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

In the Matter of	)	
	)	**CC Docket No. 01-92**
Developing a Unified Intercarrier	)	
Compensation Regime	)	

COMMENTS OF THE IOWA TELECOMMUNICATIONS ASSOCIATION

INTRODUCTION AND SUPPORT OF RURAL ALLIANCE

The Federal Communications Commission (FCC) released its Further Notice of Proposed Rulemaking in this docket on March 3, 2005 and seeks comments on intercarrier compensation reform. This filing is to present the comments of the Iowa Telecommunications Association (ITA) in that docket.

ITA comments in this proceeding to express its support for the principles that will be submitted by the Rural Alliance. ITA also comments in this proceeding to emphasize its concerns about the recovery of costs by rural carriers in Iowa and the reasonableness of rates for the customers of those carriers. As the FCC stated at paragraph 32 of its Order:

> In particular, many rural LECs collect a significant percentage of their revenue from interstate and intrastate access charges. Because of the high costs associated with serving rural areas, we must be certain that any reform of compensation mechanisms does not jeopardize the ability of rural consumers to receive service at reasonable rates.

ITA believes that intercarrier compensation reform should not come at the expense of rural carriers and rural customers. Distinctions must be recognized where the costs to serve are high and the number of customers over whom those costs may be spread is low. Any system of reform must provide for carriers to pay a reasonable and appropriate amount for use of the facilities of the rural LECs. End user customers should not be forced to pay 100% of the costs of any network when both ends of the network and the facilities connecting those networks derive benefit from the use of the end to end connection, and another carrier charges a fee to deliver a retail service which uses that network.

IOWA TELECOMMUNICATIONS ASSOCIATION

The ITA is the nation's largest and second oldest state telecommunications association. It includes within its membership 146 Iowa incumbent local exchange carriers (ILECs), which constitute all of the ILECs serving in Iowa except two - Qwest Corporation and one independent carrier. ITA's membership also includes several competitive local exchange carriers (CLECs), one wireless provider and the statewide centralized equal access provider, Iowa Network Services (INS). The wireline carrier members of ITA serve over 550,000 access lines throughout the State of Iowa.

All of the ITA ILEC members serve small rural exchanges in the State of Iowa. Approximately 93 ILECs serve fewer than 1,500 access lines.

IOWA'S TELECOMMUNICATIONS MARKET

Its 1208 communities, 370 public school districts, and 99 counties characterize the state of Iowa's rural nature. Iowa has a low density population base, which causes Iowa to be a high cost state for the provision of telecommunications services.

The current intercarrier compensation system has allowed rural carriers in Iowa to receive compensation for the use of their networks and to serve high cost customers with quality services at reasonable prices. It has been a consistent federal and state public policy to maintain affordable rates for Iowa citizens to obtain connection to the telecommunications system. The most recent FCC statistics (released in March 2005) show that in 2004, 95.4% of Iowa households had telephone service, above the national average of 93.5%.

The Iowa rural LECs serving high cost customers under the current intercarrier compensation system have invested heavily in their networks to bring advanced services at affordable rates to their customers. Without adequate compensation for the use of those networks, rural LECs will not be able to continue to upgrade, invest and deliver those advanced services to Iowans.

IOWA CONCERNS FOR INTERCARRIER COMPENSATION REFORM

In furtherance of its agreement with the principles outlined by the Rural Alliance, ITA points out the following considerations applicable to Iowa rural LECs that are important to any discussion of intercarrier compensation reform.

1. **The growing problems of arbitrage and phantom traffic are causing significant market distortions and the current intercarrier compensation system should be fixed**. ITA is encouraged that NARUC has committed to a resolution of the problem of phantom traffic. It is necessary that LECs be able to identify the source of traffic terminated to its network and be able to bill the appropriate party for that traffic. A rural LEC should not be required to terminate traffic for which it cannot receive compensation. Likewise, we should eliminate any incentive for a carrier to re-route

intrastate traffic using interstate delivery mechanisms in order to avoid intrastate access charges.

2. **<u>Any reform should recognize that networks have value and carriers have a right to be compensated for the use of their networks based on embedded costs.</u>**

Current proposals to adopt a "bill and keep" regime would cause a substantially disparate impact on the various carriers involved. It is not surprising that many of the large high-density, lower-cost carriers support a move to bill and keep because of the relatively modest impact it would cause to their revenues and customers. In fact, a move to bill and keep would likely be revenue enhancing to interexchange carriers and high volume users at the expense of rural ILECs. ITA questions whether any public policy would favor this result.

Indeed, the result for the smaller low-density, high-cost rural ILEC can be catastrophic. In Iowa, a sampling of ITA member companies indicates that an average independent ILEC in Iowa derives approximately 42% of its revenues from interstate and intrastate access, with another 20% of revenues coming from universal service.

The removal of access revenue under a bill and keep environment would either result in a material impact on the company's ability to provide quality telecommunications services or result in very significant shifts in revenue requirements to universal support mechanisms or the local rates of the rural LEC customers.

