient and attractive political target in the future than it is today.

Roseville Telephone company

- The Commission should adopt the MAG plan in its entirety without modification.
- The plan addresses, in a comprehensive manner, both access reform and universal service, recognizes and accommodates the diversity or rate of return carriers, and provides substantial public interest benefits to consumers.

Rural Independent Competitive Alliance (MAG Comments)

- The creation of the new support mechanisms in the MAG plan should not adversely impact the rural CLEC "benchmark" proposed by RICA and others in CC Docket 96-262.
- If the RAS proposal is adopted, the CLEC benchmark should be set at the NECA rates plus the RAS.
- The study area freeze rules should be modified to allow rural carriers to add to existing exchanges whether the lines are obtained by purchase or overbuild.

Rural Independent Competitive Alliance (RTF Comments)

- The RTF recommendation correctly recognizes the public interest benefits in encouraging rural telephone companies to improve service by acquiring and improving territory from non-rural carriers.
- Support for new investment in rural areas should not distort the "make/buy" decisions of rural carriers.
- IF the Commission adopts the safety valve proposal of the RTF, it should be applicable whether the carrier purchases or overbuilds the aera.

Rural Task Force

- The recommended decision should be implemented immediately, as a comprehensive package, and for a period of five years.
- Adoption of the recommended decision will benefit rural customers by encouraging investment in rural infrastructure.
- The RTF plan balances the dual goals of the Act and promotes consumer welfare.
- The RTF took no position on what the cap on the safety valve mechanism should be.
- Provisions of the plan including frozen per-line support, support for catastrophic events, the safety valve and safety net mechanisms will not result in "double counting" of support.

Sprint

- The MAG proposal is not borne of the same give-and-take process that was central to the CALLS process thus lacking the presumption of reasonableness and requiring greater evidentiary support.
- There is no evidentiary support whatsoever for major features of the plan such as the CAR or the need for (and size of) the RAS.
- MAG has not offered any support for its proposed rate of $0.016. In the absence of such support there is no legally sustainable basis for accepting this aspect of the MAG plan.
- The low-end adjustment and the ability to pick and choose how to operate within the Plan A framework gives LECs too many guarantees to be considered "incentive-based" and too much opportunity to game the system.
- There is no legal predicate for imposing the pricing restrictions of the MAG on the IXCs.

South Dakota Independent Telephone Coalition

- The RTF and MAG take the same policy direction, but the MAG plan Is more in line with the principles in Section 254.
- The 14% qualification factor in the RTF's safety net support should be reconsidered.
- The 5% cap and the 50% support limitation in the safety valve plan are inappropriate.
- The Commission should allow three disaggregation zones per wire center for those carriers who self-certify under Path 3.

TANE Small Company Members

- The MAG plan should be adopted in its entirety and as soon as possible.

TDS Telecommunications

- Fully supports the MAG proposal.
- The Commission should carefully coordinate and simultaneously decide the MAG comprehensive reform proceeding and the RTF universal service proceeding.
- Until the Commission fully resolves the MAG access reform issues it must not make any decision with respect to the RTF's HCF III proposal.

Telecom Consulting Associates (MAG Comments)

- The MAG plan should be adopted to provide regulatory stability.
- The MAG plan will promote a competitive marketplace.
- The Low End Adjustment must be adopted to make the plan viable for smaller LECs.
- The five year transition is critical, especially for smaller LECs.
- The MAG plan leaves the transition to incentive regulation with the ILEC as opposed to the RTF plan which freezes support when a competitor enters the market.
- The MAG plan will enable comparable long distance plans in rural and urban areas.
- NECAs ability to rate band should be eliminated, or at a minimum, sharply curtailed.

Telecom Consulting Associates (MAG Comments) (Continued)

- The MAG plan's limits on fund growth are superior to those proposed by the RTF.

