October 27, 1998

Ms. Magalie R. Salas, Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Ex Parte Notice
CC Docket No. 96-45
CC Docket No. 98-77
CC Docket No. 98-146

Dear Ms. Salas:

On Friday, October 16, 1998, five National Telephone Cooperative Association (NTCA) representative members, Warren Hight (Souris River Telecommunications Cooperative, Minot, ND), Walter Rowland (Adams Telephone Co-Operative, Golden, IL), Jimmy White (XIT Rural Telephone Cooperative, Dalhart, TX), Mary Mongold (Hardy Telecommunications, Lost River, WV), and Charles Wiese (Tohono O’Odham Utility Authority, Sells, AZ), along with L. Marie Guillory and Pamela Fusting of NTCA met with Katherine Brown, Chief of the Common Carrier Bureau, and Lisa Zaina and Richard Cameron, also of the Common Carrier Bureau.

The purpose of the ex parte meeting was to provide the Bureau a general overview of NTCA’s membership and a rural perspective on issues pertaining to the 1996 Telecommunications Act, including access charge and universal service reform and the provision of advanced services in rural areas. The participants expressed concern about unnecessary, burdensome regulatory requirements and pointed out that reform measures must incorporate rural reality.
In accordance with the ex parte rules, two copies of this letter are being submitted to the Secretary. If there are any questions in this matter, please feel free to contact the undersigned.

Sincerely,

Pamela Fusting
Telecommunications Policy Analyst
Legal & Industry

enclosure

cc: Katherine Brown
Lisa Zaina
Richard Cameron
NTCA Meeting Agenda
October 16, 1998
2:00 - 3:30pm

L. Marie Guillory
Vice President, Legal & Industry
NTCA

Introduction

Warren Hight
General Manager
Souris River Telecommunications Cooperative (Minot, ND)

A Rural Perspective on Access Reform and Universal Service

Walter Rowland
General Manager
Adams Telephone Cooperative (Golden, IL)

Bringing Advanced Services to Rural Areas

Jimmy R. White
General Manager
XIT Rural Telephone Cooperative (Dalhart, TX)

An Overview on Rural CLEC Issues

Mary Mongold
Assistant Manager
Hardy Telecommunications (Lost River, WV)

Hardy Telecommunications and Universal Service

Charles Wiese
General Manager
Tohono O’Odham Utility Authority (Sells, AZ)

TOUA and Universal Service
Access Reform and Universal Service

from a Rural Perspective

Warren Hight
Souris River Telecommunications Cooperative

FCC Objectives

• NPRM CC Docket 98-77
• Foster Competition
• NTS Cost Recovery
• Should Price Cap Rules Apply to Rate of Return LECs?

NO!
Rural ROR LECs Are Different

• Different Areas
• Different Costs
• Different Circumstances
• Different Problems

The Rural Challenge

• 1,000+ route miles of telephone line in service for average RUS telephone borrower
• 4.48 per subscribers per mile for average RUS telephone borrower
• 96 NTCA companies w/ less than one subscriber per square mile

Total Operating Expenses

$650/subscriber

[Pie chart showing operating expenses]
Net Operating Revenues

$841/subscriber

Rural ROR LECs Do Not Fit the Mold

• One Size Doesn’t Fit All
• Different Characteristics
• Require Different Solutions

Factors that Created Rural Companies Nationwide:

• No Existing Service Provider
• No Financial Incentive For Business
• Public Policy Mandated Universal Service - Everywhere
What has Changed?

