Before the
Federal Communications Commission
Washington, D.C. 20554

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| In the Matter of: | ) | |
| | ) | |
| Federal-State Board on | ) | |
| Universal Service Seeks Comment on | ) | CC Docket No. 96-45 |
| Proposals to Modify the Commission's Rules | ) | |
| Relating to High-Cost Universal | ) | |
| Service Support | ) | |

# Comments of the ICORE Companies

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Comments of the ICORE Companies

The consulting firm of ICORE, Inc. (ICORE), on behalf of many small, rural incumbent local exchange carriers (ILECs)[1], offers these comments in the above-captioned proceeding. ICORE provides a variety of consulting, regulatory and network related services to a number of small ILECs serving rural and suburban America.

[1] ILECs participating in this filing include: Arcadia Telephone Cooperative, Arcadia, IA; Barry County Telephone Company, Delton, MI; Baraga Telephone Company, Baraga, MI; Clements Telephone Company, Wabasso, MN; Cooperative Telephone Company, Victor, IA; Doylestown Telephone Company, Doylestown, OH; Dumont Telephone Company, Dumont, IA; Dunbarton Telephone Company, Dunbarton, NH; Fidelity Telephone Company, Sullivan, MO; Ft. Jennings Telephone Company, Ft. Jennings, OH; Harmony Telephone Company, Harmony, MN; Hot Springs Telephone Company, Kalispell, MT; Ironton Telephone Company, Coplay, PA; Laurel Highland Telephone Company, Stahlstown, PA; Lavaca Telephone Company, Inc., Lavaca, AR; Lexcom Telephone Company, Lexington, NC; Madison County Telephone Company, Huntsville, AR; McClure Telephone Company, McClure, OH; Middle Point Home Telephone Company, Middle Point, OH; New Lisbon Telephone Company, New Lisbon, IN; North Penn Telephone Company, Mansfield, PA; Nova Telephone Company, Nova, OH; Ogden Telephone Company, Ogden, IA; Palmerton Telephone Company, Palmerton, PA; Pennsylvania Telephone Company, Jersey Shore, PA; Prairie Grove Telephone Company, Prairie Grove, AR; Redwood County Telephone Company, Wabasso, MN; Richmond Telephone Company, Richmond, MA; Ronan Telephone Company, Ronan, MT; Southern Montana Telephone Company, Wisdom, MT; State Long Distance Telephone Company, Elkhorn, WI; Summit Telephone Company, Fairbanks, AK; Sycamore Telephone Company, Sycamore, OH; Van Horne Cooperative Telephone Company, Van Horne, IA; Venus Telephone Corp., Venus, PA; Wikstrom Telephone Company, Karlstad, MN; Yukon-Waltz Telephone Company, Yukon, PA.

## I. INTRODUCTION

The continuation of sufficient, fair, and reliable high cost universal service support is one of the most critical issues facing small, rural ILECs. The rules adopted in this proceeding will in large part determine the future financial viability of these companies, which have long been the carriers of last resort – the standard bearers of universal service – in every corner of our nation.

If these ILECs are put at risk, the long-standing public policy of universal service at affordable rates will be put at equal risk. This country would never have had – and will not have in the future – true universal service without the tireless efforts of those dedicated ILECs that serve insular, rural and suburban America.

In any reasoned deliberation on high cost universal support mechanisms, the Commission must recognize and preserve the unbroken and unbreakable link between USF and rural ILECs. Any policy that weakens that link will weaken the Commission's commitment to universal service. Thus, any high-cost universal support procedures, mechanisms or definitions that threaten the only real providers of universal service – the ILECs – cannot possibly be in the public interest.

We have had universal service in this country for decades. The ILECs have been, and continue to be, the responsible parties for providing quality telephone service to every home and business in their service areas. Long standing Commission policies have appropriately recognized and affirmed the ILECs' unique role in this effort.

