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April 27, 2007

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

**Re: CC Docket No. 80-286
Notice of *Ex Parte* Presentation**

Dear Ms. Dortch:

On April 26, 2007, Bill Stafford of Granite State Telephone, Inc. ("Granite State"), and Douglas Meredith, Dan Weaver, and John Kuykendall of John Staurulakis, Inc. ("JSI") met via telephone conference with Ian Dillner of Chairman Kevin J. Martin's office. In the meeting, Mr. Stafford and the JSI representatives urged the Commission to expeditiously change its Dial Equipment Minutes ("DEM") Weighting Factor Rule to ensure that the DEM weight apply to both increases and decreases in access lines when access lines cross a DEM weight threshold. A copy of the presentation is attached.¹

During the meeting, Mr. Stafford informed Mr. Dillner that his company has been losing access lines and as a result, have dropped below a DEM weight threshold. He reported that the loss in lines is due primarily to customers no longer needing second lines when the customers subscribe to the company's DSL service offerings and to customers switching their service to wireless carriers. He explained that the company should be able to use a higher DEM weighting factor because its lines dropped below a threshold, and thus receive additional federal universal service local switching support, but is not able to do so because the FCC's DEM Weighting Factor Rule does not allow for a decrease in line counts. Mr. Stafford reported that the amount of support that Granite State would not be able to receive because of this defect in the rule has been estimated to be approximately \$350,000 annually.

¹ Copies of Reply Comments submitted by Granite State in the above-referenced docket on November 17, 2006 regarding this matter were also provided to the participants. The Reply Comments were submitted in response to the Federal Communications Commission's ("FCC") request for comments on a variety of issues relating to reform of the jurisdictional separations process, including this matter. *See Jurisdictional Separations and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, Order and Further Notice of Proposed Rulemaking, 21 FCC Rcd 5516 (2006) at para 33 & n.82.

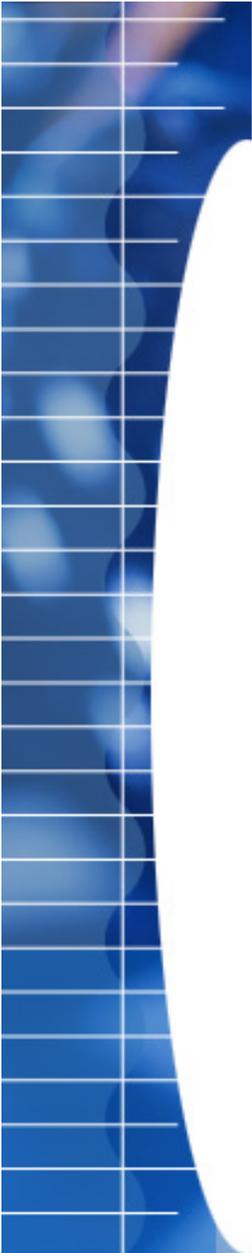
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Please contact the undersigned with any questions.

Respectfully submitted,

/s/ John Kuykendall
John Kuykendall
Director – Regulatory Affairs

cc: Ian Dillner



The Need to Permit Two-Way Adjustment of the DEM Weighting Factor CC Docket No. 80-286

John Staurulakis, Inc.
Ex Parte Presentation
April 2007

Requested Change in DEM Weighting Factor Rule

- The Commission should declare that the DEM weighting factor, used to calculate Local Switching Support (LSS) for federal universal service purposes, applies to both increases and decreases in access lines. This would allow for two-way adjustments that are currently only one-way.

Dial Equipment Minutes (DEM)

- Dial Equipment Minutes (DEM) is a measure of switch usage.
- DEM is used to allocate local switching equipment costs between state and interstate jurisdictions using relative values or percentages.
- Carrier study areas with fewer than 50,000 lines weight their DEM with a “weighting factor,” thereby providing LECs with a higher allocated cost basis for federal universal service Local Switching Support (LSS).

DEM

- DEM has two components:
 - The unweighted DEM factor; and,
 - for carrier study areas with fewer than 50,000 lines the DEM is weighted with a weighting factor.
- The unweighted DEM factor is frozen for cost separations purposes.
- Under the current rule (Section 36.125(j)), the DEM weighting factor adjusts one-way and is used to calculate LSS.

LSS and DEM Weights

Study Area Access Lines	Weighting Factor
$\leq 10,000$	3.0
10,001-20,000	2.5
20,001-50,000	2.0
$\geq 50,001$	1.0

The DEM Weighting Factor

- The DEM weighting factor is based on access lines. It is not based on complicated and expensive separations traffic studies.
- The DEM weighting factor is used to calculate federal high-cost universal service support under the LSS program.
- The DEM weighting factor is currently affected by the separations factor freeze which has been extended.
 - Rule 36.125(j) creates a one-way adjustment for DEM weighting factor changes during the freeze. (FCC 01-162, Appendix C). This rule requires changes to the DEM weighting factor for increases in access lines but is silent for decreases in access lines.

47 CFR §36.125(j)

- If during the period from January 1, 1997 through June 30, 2006, the number of a study area's access lines increased or will increase such that, under §36.125(f) the weighting factor would be reduced, that lower weighting factor shall be applied to the study area's 1996 unweighted interstate DEM factor to derive a new local switching support factor. The study area will restate its Category 3, Local Switching Equipment factor under §36.125(f) and use that factor for the duration of the freeze period.

Current Problem

- In establishing the separations factor freeze, the FCC codified a rule to ensure the DEM weighting factor was adjusted as study area line counts increased. 47 CFR §36.125(j)
- Certain small carriers have seen line counts decline during the freeze period due to increased use of broadband and intermodal competition.
 - These carriers would normally use a different DEM weighting factor because their line counts crossed a DEM weighting factor threshold.
 - Under the current rule, no adjustment is allowed for a decrease in line counts, but adjustments are required for an increase in line counts.

Policy Recommendation

- The current rule requires changes to DEM weighting factors as access lines increase during the extended separations factor freeze.
- The FCC should recognize that in the current environment, study area access lines have declined over time for some carriers and may decline for other carriers during the freeze extension period.

JSI Request

- JSI requests that the FCC order that a change in DEM weighting factor apply to both increases and decreases in access lines during the extension of the freeze when the access lines cross a DEM weighting factor threshold.
- This action will permit eligible carriers to receive their size-determined federal universal service Local Switching Support and thereby further the advancement and preservation of universal service in the affected study areas.