- Comparatively, Very Little in Real Terms
- Incumbent Service Providers Still Face...
  - Low Density Numbers
  - High Loop and Switching Investments
  - Obligations to Serve

Current Situation

- Support Mechanisms Implicit
- National in Perspective
- Recognize Actual Costs
- Reliable Services
- Reasonable/Affordable Rates

Tomorrow’s Uncertainty

- Support Explicit vs. Implicit
- Federal vs. State
- Urban vs. Rural
- Low Cost vs. High Cost
- Consumer vs. Consumer
- National Policy vs. No Policy
Access Reform Must Incorporate "Rural Reality"

- Rural Costs will not Disappear
- Access Revenues Support Rural Services
- Existing Implicit Subsidies can be Reassigned - NOT Eliminated

Access Reform Must Incorporate "Rural Reality" - continued

- Rural Access Rate Disparity will Undermine Universal Service Goals
- PICC Charges will not Satisfy NTS Requirements
- National Averages vs. Company Specific
- Universal Service is Responsibility of Everyone

Rural Perspective on other FCC Regulatory Issues

- Multitude of Issues
- Number Portability
- CPNI
- Slamming
- One Size Fits all Approach
- Cost vs. Benefit Assessment
- Consumer Rights Issues
Conflicting Nature of Regulatory Issues

• Promote Advanced Services/Reduced Implicit Support

• Promote Competition/Carrier of Last Resort

• Promote Deregulation/Expanding Regulatory Requirements

Conflicting Nature of Regulatory Issues - continued

• Promote Consumer Rights/Rural LECs are Consumer Oriented

• Promote Universal Service/Hamper Rural LEC Ability to Provide

Summary

• Perspective is Different Because Rural is Different

• Concerned about Maintaining and Upgrading Services

• Concerned about the Future Affordability of Rural Service

• Concerned about Competitive Cream Skimming for the Burden it Places on Others
Summary - continued

• Concerned about Unnecessary and Expensive Regulatory Requirements

• Concerned about Maintaining an Evolving Definition of Universal Service

• ABOVE ALL, concerned that “RURAL REALITY” Issues will be Ignored

BRINGING ADVANCED SERVICES TO RURAL AREAS
RESPONSIBILITY AND CHALLENGES FOR THE SMALL TELEPHONE COMPANY

Walter Rowland - Manager
Adams Telephone Co-Operative

Brief History
Adams Telephone Co-Operative
Formed in 1952
Local owned - local controlled
Serving rural areas
Rural Telephone Companies/Cooperatives
Responding to Customer's Needs
Leaders in Advanced Telecommunications services

Infrastructure
Fiber backbone/Sonet ring architecture

Digital Switching
Enhanced services
- Quality voice circuits
- Custom calling services
- Enhanced 9-1-1
- SS7 signaling
- Long distance
- Calling cards
Video Services

CATV
C Band Satellite
DBS
Wireless Cable

Data Services

High Speed Internet Access
Wide area availability
Packet switching
Competitive rates
Consortium - statewide
Aggregation of customers
XDSL Technology

Challenges

Uncertain revenues
- Access
- Universal service
Status of rural economy
- Secretary of Agriculture - Dan Glickman
  "Rural America is facing the greatest economic
disaster since the depression"
Challenges - continued

Cost to provide advanced services
Bandwidth availability to subscriber
Investments stranded by technology
  - Switching
  - Plant

Challenges - continued

Rural/Town disparity in cost of service
  - RUS - averaged rates
  - Cream skimming
New technology
  - Wireless
Credibility
  - Duplicate billing
  - Slamming

Challenges - continued

Regulatory
  - Separations and access reform
  - CPNI
  - Local number portability
  - Billing mandates
  - Requirements for subsidiaries
    - Separate
      - Officers
      - Employees
      - Board
Challenges

Regulatory - Continued
- Paystations regulation
  - FLEX-ANI
- State regulatory initiatives
- RUS
- PICC and USF
- Long distance
- CALEA
- Unbundled network compliance

Local Benefits

Education
- Internet access
- Video distance learning
  - Schools
  - Colleges
- Training
- LAN wiring

Local Benefits - continued

Medical/Emergency
- Local clinic
- Ambulance
- Volunteer Fire Departments
- E-9-1-1/GIS
Local Benefits - continued

Economic
- Local owned/local controlled
  - Responsive to subscribers
- Local leadership
- Local employment
  - Supports local business
- Efficient operation

Help Wanted!