While some changes in universal service rules and procedures are necessary, certain core principles must be maintained. We seem to have an inherent need in this country to fix things that are not broken. The ICORE companies strongly urge the

Commission to resist this temptation when addressing the proposals to modify its existing rules on universal service support, as presented in this proceeding.

The four proposals that are the subject of this Notice[2] contain a variety of recommendations to modify or replace the Commission's rules governing High-Cost Universal Service Support.

In addressing these proposals, the Commission should maintain, or adopt, the following principles, which are essential to the continuation of sustainable and reliable high cost support for small, rural, ILECs:

1. Maintenance of both the current definition of "rural" and the existing system of separate study areas, where rural ILECs have multiple study areas within a state.

2. Continuation of the use of company-specific embedded costs for the calculation of rural ILEC high cost support.

3. Imposition of stringent standards for granting ETC status to competitive entities, use of embedded costs to calculate any high cost support for qualifying CETCs; and continuation of high cost loop support for any lines lost by rural ILECs to CETCs.

4. Complete integration of any new USF mechanisms into any new Unified Intercarrier Compensation Plan.

## II. THE CURRENT DEFINITION OF RURAL, AND THE EXISTING STUDY AREA STRUCTURE, SHOULD BE MAINTAINED

Both the Holistically Integrated Package (HIP)[3] and the Universal Service Endpoint Reform Plan (USERP)[4] talk in terms of ending rural and nonrural definitions,

[2] Federal-State Joint Board on Universal Service Seeks Comment on Proposals to Modify the Commission's Rules Relating to High Cost Universal Service Support, Public Notice, CC Docket 96-45, FCC 05J-1, (rel. Aug 17, 2005) (Notice).
[3] Notice, Appendix C, p. 14
[4] Id, Appendix D, p. 25

while the Three Stage Package for Universal Service Reform[5] and the HIP[6] call for combining all study areas within a state that are owned by a single company.

The existing definition of "rural telephone company" as used to determine which carriers are eligible for rural high-cost universal support seems fair and supportable.

The current definition is inclusive enough to cover virtually every study area or company that could be deemed "rural". Just as importantly, it does not grant key elements of support to every rural telephone company or study area that satisfies its criteria. The existing definition simply determines eligibility for such support.

The current system of allowing rural eligibility on a rather broad and inclusive basis, but determining whether, and how much, support the rural company receives based on its actual costs, works well.

If "larger" companies or study areas that qualify as "rural" have operating efficiencies, buying power, and other economics of scale and scope, these conditions will be recognized in their embedded costs. "Smaller" rural entities, which lack the efficiencies and economics of their "larger" counterparts, should have proportionately higher embedded costs.

Thus, for instance, some companies or study areas that qualify as "rural" may receive no high cost loop support, while others receive amounts sufficient to recognize their higher costs of providing universal service.

For these same reasons, there is no need to combine or consolidate the multiple study areas of one company within a state. The embedded costs of each study area will reflect any economic benefits flowing from the owning company. If a particular study

[5] Id, Appendix B, p. 8
[6] Id, Appendix C, p. 17

area still receives high cost support, it will be because of density, terrain, and other factors beyond the control of the company's ownership.

The separate treatment of such study areas for high cost universal support purposes also continues to recognize the uniqueness and diversity of rural America. If a company has one high cost study area and other moderate to low cost study areas, the higher costs of the one will be properly recognized, even after accounting for any and all efficiencies and economics accruing to it from the owning company.

The use of an inclusive definition of "rural" to determine eligibility, and embedded costs to determine actual levels of support, provides a good system of checks and balances. All rural entities are first considered for support. Then each entity's actual costs – which include economics of scale and scope for "larger" operations – determine the level of that support.

No company or study area serving insular, rural or suburban America is denied the opportunity to receive high cost universal support. Conversely, no company or study area receives such support if its actual costs are not at the appropriate qualifying level.

