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

In the Matter of:	)	
	)	
Comment Sought on Missoula	)	
Intercarrier Compensation	)	CC Docket No. 01-92
Reform Plan	)	

Comments of the ICORE Companies

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The following incumbent Local Exchange Carriers (ILECs)[1], through the consulting firm of ICORE, Inc. (ICORE), offer these comments in the above-captioned proceeding. ICORE provides a variety of consulting, regulatory, billing, and network-related services to a number of the nation's small, rural ILECs.

[1] ILECs participating in this filing include: Clear Lake Independent Telephone Company, Clear Lake, IA; Dunbarton Telephone Company, Dunbarton, NH; Laurel Highland Telephone Company, Stahlstown, PA; Lexcom Telephone Company, Lexington, NC; Madison County Telephone Company, Inc., Huntsville, AR; Manti Telephone Company, Manti, UT; Palmerton Telephone Company, Palmerton, PA; Prairie Grove Telephone Company, Prairie Grove, AR; Ronan Telephone Company, Ronan, MT; Summit Telephone Company, Fairbanks, AK; Sycamore Telephone Company, Sycamore, OH.

I. <u>INTRODUCTION</u>

The ICORE companies support the principles of the Missoula Plan. While not all of the companies represented herein agree with each and every element of the Plan, they do agree that intercarrier compensation reform must be carefully undertaken to ensure the continuation of universal service in rural America. Access reform, as such, remains a process which requires the integration of many components.

The Missoula Plan provides a reasonable, comprehensive compromise solution to several of these interrelated issues. The result is a significant, but not total, unification of intercarrier compensation rates and rate structures. It is not an "end-all" solution, but rather represents meaningful reform which will remain subject to further review and modification – where necessary – by the industry and the Commission during the term of the Plan.

The Plan properly acknowledges that there is no "one-size-fits-all" answer to this very complicated issue, which often has a much more disparate impact on RLECs serving high cost, low density rural and insular service territories, than the rest of the telecommunications industry.

In other words, the Missoula Plan recognizes that "rural" is very different, and that the continued viability of rural LECs is extremely important. In considering the proposed Plan, commenters <u>should</u> – and the Commission <u>must</u> – understand the unique position of these RLECs in serving the telecommunications needs of rural Americans.

The traditional wireline network – the Public Switched Telephone Network (PSTN) – is the backbone of telecommunications in this country. It alone allows all other competing technologies, networks and services to be viable.

Small, rural LECs provide loop, switching and transport facilities to suburban, rural and insular areas in a huge geographic portion of this country. They assure that the PSTN is a joint, thorough, seemless network where every telecommunications user in this nation can reach every other user on a real-time, any-time basis.

The facilities contributed to the PSTN by RLECs guarantee reliable connectivity, quality transmission and secure communications. The most remote areas of our country, for instance, are accorded the very real benefits of Emergency 911 services, and law enforcement agencies are able to implement the provisions of CALEA.

The wireline infrastructure provided by RLECs is absolutely essential to all forms of telecommunications in rural America. All carriers – CLECs, IXCs, wireless companies, VoIP providers and others – use these RLEC facilities for origination, termination, switching and/or transport of their traffic to and from RLEC end users.

In fact, the RLEC wireline infrastructure is of almost inestimable value to the PSTN itself, all carriers that use the PSTN, and to the provision of advanced, high quality and affordable telecommunications services in rural America. It is, in short, an invaluable national resource that must, and will, be supported by the Missoula Plan.

II. <u>RURAL IS DIFFERENT</u>

Rural America, in terms of population density, customer characteristics and the costs of providing telecommunications services, is far, far different than non-rural

America. There are RLECS, for instance, that serve territories of several thousand square miles with customer densities of less than one customer per square mile.

The Rural Task Force, an independent advisory panel appointed by the Federal – State Joint Board on Universal Service, was charged with reviewing issues affecting rural telephone companies.[2] The Rural Task Force reported that:

- Nationally, Rural Carriers serve about eight percent of the nation's access lines, but 38 percent of the nation's land area.
- The average population density is only 13 persons per square mile for areas served by Rural Carriers, compared with 105 persons per square mile in areas served by non-Rural Carriers.
- The smallest Rural Carriers (2,500 lines or fewer) encompass 48% of all study areas, but only 5% of all access lines served by Rural Carriers.
- Even among Rural Carriers, the average population density of service areas can vary widely.
- Rural Carriers have relatively high loop costs because of the lack of economies of scale and density. Rural Carriers experience difficulty and high cost in moving personnel, equipment and supplies to remote and insular communities.
- Compared to non-Rural Carriers, the customer base of Rural Carriers generally includes fewer high-volume users, depriving Rural Carriers of economies of scale.
- On average, multi-line business customers represent about 13 percent of total business lines served by Rural Carriers, compared to over 21 percent of the lines served by non-Rural Carriers.
- Non-Rural Carrier study areas typically have higher business customer density than Rural Carrier study area.

