

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

In the Matter of )  
 )  
Federal-State Joint Board ) CC Docket No. 96-45  
on Universal Service )  
 )

**GVNW INC./MANAGEMENT COMMENTS ON  
RURAL TELEPHONE COMPANIES'  
JOINT EMERGENCY MOTION  
FOR PARTIAL STAY, CC Docket No. 96-45**

I. Introduction

GVNW Inc./Management (GVNW) is a management consulting firm which provides financial and regulatory consulting services to independent telephone companies. These comments focus solely on the issue of the amount of corporate operations expense that rural telephone companies may recover through the high cost loop fund.

II. The Commission's Reconsideration Order Understates the Minimum Level of Corporate Operations Expense that will be incurred by local exchange carriers

We were pleased to see the Commission has recognized, in its Order on Reconsideration in CC Docket No. 96-45 released on July 10, that there is a minimum level of corporate operations expense for small local exchange carriers. As the record reflects, we filed a Petition for Reconsideration (PFR) in CC Docket No. 96-45 and included this item (methodology prescribed in Part 36.621(a)(4)) as one of the issues in that filing.

We applaud the Commission's recognition that small firms would have difficulty recovering portions of corporate operations expense that are fixed or do not vary with the number of loops. Based on our analysis as shown in Attachment 1, which we used to develop the position we filed in the PFR, we submit that the revised formula understates the baseline level of corporate operations expense which must be incurred by a stand alone company in order to meet federal regulatory requirements and maintain a "going concern" status.

Corporate operations expenses that must be reflected in Part 32 Part B Accounts 6710 and 6720 include expenses for: general management (executive) and support functions; Board of Directors costs; accounting and finance; regulatory accounting and compliance with Part 64, 36, 54, and 69 requirements; external relations; procurement; research and development; information management; legal costs; and other general and administrative functions.

In Attachment 1, we have estimated minimum levels of annual expenditures for a stand-alone company to comply with Part 32 accounting for what could be considered fixed levels of costs. The total for the above "bottoms up" analysis is a benchmark level of \$330,000. In our GVNW PFR, we requested the Commission revise the formula in Part 36.621(a)(4) to allow for a minimum allowance of \$300,000 for corporate operations expense for small local exchange carriers. We reiterate this request.

III. The Impact on the Size of the Support fund of revising the benchmark level of fixed costs to \$300,000 is minimal

We submit, based on the analysis included in Attachment 2, that such an adjustment has a minimal impact on the size of the support fund.

The petitioners raise valid points in their pleading for the Commission's consideration with respect to the issue of corporate operations expenses. If the Commission does not find these points to be in the public interest, we respectfully request that the Commission consider our alternative of an annual minimum level of \$300,000. In comparing a minimum level of corporate operations expenses of \$300,000 to the revised Commission formula from the July 10 Order, the result is an estimated impact of less than two tenths of 1% on the total pool while mitigating shifts to the intrastate jurisdiction of as high as \$57.88 per line per month.

Respectfully submitted,

GVNW Inc./Management

by \_\_\_\_\_  
Kenneth T. Burchett  
Vice-President  
7125 S.W. Hampton  
Portland, Oregon 97223

**Attachment 1 - GVNW Bottoms Up Analysis of Corporate Operations Expense Levels that comply with Part 32 of the Commission's Rules**

In order to comply with the Commissions' Part 32 accounting rules, the costs for the following activities must be recorded in Accounts 6710 and 6720:

\$130,500	- a general manager and secretarial support, including benefits;
40,000	- Board of Directors costs;
35,000	- financial accounting and regulatory accounting functions;
20,000	- annual audit requirements, including specific RUS requirements;
20,000	- cost separations study;
40,000	- maintaining relations with government, regulators, other companies and the general public, including preparing and presenting information for regulatory purposes for FCC and state PUC requirements, such as tariff and service cost filings, and negotiating contracts;
10,000	- information management;
20,000	- legal costs.
2,000	- procurement
12,500	- research and development
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\$ 330,000	ESTIMATED minimum level of corporate operations expense to be a viable local exchange carrier in a post TA 96 environment

**Attachment 2 - GVNW Analysis of Corporate Operations Expense Limitation Analysis of Various Levels of Corporate Operations and Impact on Support Fund**

<u>Scenario</u>	<u>Calculated Pool Size</u>	<u>Comparison to Base</u>	<u>Comparison to Prescribed</u>	<u>Comp. to Recon.</u>
USF for all Cost Companies per NECA's submission	\$767,185,831	n/a	n/a	
USF Incorporating Corporate Allowance as Prescribed 5/97	\$730,419,796	\$36,766,035	n/a	
USF Incorporating Corporate Allowance per 7/97 Order	\$733,250,977	\$33,934,854	\$2,831,181	
\$300,000 Minimum Allowance	\$734,190,980	\$32,994,851	\$3,771,184	\$940,003