## III. EMBEDDED COSTS MUST CONTINUE TO BE USED AS THE BASIS FOR DETERMINING HIGH COST SUPPORT FOR RURAL TELEPHONE COMPANIES

There is much discussion in all four proposals of the appropriate cost basis for calculating high cost support for rural ILECs. Forward Looking Economic Costs (FLEC) are discussed, along with cost models, aggregate state costs, and other cost surrogates.

But small, rural ILECs do not provide universal service using hypothetical networks, nor do they write theoretical checks to pay for forward looking economic costs.

Instead, they fulfill their universal service and carrier of last resort obligations with real equipment and facilities, paid for with real money.

Rural ILECs, decade after decade, have built the infrastructure to make universal service a reality, not with FLEC or TELRIC or other cost model dollars, but with hard earned – and often hard to come by – United States currency. They have tirelessly invested in whatever equipment, facilities and services were required, at any particular time, to meet their social and regulatory obligations.

It is ironic that in building this universal wireline infrastructure – which has resulted in the public switched telephone network (PSTN) – rural ILECs have allowed their competitors to claim to offer universal service, too. That is, the new market entrants – the wireless carriers, the CLECs, the VoIP providers and others – all use the PSTN in some way for switching, transport, and origination or termination of calls.

Without the rural ILEC infrastructure, the services of these new technology providers would have far less value, and could certainly not be offered as universal. Yet many of these new competitors – the same ones who clamor for the benefits of universal high cost support but not the attending regulatory responsibilities – want either the same level of support as their incumbent LEC, or that ILEC's support to be cut by the introduction of surrogate cost estimation methods.

But rural ILECs have never had the opportunity to sit back and assess which markets were the most profitable or, with the benefit of hindsight, which technologies would flourish and which would flounder. They were always in the midst of the battle to provide universal service at affordable rates, even when they could barely afford to do so.

In other words, small, rural ILECs have never had the luxury of being the cherry pickers or one trick ponies that are so prevalent in the industry today. They have never had the good fortune of being solely wireless carriers, or VoIP providers, or business suppliers. They have been telephone companies, or in more contemporary terms, telecommunications carriers, offering a variety of services to each and every person and entity in their service area, using a combination of technologies to get this critical task accomplished.

To ignore the real, actual, embedded costs – including all joint and common costs – of rural ILECs in determining their high cost universal support would thus be unfair and unjust. It would deny their long history of providing universal service at affordable rates, and totally undercut the vital role they have played in building the PSTN. Most importantly, there is absolutely no assurance that a forward looking economic cost model would in any way adequately replicate the specific costs of individual ILECs in providing universal service.

The smaller the ILEC, and the more unique its service territory, the less predictable any economic model would be. And there are many very small, rural ILECs in this country, serving a vast array of service areas in terms of terrain, weather conditions, population density and distribution, and human enterprise.

Rural ILECs have borne the very real costs of providing universal service in their unique and specific franchised areas. These costs are known and verifiable. To use anything but their company – specific embedded costs puts rural ILEC high cost universal support at serious risk.

And if embedded costs are to be a completely accurate measure, the current limits on corporate operations expenses must be removed from the rural high-cost support calculation process.

That is because small, rural ILECs often operate with a minimum of employees. The owner, or president, or general manager – sometimes the same person – usually oversees every aspect of the company. He or she may supervise the installation and repair of plant and equipment – or actually perform the work.

Often times, all or most of the president's or manager's time is assigned to corporate expenses, rather than being distributed amongst plant, commercial and other operating accounts. In addition, small rural ILECs generally contract with outside firms for legal and accounting services, audits, cost studies and other professional services. These outside fees are also, as a general rule, assigned to corporate expenses.

Thus, it is the nature of small ILEC operations and the accounting conventions accompanying these operations – not any abuses, waste, inefficiencies, or indiscretions relating to corporate expenses – that may cause these expenses to appear proportionately higher than those of larger companies.