Telecom Consulting Associates (RTF Comments)

- The RTF recommendation provides a solid base on which the Commission can move forward with rural universal service reform.
- Artificial caps on the size of the fund will hinder preservation and advancement of universal service.
  - The RTF plan has two caps – freezing of support with competitive entry and the HCL cap.
  - There should be a "threshold" level of competition, such as 10%, before support is frozen
  - There should be an expedited waiver process to mitigate any material adverse impacts of frozen support.
  - The "Safety Net" plan should be modified to base the amount of additional support on the overall increase in TPIS – i.e., 10% to 15% = 60% support, 16% to 20% = 80%, over 21% = 100%.
  - Absent a repeal of 54.305 the Commission should adopt the "Safety Valve" mechanism, although support should be 100% not 50%.

Texas PUC

- The RTF recommendation ignores previous Commission decisions on the need for forward-looking economic costs rather than embedded costs.
- The RTF recommendation must be viewed as transitional, and the Commission must collaborate with the states, the Joint Board and other parties to achieve a more permanent solution.
- While recognizing that some adjustment may be needed for the indexed cap, the need may be mitigated by the recognition that the plan is transitional.
- The Commission should consider raising the corporate operations expense cap for very small rural carriers rather than eliminating it entierly.
- The national average loop cost must be allowed to "float" to allow the cap to work, and therefore the national average loop cost cannot be frozen.
- With both the safety net and safety valve mechanisms the Commission should require state certification to ensure that such support is used consistent with Section 254(e).
- Larger rural carriers should be required to disaggregate support and not be allowed to elect Path 1. Carriers electing Path 3 should be allowed to use up to 3, rather than 2, cost zones per wire center.
- The RTF's recommendations regarding advanced services should be considered in the context of the Commission's recent request to the Joint Board to review the definition of universal service.
- The Texas PUC has significant concerns with the MAG proposal. To the extent that elements of the MAG deal with universal service they should be referred to the Joint Board.

Townes Telecommunications Inc. (MAG Comments)

- It is critical to maintain the two Path plan because of the manner in which small ILECs make investments. Unlike larger carriers that are continuously upgrading, small carriers have a cyclic investment pattern.
- The five-year transition period for Path A may not be sufficient to address this issue.
- A productivity factor should not be adopted.

Townes Telecommunications Inc. (RTF Comments)

- The proposal to freeze HCL support when a CETC enters should be modified. Alternatives include:
  - Only freeze HCL for study areas over 25,000 lines.
  - Allow a seven year transition period after a CETC enters the market.
  - Require the CETC to capture a 10% market share before HCL is capped.
- If the Commission chooses to freeze support it should only be for HCL, not LSS or LTS.

Universal Service Administrative Company (USAC)

- USAC makes three points regarding implementation
  1. Carefully consider the costs and administrative burden of implementing the RTF recommendation.
  2. Sufficient time will be required for implementation.
  3. Provide USAC with adequate guidance on implementation.
- The current rules provide that USAC is responsible for the administration of support mechanism, but NECA is given the authority to collect data. There are two ways to address this:
  1. Expressly assign USAC the data collection authority, or
  2. Determine that USAC is not responsible for the Part 36 data collection costs.

Verizon

- There are several areas of the RTF plan where the potential impact is not quantified. If the Commission adopts the plan, it should quantify and limit growth in these areas.
- The Commission should take the opportunity to streamline the administration of the plan by freezing the national average loop cost at the current level so that carriers would no longer be required to report loop cost data to the fund administrator.

Virgin Islands PSC

- The RTF recommendation and the Joint Board recommended decision propose a universal service mechanism that is "specific, predictable and sufficient" with respect to rural and insular areas
- The embedded cost model proposed in the recommended decision for rural and insular communities is more faithful to the requirements of Section 254 than the FLEC model applied elsewhere.
- Forward-looking cost models systematically underestimate the cost of serving rural and insular areas.
- The universal service mechanism proposed in the recommended decision also ensures that universal service funding will keep pace with the costs of providing service to rural and insular communities as those costs grow and change, including as a result of emergencies.
- The Commission, like the Joint Board, should show great deference to the RTF's recommendation.

