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COMPLETING TWO-YEAR REVIEW, RURAL TASK FORCE RECOMMENDS FAVORABLE CHANGES TO UNIVERSAL SERVICE PROCESS

On September 29, the Rural Task Force (RTF) released its long-awaited report and recommendations to the Federal-State Joint Board on Universal Service. The Joint Board established the RTF in 1998 as an industry forum to address federal universal service reform for rural local exchange carriers (LECs). The primary task of the RTF was to ensure that the Telecommunications Act of 1996 was followed in the area of universal service. The objective of the RTF, comprised of 13 signatory members, was "to make recommendations to the Joint Board on appropriate universal service mechanisms, methods and policies to faithfully implement the universal service provisions of the Act for rural and insular areas."

In carrying out this assignment, the RTF members developed an impressive evidentiary record and recommendations, which are available online, at www.wutc.wa.gov/rtf. In this issue of News & Commentary, JSI reviews the RTF's recommendations and assesses their impact on the current environment at the Federal Communications Commission (FCC). In short, JSI applauds many of the recommendations suggested by the RTF. We recognize the consensus nature of the recommendations and echo the sentiments expressed by the RTF chair that every single industry interest; e.g., landline LECs, interexchange carriers (IXCs), competitive LECs (CLECs), wireless providers, state regulators, and consumer advocates, had to compromise in the give-and-take effort to develop these recommendations.

RTF Recommendations

Based on the record generated over its two years of work, the RTF prepared the following recommendations for consideration by the Joint Board on Universal Service. Given that the RTF comprised a diverse group with conflicting individual objectives, JSI reasons that the RTF consensus likely will receive favorable support from the Joint Board. Despite the likelihood of approval, the Joint Board has sought public comment on the RTF recommendations before November 3 (See FCC-00J-3):

1. To adopt and implement the RTF recommendations immediately for a five-year period. Reevaluation of universal service funding for areas served by rural carriers would occur at the end of this five-year period.
2. To not adopt the Synthesis Model; i.e., the HCPM, to determine the forward-looking costs of rural carriers. This was the model adopted for non-rural carriers. In lieu of a forward-looking proxy model, the recommendation is to adopt a modified embedded-cost mechanism to size the federal universal service fund for rural carriers.
3. To provide a flexible approach for the disaggregation of federal support that provides portable per-line support to all eligible telecommunications carriers (ETCs).
4. To delegate oversight responsibility of universal service support to state regulatory authorities, in a manner similar to the current system used for non-rural LECs.
5. To ensure that there are no structural barriers for including "advanced telecommunications services" within the purview of federal universal service support. To recommend that the Joint Board review the definition of services supported by federal universal service funds and to adopt advanced services as needed to meet the public need.
6. To modify the caps and limitations on universal service funding, including the following:
 - a. Increase the High Cost Loop Fund by \$118.5 million, and establish annual increases through an annual growth factor;
 - b. Create a safety net for the High Cost Loop Fund;
 - c. Adjust the corporate operations expense by a growth factor; and,
 - d. Modify treatment of support for acquired or transferred telephone exchanges.
7. To create a new high-cost fund (High Cost Fund III) to replace the implicit support removed for interstate access charges in accord with adopted principles.

Impact on Rural LECs

In these recommendations, JSI observes, the RTF resolved several critical issues in favor of long-standing rural LEC interests. For instance, the rejection of a proxy model in favor of a modified, embedded approach brings great relief to rural LECs. Despite long and torturous development efforts, the proxy models could not accurately estimate sufficient, predictable, and sustainable support for LECs providing telecommunications services in rural areas. Moreover, the reforms recommended for the universal service caps and limitations are of significant benefit to all rural LECs. For these reasons, we endorse the package of recommendations and urge their immediate application.

The RTF presented its recommendations as a package of initiatives "designed to provide both ILECs and CLECs with predictable and stable funding to motivate investment over the near-term future." A glaring vulnerability of some rural LECs is their heavy dependence on universal service support. The recommendations offered by the RTF do not reduce this economic vulnerability. This exposure is illustrated by the fact that a CLEC receives the ILEC's per-line support regardless of the CLEC's economic cost structure. Consequently, a CLEC with costs much less than those of the ILEC would enjoy a windfall from the receipt of federal universal service support. While this would not appear to be in the public interest, the FCC has declared that this policy is consistent with "competitive neutrality" and will foster competition in rural areas. Although the exposure is certainly significant – and the concern about potential abuse is real, especially

with access charge support and state reforms on the horizon – the benefit gained by the use of a modified embedded cost method in lieu of a proxy model still appears to outweigh the concerns. JSI observes that despite being a bitter pill to swallow, it is better than many possible alternatives.