The Commission should therefore eliminate any limitations on the corporate operations expenses of small, rural ILECs to be included in high cost support computations.

## IV. RULES AND PROCEDURES GOVERNING HIGH COST SUPPORT FOR COMPETITIVE ETCS MUST CHANGE TO ENSURE THE CONTINUED SUSTAINABILITY OF UNIVERSAL SERVICE FUNDING

### A. The Granting of ETC Status to Competitive Entities Must Follow Rigorous Standards

First, competitive carriers seeking ETC status must prove conclusively that they offer all services included in the definition of universal service, and to all customers in the ILEC's study area. This is the baseline test, and it must be passed 100%.

Second, the competitive carrier must demonstrate that it is willing and able to serve as the carrier of last resort should the incumbent LEC choose to exit the market. The competitor must in no way be dependent on the services or facilities of the ILEC in providing any of the basic universal services, and it must be able to provide such services on an affordable basis everywhere in the study area.

Even when these first two criteria are satisfied, the grant of CETC status must pass a stringent public interest test. It must be determined, for each study area, whether the cost of providing support to the CETC in any rural area is in the public interest, since such support increases the size of the universal service fund.

B. Embedded Costs Must be Used to Determine High Cost Universal Support for Competitive ETCs

Clearly, wireless carriers (traditional cellular as well as VoIP providers) generally account for the most serious form of competition in areas served by small, rural ILECs. Wireline competition is less prevalent, for the very reasons that led this industry to implement universal service policies in the first place. That is, it is very costly to provide physical facilities to serve everyone, everywhere, particularly when the most costly to serve are often the least profitable to serve.

Quite frankly, rural America is not the most attractive market for wireline competition. Wireless providers, with their lower cost structures, are far better suited to serve rural areas. In the past, wireless service was more often a complement to, rather

than a replacement for, the ILEC's wireline service. This left the rural ILEC with its traditional responsibility for universal service in rural America.

Increasingly, however, wireless lines – cellular and VoIP – are actually replacing ILEC primary lines. This is due in large part to the pricing schemes of wireless providers, which generally bundle minutes and services into extremely attractive flat monthly rates. Such pricing packages are absolute proof that wireless carriers have far lower costs than the small, rural ILECs with whom they compete.[7]

Wireless providers have no physical loop costs, while availing themselves of economies of scale and scope that dwarf those of small rural ILECs. Because of these advantages, wireless companies can offer bundled pricing plans which ILECs - - because of their much higher costs - - cannot possibly match.[8]

This constitutes a major competitive disadvantage for small, rural ILECs. The portability of universal support to CETCs compounds this problem. The lower costs of wireless ETCs give them a huge pricing advantage over small ILECs, allowing the wireless companies to sell new lines or to take existing lines from the wireline incumbent. Yet in the current portability process, the wireless company is presumed to have the same costs as the ILEC. That is, a wireless provider receives the same per line support as the incumbent when it sells a new line or captures an existing line - - in reality, lines obtained primarily because of the wireless providers' lower costs.

First and foremost, any serious analysis of universal service support calculations must begin with cost. High cost universal support for small, rural ILECs is predicated on the fact that they have higher than average costs. They receive high cost loop support,

[7] Notice, Appendix D, p. 26
[8] Id.

dependent on the level of their cost per loop; and local switching support (LSS) is dependent on the number of lines served, which is a surrogate for their per line switching costs.

It is not competitively neutral to award high cost support to ETCs on the same per line basis as the ILEC. Wireless ETCs do not provide physical loops, whereas ILECs generally have per loop costs of several hundred dollars. Where wireless switches can serve large portions, or all, of a state, only those ILECs with fewer than 50,000 lines receive LSS - - and the bulk of that goes to very small ILECs with fewer than 10,000 lines.