Western Alliance

- The MAG plan will reduce the uncertainty that that has plagued the rural telephone industry fo rthe past six years and will create an environment conducive to the deployment of advanced services
- The plan affects less than 10 percent of nationwide access lines and will not have an adverse impact on interstate access costs or long distance charges.
- The option for rural telephone companies to remain on rate-of-return regulation (Path B) must be retained.
- The MAG plan mechanisms should be implemented for an eight year initial term.
- Western Alliance opposes any productivity offset.
- The low end mechanism constitutes a safety net that is essential for the preservation of the investment capability and operating viability of Path A LECs.

Wisconsin PSC

- The RTF appropriately addresses various important issues:
  - The federal mechanism should be based upon embedded cost and not the Synthesis Model.
  - The existing 115% funding benchmark should be used.
  - The RTF plan makes explicit support portable.
- There are certain deficiencies in the RTF recommendation that the MAG plan has corrected:
  - The Section 54.305 rule on mergers and acquisitions should be eliminated.
  - The Commission should remove all caps on the fund.
  - The creation of RAS will assist in maintaining geographically averaged toll rates.
- Certain improvements should be made to the MAG plan:
  - To avoid "lumpy investments" incentive based USF support should be established in such a manner that allows reasonable recovery over the life of the plan.
  - Rather than imposing a productivity factor, the Commission should use accounting costs to determine the change in the average cost per line which could then be used as a rural growth factor.
  - The Commission should allow states to define zones within the state and use those zones as the basis for determining the level of USF support.

WorldCom (MAG Comments)

- Supports in principle the types of reform contained in the MAG plan:
  - Shift of NTS cost from MOU charges to SLCs.
  - Reduce MOU access charges closer to forward-looking cost.
  - Shift implicit support in access to an explicit fund.
- WorldCom opposes the MAG plan because it would increase ILEC revenues without any demonstration that such an increase is justified.
- The MAG plan would also benefit the Bell companies because it would increase the value of their rural exchanges and allow them to sell them at a higher price.

WorldCom (RTF Comments)

- The Commission should not adopt the RTF recommendation in its current form.
- There is no basis for the commission to reconsider its selection of a forward-looking cost approach to high-cost support for rural ILECs.
- The RTF recommendation would be contrary to the Commission's commitment that the fund not be any larger than necessary to accomplish the goals of Section 254.
- Increases proposed by RTF could increase the universal service contribution factor by a full percentage point or more.
- The fact that there is a shortfall between the current indexed cap and the support that would be available if the cap were not in place does not, by itself, justify raising the cap.
- WorldCom does not oppose continuing the use of embedded cost while the Commission completes its analysis of model inputs for rural carriers, however the size of the fund should not increase substantially.
- If the Commission permits a substantial increase in the fund, it should require comprehensive reporting to track whether funds are benefiting rural customers or are simply encouraging inefficiency.
- The Commission should establish a reasonable cap for HCF III analogous to the $650 million in CALLS.

Wyoming PSC

- Review and reform of the universal service support for rural carriers is long overdue, and action to adopt the RTF recommendation should move forward as quickly as the public process allows.
- The RTF recommendation is a delicately crafted package containing important and valuable compromises, and should be put forward and adopted as a package.
- While understanding the Commission's interest in addressing universal service and access reform issues in tandem, unresolved access issues should not stand in the way of timely universal service reform.
- The RTF's recommendation to use a modified embedded cost system is a good foundation for a federal mechanism.
- Support should be provided at a level that allows customers to have the same access to advanced services as that offered to urban customers.
- The proposed support is neither excessive nor uncontrolled.
- The RTF took seriously its challenge to "right-size" the fund, not just to grow or shrink it to some predetermined level. The RTF produced a significant record showing why it is appropriate to size the fund correctly, given the differences in cost drivers for rural and urban areas.