Reduced regulatory burdens
- Exempted from separate subsidiary requirements
  - Limited resources - additional regulatory burdens may eliminate existing services
- No unbundling of advanced services to CLEC's
  - Enables cream skimming
Encourage desegregation of spectrum
Small telephone companies are different
Proven track record for bringing advance services to rural areas

Jimmy R. White - General Manager
XIT Rural Telephone Cooperative, Inc.
Regulated ILEC
Organized 1951
Access Lines: 1,257
Serving Area: 3,200 sq. miles
XIT Telecommunication & Technology, Inc. (XT&T)

Deregulated
Wholly owned subsidiary of
XIT Rural Telephone Cooperative, Inc.
Organized 1988

XT&T - d.b.a.

XIT Communications, CLEC
Competitive Local Exchange Carrier
Formed 1997 - Access Lines: 2,600, Serving Area: 35 sq. miles
Potential Access Lines: 5,700 (5 year)
XIT Paging, Paging Company
Formed 1996 - Subscribers: 250
XIT Long Distance, IXC - Interexchange Carrier
Formed 1997 - Subscribers: 1,100
XITNET, Internet Provider
Formed 1996 - Subscribers: 1,200 - Service Area: 4 County Area

XT&T - Partnerships

XIT Cellular, Cellular Carrier
Partnership: XT&T - General Partner
with 99% ownership
Organized 1989 - Subscribers: 10,000
Serving Area: 7,500 sq. miles

XT&T Fiber, Inc., Fiber Lease Company
Wholly owned subsidiary of XT&T
Organized 1991
Competitive Challenges for XIT

- Moved from partnering arrangement to new pricing structure creating downward pressures on revenues
- Required to change from a non-involved recipient to involved participant
- Recognized that as a small high cost company our future depended on growth and diversified sources of income

Competitive Challenges for XIT

- Acknowledged the eventual move from certified area monopoly to total competitive structure
- Recognized the importance of name recognition and customer relations in a competitive environment
- Acknowledged the shift from a customer driven market to a marketing driven environment

Organizational Corrective Action Taken

- Began to evaluate every opportunity to determine ways to expand or invest to achieve alternative income
- Get involved in statewide and national associations and in personal visits with regulators and legislators
- Formed a deregulated subsidiary for involvement in areas where regulatory or other constraints prevented growth and allow us the ability to move forward on qualified opportunities
Organizational Corrective Action Taken

- Developed a long range strategic planning process to reduce the Cooperative's dependence on revenue sharing by establishing other resources of revenues
- Established a marketing department and began a greater emphasis on a community involvement with a targeted name recognition and image building campaign
- Provide all employees with marketing and customer service training
- Began to search opportunities through partnership with other related organizations to achieve our goals

Results Achieved to Position XIT for Competitive Environment & the Future

- XIT has, through partnership with other area Cooperatives, developed a regional fiber optic network to lease capacity to interexchange carriers
- XIT has, though partnership, negotiated a collective limited partnership in five metro markets in West Texas with a major cellular operator
- XIT secured the license for cellular services in the Texas Rural Service Area 1 (TX - RSA 1) encompassing our service area and beyond
- XIT entered the Internet market becoming a local ISP in our area and surrounding areas

Results Achieved to Position XIT for Competitive Environment & the Future

- XIT, in partnership with another Cooperative, offers paging within our cellular service area
- XIT has become an interexchange provider offering long distance service within our serving area and outside of this area where we have a presence
- XIT recently began a Competitive Local Exchange Carrier (CLEC) operation in the two exchanges served by a larger telephone company
Competitive Local Services

XIT began a competitive local exchange carrier (CLEC) operation in two exchanges within our serving area that are served by GTE.