If rural were not different, then the interstate access rates charged by all RLECs would be the same – perhaps even the same as the rates charged by the RBOCs. As long

[2] *See* the Rural Task Force White Paper #2, "The Rural Difference "for a complete assessment of issues faced by RLECs in serving their rural customers.

ago as 1983 the FCC knew this would not be the case, and created the National Exchange Carrier Association (NECA) to perform telephone industry tariff filings and revenue distributions following the break-up of AT&T. NECA has served as the administrator of the FCC's access charge plan since it was first developed in the early 1980s. NECA prepares a tariff that includes switched access rates – based on the participating companies' costs of providing interstate access service and forecasted demand quantities. These interstate switched access rates are developed in accordance with Parts 36 and 69 of the FCC Rules and Regulations. The tariff is then filed with the FCC, and is used for access charge billing by some 1,150 primarily rural (non-RBOC) LECs. These interstate switched access rates are based on the actual costs of the NECA member companies and include a return on investment in accordance with the FCC rules. There can be no dispute; RLEC interstate access rates are cost-based rates.

The Commission should recognize the high cost of providing access service in rural America, and the cost-based nature of RLEC access rates, as it considers the Missoula Plan.

The large Track 1 companies have the benefit of serving the largest populated areas of our country. There are more access lines within a few square blocks of New York, Chicago or Los Angeles than many of the RLECs have in their entire service territories. It would be disingenuous for Track 1 carriers to fail to acknowledge the cost distinctions between servicing their highly populated, low cost and high profit areas – and those associated with providing ubiquitous high quality service to customers in Rural

America that these same Track 1 carriers ignore, or at best, selectively serve.

RLEC access costs have been incurred to serve the totality of telecommunications needs of their customers. Rural ILECs have met their universal service obligations over a long period of time, and have complied with all industry, regulatory and legislative rules, regulations, standards and requirements.

A relatively small portion of Rural ILEC costs allow their customers to originate and terminate local, or intraexchange calls, to each other. But a much larger share of their costs have been incurred to provide a complete array of network functions and services which allow the origination, termination, switching and transport of all other carriers' traffic.

Over the years, Rural ILECs have provided such traditional functions as ticketing, timing and translation, as well as Equal Access, Emergency 911 services, Local Number Portability, and CALEA compliance. They have met each and every one of their obligations, often at substantial cost, to provide both their end user and carrier customers with advanced and high quality telecommunications services.

The very substantial costs of providing both complete local and network functions – origination, termination, switching and transport – have been, and continue to be, incurred by Rural ILECs.

III. THE MISSOULA PLAN IS A GOOD COMPROMISE FOR RURAL LECS, BUT CONTAINS AREAS OF CONCERN

The ICORE companies agree that the Missoula Plan is a very good compromise, one that rightfully recognizes the very real differences in providing service between rural

and non-rural America, and appropriately preserves cost-based interstate access rates for the RLECs.

It does, however, contain several provisions which are of serious concern to the companies represented herein. We would ask that the Commission consider the following points as it carefully reviews the various elements of the plan.

A. The Plan Properly Maintains Current Universal Service Funding for RLECs. The New Restructure Mechanism Should be Treated as an Access Cost.

Over the past several years, a relatively large portion of actual RLEC costs have been moved – for interstate cost recovery purposes – from access to Universal Service. While this cost migration may have accomplished a variety of regulatory and legislative goals, it has put RLEC cost recovery at risk.

The Universal Service Funding program has been an invaluable mechanism in helping RLEC provide modern, reliable and affordable telecommunications service to rural America, but the program is not universally popular. In fact, USF has been – and continues to be – debated, discussed and often derided by politicians, the media, the academic community, large segments of the telecommunications industry itself, and others.

Despite all of the criticism, however, the existing USF elements must be maintained for RLECs, and the Missoula Plan does this. USF is an integral part of their revenue requirement, particularly when such a large portion of RLECs' real, embedded costs have been reassigned from access to USF.

But because of the negative attitude held by many against USF, no additional RLEC costs should be moved to this fund, including the proposed Restructure Mechanism. The ICORE companies suspect that USF – already perceived as "corporate welfare" by some – will become increasingly controversial in the future. A cynic might even suggest that moving costs from access to USF is just the first step in a process designed to eliminate those costs from payment by other carriers. That is, once the costs have been transferred to USF, a concerted campaign will be undertaken by those carriers that want to avoid payment for use of RLEC facilities, to weaken and eventually destroy the USF system.