Thus, for rural ILECs, high cost support is cost-dependent. Only those whose loop costs exceed a certain threshold receive high cost loop support. Only those which serve relatively small quantities of lines have high enough per line or per minute switching costs to warrant receipt of LSS. Wireless ETCs have no such cost-related tests to pass. In fact, they use their low costs to underwrite pricing schemes that allow them to obtain lines in high cost ILEC territories, and then are awarded per line support as if they, too, were high cost companies.

Small, rural ILECs need, and are deserving of, high cost support. They must build expensive loop plant, often miles and miles from their central office, to serve the very last customer in their service area. They must provide state-of-the-art switching, with CLASS and custom calling features, SS7, and all other functions required by our nationwide, integrated network, to serve - - in many cases - - a few hundred or a few thousand customers.

Wireless providers, on the other hand, use a technology which avoids most of the substantial costs associated with physical loop plant. They also enjoy economies of scale and scope in switching and other areas that are unknown to small, rural ILECs. They are not, in general, according to the standards and definitions which apply to ILECs, high cost companies.

If the purpose of high cost universal support is to assure ubiquitous telephone service at affordable rates, it is difficult to understand how wireless carriers can qualify for such support. High cost support does not give ILECs a competitive advantage. It simply helps level the playing field with competitors that use new, low cost technologies to create pricing schemes against which ILECs cannot reasonably compete.

The provision of high cost support to low cost companies obviously imposes greater costs on the universal service fund. It is totally contrary to the public interest both to provide support to companies that would not otherwise qualify for such support, and to increase the size of the universal service fund by so doing. Wireless carriers enjoy other forms of regulatory relief as well, including multi-state MTAs and exemption from access charges. They should not arbitrarily be given high cost support, which has been carefully designed to help offset the unavoidable high costs of small, rural ILECs.

If a wireless or wireline competitor meets each and every duty, obligation and responsibility that the ILEC must fulfill in providing universal service; and if the Commission deems it in the public interest to grant ETC status to that carrier, then any high cost support it receives must be based on its costs, not the ILEC's.

It is neither just, reasonable, equitable nor in the public interest to award high cost assistance to one carrier, based on the costs of another. Wireless and wireline ETCs must

be made to submit their specific loop costs, and their number of lines served, in order to receive high cost loop support and local switching support, just as the ILECs must report their specific data. Wireless and wireline ETC accounting and reporting for high cost support purposes must be held to the same standards as are applied to rural ILECs.

### C. The ILEC Should Continue to Receive High Cost Support for Any Lines Lost to CETCs

If, in fact, CETC status is granted and the CETC receives high cost support based on its company – specific embedded costs, the ILEC should continue to receive its appropriate level of high cost support for any and all lines lost to the CETC.

The loss of such lines in no way reduces ILEC costs. The loop remains, switching costs remain, and all joint and common costs remain. To take away support for lost lines will increase the need to raise rates on existing lines, creating a "death spiral" which will ultimately force ILEC rates to levels that will be unsustainable.

## V. CONCLUSION

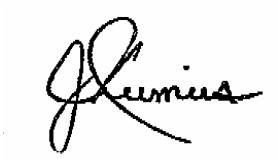
The current definition of "rural" for high cost universal support purposes is inclusive enough to allow almost every rural study area or company to be considered for support. Coupled with the continuation of separate study areas and the use of embedded costs for determining the actual level of such support, the existing definition works well.

Embedded costs must continue to be used in the calculation of high cost support for rural telephone companies. Because of the diversity and uniqueness of their service territories and operations, rural ILECs' costs cannot be accurately replicated using hypothetical or theoretical models.

Any high cost support for CETCs must be based on their embedded, company – specific costs as well, and only after eligibility has been granted using very rigorous guidelines. ILECs must continue to receive support for lines lost to CETCs.

Obviously, any new or modified USF rules or mechanisms must be made part and parcel of any Commission adopted Unified Intercarrier Compensation Plan.

Respectfully submitted,
ICORE, Inc.



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