<table>
<thead>
<tr>
<th></th>
<th>Dalhart, TX</th>
<th>Stratford, TX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (12/97)</td>
<td>6,371</td>
<td>1,817</td>
</tr>
<tr>
<td></td>
<td>3,334 Res.</td>
<td>875 Res.</td>
</tr>
<tr>
<td></td>
<td>4,017</td>
<td>1,058</td>
</tr>
<tr>
<td>Subscribers Per Mile</td>
<td>27.4</td>
<td>28.7</td>
</tr>
<tr>
<td>Projected Growth:</td>
<td>3.26%</td>
<td>2.84%</td>
</tr>
</tbody>
</table>

Who We Are

- Member-Owned Cooperative
- 2,800 Members
- Rural
  - 3 Subscribers Per Route Mile
  - 7 Subscribers per Square Mile
- One Exchange
Hardy County Statistics

- Population - 11,642
- High Schools Graduates - 55%
- College Graduates - 7%
- Per Capita Income - $17,000
- Social Security Recipients - 20%
- Land in Farms - 38%
- Largest Industry - Poultry Farming

Advanced Services

- Fiber Backbone
- ISDN
- ISP
- Local High School Business Partner
  - Wired Schools for Internet in 1995

Revenue Breakdown
Universal Service

• 26% of Revenue

• 1997: Negative Retained Earnings of $226,000 if USF not Received

• Additional Burden of $46 per Member per Month if USF funding Shifted from Interstate to Local

TOUA and Universal Service

Charles Wiese
Tohono O’Odham Utility Authority

Tohono O’Odham Nation

• Second Largest Reservation in U.S.
  – 2,773,357 acres
  – Population 20,000

• Largest Village: Sells (estimated pop 3,000)

• 70-80% Unemployed

• Private Sector Employment: 15%

• High School Dropout Rate: 80%
Utility Authority

- Established 1970
- Electric and Water Service started 1974
- Telephone Service started in Aug., 1987
- Now includes Internet, cellular, & Propane
- Electric Service extended to over 70 Villages by the mid-Eighties … Using REA/RUS Loans
- Water/Wastewater Upgrades are continuing Funded by Indian Health Service

<table>
<thead>
<tr>
<th>Why Did We Go Into the Telephone Business?</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Service in 1986</td>
</tr>
<tr>
<td>- Step Switch Operating at 100% Capacity</td>
</tr>
<tr>
<td>- Service Outside of Sells on Open Wire, 8-Party Service, Distance Charges Applied</td>
</tr>
<tr>
<td>- $125/Month Dial Tone</td>
</tr>
<tr>
<td>- Repairman Scheduled for Sells on Thursdays</td>
</tr>
</tbody>
</table>
Why Did We Go Into the Telephone Business? - continued

- Hickiwan Daycare Discontinued Service
- Various Members Absconded with the Poles (e.g., for corrals)

* When asked to Reinstate Service, US West asked for $80,000

TOUA is Approached

* First Sought to Work with US WEST

* After being Rebuffed, TOUA began to Consider Acquisition of the System

* New Board Member was Former Manager at Valley Telephone Coop in Wilcox

Feasibility/Preliminary Engineering Studies Done

* Based on Predictable Revenue Projections from Universal Service Support, Received $7 Million REA Loan to Build New System

* Began Service August 21, 1987 - with assurance of USF Support, REA Loan, & $950,000 Community Development Block Grant
Operations in Early Years

• First Two Years: Expanded coverage, built out to unserved villages

• By June, 1989: All plant (except 1 CO building) replaced w/ Underground Cable, Digital Switches

• Added Voice Mail & Centrex in 1995

Operations Today: Customer Base

• Residential Characteristics
  – Non-published
  – Change Numbers
  – Few Advanced Features
  – Advertising Doesn’t Work
  – Slow Payment

• Business Characteristics
  – Primarily Government Services
  – Becoming Data and Network Providers
  – No Held Orders due to Capacity

Penetration Rate: 70%

• Residential Access Lines: 1,510

• Business Access Lines: 1,317

• Approaching Capacity of Plant in Ground

• Bypass Problem using Electronics (e.g., Pair Gain Devices)
Projection for Growth

• Growth of Business

• Assisted Schools in obtaining RUS Distance Learning Grant, SLC Funding

• Assisted Hospital in obtaining RUS Telemedicine Grant

New Construction

• New Switch

• Fiber to Tucson

• CLASS Features

• Expand Internet - Data Transport