While basically maintaining USF for RLECs, the Missoula Plan proposes several changes to federal USF support. It makes available additional Lifeline support and implements certain changes in high-cost loop support. Additional Safety Valve funding is available to companies which buy additional exchanges. If adopted, these changes could increase the size of the federal USF by as much as $2.25 billion, including $1.5 billion for the Restructure Mechanism – if the Restructure Mechanism were to be considered a USF element.

These kinds of increases will only exacerbate the problems with USF, as outlined above. The Restructure Mechanism must thus be treated as an access cost, to keep it from the continued carping and controversy that surrounds USF.

RLECs have incurred real and substantial costs to provide other carriers with access to their end users. These costs are absolutely necessary to provide originating, terminating, switching and transport facilities in order that VoIP, IXC, CLEC, CMRS and other traffic can touch rural America. No more of these costs should be assigned to USF.

B. SLCs Must Not Rise to a Level That Drives Customers From the RLECs' Networks.

The combination of local service rates and SLCs (plus any additional flat rate charges that states may impose) produce the minimum dollar level that RLEC customers must pay, before they ever pick up their phone. Many of these customers neither make, nor receive, a substantial number of calls that involve other carriers.

While the ICORE companies do not oppose the imposition of the phased, slightly higher SLCs proposed in the plan, any such increases must be balanced against the long standing principles of universal service at affordable rates. If the total threshold cost of local rates and SLCs becomes too high, rural customers may very well discontinue service in favor of carriers with lower threshold costs.

And if too many customers abandon RLEC service, the costs to the remaining customers will eventually become too high, and RLEC facilities will not be sustainable. This is because once a customer line is lost, the revenue generated by that line is lost. But the cost of that stranded line remains, meaning that those costs must be spread over an ever-decreasing customer base – a true death spiral.

In a totally competitive world, such an outcome might be acceptable. But in the real world, the elimination of RLEC infrastructure will leave large portions of rural America with fewer telecommunications options, inferior service, or no service at all.

As stated earlier, RLEC infrastructure allows all other carriers to originate and terminate their traffic from and to rural America. RLEC facilities are a very important part of the PSTN – the telecommunications backbone of this country – which makes the

services of most other carriers viable.

We would ask that the Commission monitor the increasing SLCs proposed in this plan, and stand ready to make changes if such increases are placing RLECs at a substantial competitive disadvantage.

C. All RLEC Intrastate and Reciprocal Compensation Rates Should be Unified at their Interstate Access Rates.

Under the Missoula Plan, Track 3 RLECs will reduce their intrastate access charges to the level of their interstate rates. This includes the elimination of the Carrier Common Line rate element and the reduction of intrastate traffic sensitive (per minute) access rates. However, if an RLEC's intrastate access rates are already below the interstate rates, the intrastate rates are not increased to the interstate rate level. Thus, an RLEC that has already aggressively rebalanced intrastate access rates below the interstate level – very possibly increasing local rates in the process – will not be allowed as part of the Missoula Plan process to mirror its interstate rates, and will still face issues of access rate arbitrage which the plan is meant to mitigate.

Interstate access rates, under the Plan, serve as the cap, or ceiling, for RLEC reciprocal compensation rates. This will provide an incentive for non-LECs to negotiate reciprocal compensation rates below the RLEC's interstate access rate. This will complicate the negotiation process and – if the resultant reciprocal compensation rates are set below the interstate access rates – there will be the same arbitrage opportunities as

with lower intrastate access rates.

If the Missoula Plan is meant to truly unify rates and reduce arbitrage, then all RLEC intrastate access and reciprocal compensation rates must be unified at the interstate rates.

D. In its Efforts to Address the Problem of Phantom Traffic, the Plan Must Require Transmission of the Carrier Identification Parameter (CIP).

The CIP is an SS7 feature that supports IXC interconnection using Integrated Services Digital User Part (ISUP) call signaling. The CIP is a field included in the SS7 Initial Address Message which contains the codes that identify the different carriers.

When calls are made using multi-carrier trunk groups, it sends the appropriate carrier codes to the RLEC switch. It thus allows the RLECs to properly identify traffic generated by multiple Carrier Identification Codes on a single trunk group.

The Missoula Plan represents a good start toward solving many of the problems of phantom traffic. Without the CIP identifier, however, a large portion of the traffic will continue to evade identification.

IV. CONCLUSION

The Missoula Plan represents a very good compromise in addressing a variety of intercarrier compensation issues. It properly recognizes the vast differences between RLECs and their non-rural counterparts, and preserves the cost based interstate access charges and universal service funding which are essential to the viability of all

small, rural ILECS.

It will, with the modifications suggested herein, meet the Commission's goals related to competition and intercarrier compensation, while continuing universal, advanced services at affordable rates in rural America.

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