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November 3, 2000

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-05050

CONFIDENTIAL AND PROPRIETARY INFORMATION

RE: Docket No. 97-00888 (Universal Service Proceeding)
Comments of the Tennessee Cable Telecommunications Association

Dear Mr. Waddell:

Enclosed please find the original and thirteen copies of the Comments of the Tennessee Cable Telecommunications Association regarding the revenues and access line counts filed by the non-rural incumbent local exchange carriers.

Please note that this information is considered to be proprietary and as such is subject ot the provisions of the Protective Order entered in this case. If you have any questions, please contact me.

Very truly yours,

FARRIS, MATHEWS, BRANAN, BOBANGO & HELLEN, P.L.C.

Charles B. Welch Jr. / with permission by JFM

Charles B. Welch, Jr.

cc: All parties of record

POSTED 11-3-00

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE
NOVEMBER 3, 2000

IN RE:	**UNIVERSAL SERVICE PROCEEDING**	))	**DOCKET NO. 97-00888**

COMMENTS OF THE
TENNESSEE CABLE TELECOMMUNICATIONS ASSOCIATION

The Tennessee Cable Telecommunications Association ("the TCTA"), through counsel, respectfully submits its comments regarding the revenues and access line counts filed by the non-rural incumbent local exchange carriers (i.e. BellSouth and United Telephone-Southeast, Inc.) in response to the Tennessee Regulatory Authority's ("the TRA" or "the Authority") September 22, 2000 Order in Docket No. 97-00888 (Universal Service Proceeding, Phase II), as follows:

I. The determination of any need for universal service support should be based upon the incumbent carriers' publicly available, audited financial information and operating data.

The Authority's September 22, 2000 Order requires BellSouth and United Telephone to submit revenue data and access line counts by wire center for "the most recent twelve (12) months to date of available data." In complying with the September 22, 2000 Order, both carriers have filed operating revenue and access line data based upon the twelve month period ending August 2000.

The Authority's reliance upon data from such an unusual reporting period raises a fundamental accounting concern and certain policy issues. The fundamental concern stems from the inability of all parties to the proceeding, including the TRA and its Staff, to confirm the accuracy of the revenue information and access line counts reported by the incumbent carriers. The month ending August 2000 does not represent a fiscal quarter or fiscal year end for either carrier. The activity from this atypical reporting period cannot be reconciled with the presentation of the carriers' financial results to the investment community, state and federal regulatory authorities, or the public.

There is no practical way for the TRA or any other party to confirm the accuracy of the information filed absent a detailed audit of the carriers' revenue activity and in-service access line changes. The Authority's reliance upon the results of a split fiscal year may be premature, as the most recent eight months of activity have not been subject to the carriers' annual, independent financial statement audit. Indeed, it is not unusual for a company to make intraperiod adjustments to correct clerical errors, adjust accruals, or make audit adjustment entries in order to more accurately reflect the financial activity during a twelve month reporting period.

It is clear that the determination of whether a carrier has any need for universal service support should be based upon publicly-available, audited financial information and operating data. The use of non-audited financial and operating data is not appropriate for the purpose of determining the incumbent carriers' need for universal service support. The revenue and access line data is useful to the Authority in the sense that it serves as a measuring stick to assess the degree of competition, the overall growth of the telecommunications marketplace, and the level of universal service throughout Tennessee. The incumbent carriers frequently claim that competition in high density, urban areas has eroded the historical subsidies embedded in other services and has exerted pressure on maintaining affordable universal service. By implementing monthly or quarterly reporting requirements, the Authority can draw its own conclusions on whether affordable universal service is being jeopardized based upon a review of the incumbent carriers' revenue and access line growth.

The use of access line data for the twelve months ending August 2000 also poses a policy concern for the Authority. The cost estimate to provide universal service developed during Phase II of this proceeding is based upon the Hatfield Model as adjusted by TRA order. The cost estimates generated by the modified cost proxy model were based upon the most recent wire center access line counts and customer location information at the time of the proceeding over two years ago. The efficient, forward-looking network was configured based upon these access line counts and customer location assumptions. The growth in access line counts, especially in the more rural wire centers, would be expected to result in lower costs to provide universal service. For instance, access line growth could result in higher fill factors and lower overall network costs. Common costs, such as corporate operations expenses, would be allocated over a larger base and should result in a lower distribution of expense per access line. The TCTA recommends that if the Authority decides to use the wire center access line counts for the twelve months ending August 2000, it should also order that the modified Hatfield Model be refreshed to incorporate the carriers' growth in access lines.

II. The slow development of local exchange competition as well as the enhancements in the cost proxy model and policy considerations adopted at the federal level suggest that the TRA should revisit its prior decisions regarding the appropriate cost proxy model and benchmark.

In an earlier round of comments in this docket, the TCTA recommended that the Authority conduct a focused proceeding after the FCC released its order on the cost proxy model that will be used to determine federal universal service support requirements. Since the time those comments were filed, the FCC has based the level of federal universal support upon the results of the Synthesis Cost Model in use with a cost benchmark.

The TCTA urges the Authority to examine the merits of using a cost benchmark with the cost estimates generated by the SCM or the modified Hatfield Model. A cost benchmark is a much more effective method to determine whether a particular wire center is a "high cost serving area." A revenue benchmark can produce misleading results. A determination that costs of serving an area exceed the rates charged for a service, or the average revenues received from subscribers in the area, should not lead to the conclusion that it is a "high cost area." Furthermore, the use of a revenue benchmark as a principal determinant of high cost support will require the Authority to make on-going adjustments in order to reflect the changes in the ILECs' average revenue by wire center.

The use of a cost benchmark eliminates the Authority's dependence upon a separate and on-going determination of the carriers' average revenue per access line. The carriers' rates for services can vary across the state for any number of reasons, which may or may not relate to the underlying costs of providing the services. Finally, the use of a cost benchmark renders the determination of the appropriate cost proxy model less critical. The cost benchmark floats with the overall cost estimates generated by the model – the higher the cost estimate, the higher the cost benchmark. In contrast, the total level of "necessary" funding can vary greatly with the use of the revenue benchmark depending upon whether a "low cost" or "high cost" proxy model is chosen.

At this stage of the proceeding, the Authority will determine whether there is any need for an intrastate universal service support mechanism. The Authority should consider what problem a universal service support tax on the industry, and ultimately consumers, will cure. There is no compelling evidence presented that the level of universal service is being jeopardized in any area of the state or that the incumbent carriers' revenues and earnings are rapidly being eroded by competition. It would be a much more worthwhile exercise to examine the need for universal service support once the degree of local exchange competition envisioned by Congress fully manifests itself.

Respectfully submitted,

Farris, Mathews, Branan,
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of foregoing has been served upon the following by placing same in U.S. Mail, postage prepaid, this the 3rd day of November, 2000.

Charles B. Welch, Jr. / with permission by JFM

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