On the issue of advanced telecommunications capability or services, the RTF recommended an evolving list of supported federal universal services. This recommendation includes “access to information services at a rate that is reasonably comparable to that provided in urban areas.” The extent to which the Joint Board endorses access to information services as a universal service is largely a price-tag issue. We anxiously await the Joint Board’s universal service review next year to see how it addresses information services.

While the RTF recognized the stranded cost issue, it was unable to develop a recommendation. The RTF has asked the FCC to address the issue of stranded cost at a later date. Since this is a highly contentious issue, JSI well understands why the RTF was unable to reach an accord. However, stranded cost is a critical issue for rural LECs, so the comment cycle promises to be vital in helping the Joint Board develop a clear record on stranded cost.

On the Way to a Conclusion

A good deal of uncertainty remains regarding the RTF recommendations. For example, while Senate Minority Leader Thomas Daschle (D-SD) has urged the FCC to adopt the recommendations this year, NTCA CEO Michael Brunner has asked Congress to consider the RTF’s universal service proposals carefully in conjunction with the recently filed MAG Plan. The RTF wants the FCC to put the recommendations on the fast track in order to have the reforms in place by 2001. JSI believes that the Joint Board and the FCC will want to develop a better record on several issues raised, but left unresolved, by the RTF; e.g., advanced service definition and stranded costs. We must wait to see if there is sufficient momentum to move the recommendations within a short three months or if the issues raised by the RTF will linger into 2001. If you have questions about the RTF report, please call Douglas Meredith at JSI’s Utah office, at 801-294-4576, or Manny Staurulakis at our Maryland headquarters, 301-459-7590.

MAG PLAN ARRIVES AT THE FCC

As most JSI clients are no doubt aware, the Multi-Association Group (MAG) filed its comprehensive reform plan at the FCC on October 20. The MAG Plan addresses access charge, universal service, separations, and rate prescription reform for small and mid-sized incumbent LECs not subject to price-cap regulation. In previous newsletters (JSI News & Commentary, Nos. 0003-0005), JSI outlined various aspects of the MAG Plan. We will provide full description, analysis, and commentary on this critical proposal in an upcoming edition of the newsletter. If you have questions about the MAG Plan or its potential impact on your company, please contact Douglas Meredith, at 801-294-4576, or Manny Staurulakis, at 301-459-7590.

JSI OPENS UTAH OFFICE; EXPANDS OFFICE AND STAFF IN ATLANTA

JSI has expanded its national presence by opening a new office near Salt Lake City. Douglas Meredith, Director of Economics and Policy, will head the Bountiful, Utah office, where he will continue to oversee JSI’s review of federal and state policy issues, economic cost study activities, and preparation of testimony for clients.

At the same time, JSI has added to its current office in Alpharetta, Georgia, a suburb of Atlanta. Along with expanding facilities in Georgia, Azita Sparano, Director of Southeast Operations for JSI, has announced the addition of a new staff consultant to assist with settlements and regulatory duties there. Tammy Crump joins JSI as a Consultant in the Regulatory Division to work on such issues as service pricing, resale analysis, tariff and interconnection agreements, and CMRS activities, among others. With a background in the separations arena, Tammy worked at Data Tech, Inc. in Georgia, as a settlements specialist. Her responsibilities there included verification of settlements with IXCs and connecting companies and NECA monthly settlement reporting. In addition to performing tariff updates and processing NECA data requests, Tammy served as a LEC representative in both IXC and NECA audits. “Tammy brings a strong regulatory background to the JSI team. Her experience and knowledge of both NECA processes and billing activities will serve JSI’s clients well,” said Ms. Sparano.

Excited about these additions, JSI looks forward to continuing to serve clients around the country with expanded resources. “Adding to our Georgia office is a very strategic move, due to the fact that we have many clients in that area,” said Manny Staurulakis, JSI President. “I think this is a very positive step for the organization. And our presence in Utah will provide us with more of a base to serve clients in areas where we’re still growing. The pace of change in our industry demands that we maintain the development and growth of our services, staff, and resources.”

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