

the average cost per loop plus two standard deviations. We estimate that if the support amount were set at 10 percent of costs exceeding the proposed high-cost wire center benchmark, the 48 States and Puerto Rico would be eligible to receive a total of approximately \$116 million if they met the conditions for additional targeted Federal support, in addition to the support provided under the rules we adopt today.

24. Would the proposed methodology provide significant inducement to each State to reform its universal service mechanisms? Would the benefits of inducing State action to reform State universal service mechanisms outweigh the cost of the additional contributions to the universal service fund that this additional targeted Federal support could entail? Commenters should address how this proposal relates to the Act's requirement that universal service should be sufficient to achieve the Act's goals and, specifically, that sufficiency requires that support should not exceed the amount necessary to achieve the Act's goals.

25. We also seek comment on what showings a State should be required to make in order to receive any additional targeted Federal support, if such an inducement mechanism were adopted. Above, we seek comment on what showings a State must make in support of a request for further Federal action, in addition to showing the failure to achieve rate comparability. To what extent should the showings that a State is required to make in order to receive additional targeted Federal support for inducement purposes differ from the showings the State should be required to make in order to demonstrate that it has taken all reasonably possible actions to achieve rate comparability? Should a State be required to show that it has established an explicit support mechanism of a particular size relative to the number of lines in the State or some other measure? Should a State be required to demonstrate that it has rebalanced its residential and business rates? Should a State be required to demonstrate that it has eliminated geographic rate averaging through implicit support flows? Are there any specific actions reasonably calculated to eliminate or reduce implicit support in intrastate rates that a State should be required to show?

II. Procedural Matters

A. Initial Regulatory Flexibility Act Analysis

26. As required by the Regulatory Flexibility Act of 1980, as amended (RFA), the Commission has prepared

this Initial Regulatory Flexibility Analysis (IRFA) of the possible significant economic impact on small entities of policies and rules proposed in this Further Notice of Proposed Rulemaking. Written public comments are requested on this IRFA. Comments must be identified as responses to the IRFA and must be filed by the deadlines for comments on the FNPRM. The Commission will send a copy of this FNPRM, including this IRFA, to the Chief Counsel of Advocacy of the Small Business Administration (SBA). In addition, the FNPRM and IRFA (or summaries thereof) will be published in the **Federal Register**.

1. Need for and Objectives of the Proposed Rules

27. Consistent with the Tenth Circuit's remand of the *Ninth Report and Order*, 64 FR 67416, December 1, 1999, and the recommendations of the Federal-State Joint Board on Universal Service (Joint Board), we modify the high-cost universal service support mechanism for non-rural carriers and adopt measures to induce States to ensure reasonable comparability of rural and urban rates in areas served by non-rural carriers in the Companion Remand Order. As discussed, the FNPRM is necessary to develop the record on specific issues that relate to the rate review and expanded State certification process recommended by the Joint Board. The rate review and expanded State certification process will fulfill the requirement of the Tenth Circuit remand by inducing State action to ensure that rates in rural and high-cost areas served by non-rural carriers are reasonably comparable to urban rates nationwide in compliance with section 254(b) of the Act.

28. First, in this FNPRM, we seek comment on whether we should require States to file, in connection with their reasonable comparability certifications, additional data that might enhance the Commission's ability to assess the non-rural mechanism and State actions to achieve comparability of urban and rural rates, including business rate data, urban rate data, and rate data from States that would not otherwise be required to file data under the rules we adopt. Second, we seek comment on the role of calling scopes in the rate review process. Third, we seek comment on how to treat any State requests for further Federal action, including procedures for States to submit any such requests; how to review required showings by requesting States; and how to calculate any additional targeted Federal support. In addition, we propose a method for calculating

additional targeted Federal support on a wire-center basis using forward-looking model cost estimates. Finally, we also seek comment on a proposal to further encourage States to advance the Act's universal service goals by making available additional targeted Federal support to States that implement explicit universal service mechanisms, without regard to their achievement of rate comparability.

2. Legal Basis

29. The legal basis as proposed for this FNPRM is contained in sections 4(i), 4(j), 201–205, 218–220, 254, 403 and 410 of the Communications Act of 1934, as amended.

3. Description and Estimate of the Number of Small Entities To Which the Proposed Rules Will Apply

30. The RFA directs agencies to provide a description of, and, where feasible, an estimate of the number of small entities that may be affected by the rules adopted herein. The RFA generally defines the term "small entity" as having the same meaning as the terms "small business," "small organization," and "small governmental jurisdiction." In addition, the term "small business" has the same meaning as the term "small business concern" under the Small Business Act, unless the Commission has developed one or more definitions that are appropriate to its activities. Under the Small Business Act, a "small business concern" is one that: (1) Is independently owned and operated; (2) is not dominant in its field of operation; and (3) meets any additional criteria established by the Small Business Administration (SBA).

31. We have described in detail, in the Companion Order in the Final Regulatory Flexibility Analysis, the categories of entities that may be directly affected by any rules or proposals adopted in our efforts to reform the universal service contribution system. For this Initial Regulatory Flexibility Analysis, we hereby incorporate those entity descriptions by reference.

4. Description of Projected Reporting, Recordkeeping, and Other Compliance Requirements

32. Should the Commission decide that modifications must be made to the rate review and expanded certification process implemented, the associated rule changes will only modify the reporting requirements of the State commissions. Based on our review of the process, such State reporting requirements have no direct effect on the Federal reporting and recordkeeping