It appears unreasonable to the ITA that carriers who generate revenue from the services they provide should not incur, as a legitimate cost, a reasonable charge for the use of rural networks to either originate or terminate their services. While one might debate the reasonable charge, there should not be debate on the right of a rural LEC to receive compensation for the services and facilities it provides to any carrier that transits or terminates traffic across its network, regardless of the technology used.

Termination rates at fractions of a penny per minute, however, are not supportable and will cause too much distortion in local rates and/or the universal service fund. In the first instance, fractions of pennies per minute are not adequate to compensate for the costs of using the rural networks. Secondly, transactional costs associated with a rural LEC's billing systems (the cost to obtain the records necessary to prepare billings to carriers and the cost to process those billings) may exceed these revenues, especially for carriers with comparatively low traffic volume.

ITA agrees with the comments of the Rural Alliance regarding the use of embedded costs to set Intercarrier Compensation rates due to the uncertainty, unreliability, and high administrative cost of calculating forward looking costs.

3. **Any reform must attempt revenue neutrality with an appropriate transition period to ensure continued rural investment and avoid undue rate shock to rural customers or unnecessary additional pressures on the universal service funding mechanisms.** In order to continue providing high quality service to high-cost rural customers, rural LECs should be allowed to recover their costs from three stable and predictable sources (local rates, Universal Service Funding mechanisms and intercarrier compensation). The revenue sources should recognize and appropriately allocate costs caused by those that utilize the facilities. There is no evidence that rural LECs are currently "over-earning" and any reform should strive for revenue neutrality.

ITA urges the FCC to give great weight to the consideration of the impact on rural customers caused by changes to the intercarrier compensation and universal service funding mechanisms.

ITA is encouraged by NARUC's efforts to ensure some semblance of revenue neutrality in any intercarrier compensation reform whether through an access charge transition fund, state allocation mechanism, or some other mechanism.

ITA urges the FCC to adopt a reasonable transition period in connection with any new compensation plan. The ITA supports the proposition that the transition period be of sufficient length which it believes should be over a five to seven year period to allow for what could be significant redistributions of revenue sources and impacts on rural consumers.

4. **Any reform should seek a unified rate structure that minimizes arbitrage, allocates appropriate costs to the cost-causer, and recognizes new technologies**. ITA agrees with NARUC and the Rural Alliance that a unified rate structure for the origination and termination of traffic should be applied to all exchange carriers using the PSTN, with different rates structured according to the size of the LEC's exchange.

Utilizing a "minute is a minute" system that treats voice traffic the same regardless of jurisdiction and technology will avoid arbitrage. It will also charge appropriate costs to the cost-causer -- the retail service provider (whether LEC, IXC, ISP, VoIP etc) whose customers benefit from the services provided by the use of the network. We agree with both the Rural Alliance and NARUC that traffic volume must be accounted for in the rate structure.

5. **Any reform must recognize the impact of NECA pooling.** Most Iowa rural LECs participate in NECA pooling. Generally, they realize positive revenue from the NECA pooling process. Any plan under consideration for intercarrier compensation reform should discuss the impact on NECA pooling, especially upon carriers who are net recipients of NECA pooling settlements. ITA agrees with the comments of the Rural Alliance that interstate pooling and cost-recovery mechanisms provide financial stability, administrative efficiency, and ultimately result in benefits to rural consumers.

6. **Any reform must recognize the benefits provided by Centralized Equal Access (CEA).** Most rural LECs in Iowa connect to nonLECs through a Centralized Equal Access (CEA) carrier, rather than subtending an RBOC tandem. This CEA carrier is a separate company from the rural LECs. Using a CEA carrier allows Iowa's rural LECs to provide their customers with better service and access to more IXCs. The CEA carrier allows Iowa's rural LECs (and other customers) access to 28 IXCs and 23 CMRS carriers. The carrier also provides any carrier with the possibility of trunk-group access to 148 ILECs and 37 CLECs throughout the state of Iowa. In Iowa, the CEA carrier (much like the rural LECs themselves) provides a wide-range of non-regulated services in addition to regulated telecommunications services.

CEA carriers provide a separate and distinct service from the services provided by rural LECs, IXCs and services provided by RBOCs in other states. Intercarrier compensation reform must recognize the existence of CEA carriers.

7. **<u>Any reform must address interconnection issues unique to rural LECs.</u>** A closely related point to #6 above concerns interconnection points. For rural Iowa LECs, interconnection occurs within their network areas. All local exchange carriers should be allowed to interconnect at existing points of interconnection, or at points otherwise agreed. The FCC should reject those proposals that attempt to apply the network arrangements of the RBOCs onto the network operations of a rural LEC. Rural LEC operations are geographically limited, and they should not be forced to transport non-local calls to other carriers at points beyond which they currently have any transport responsibility. As the Rural Alliance points out—no RBOC has ever been required to establish a POI with a requesting carrier at a point not on its network, so why should a rural LEC be required to do so? ITA specifically refers to Part VI of the comments of the Rural Alliance for further discussion of this important topic.

8. **<u>Any reform must address the continuing pressures placed on the high-cost portion of the Universal Service Fund</u>**. Universal service at comparable and affordable rates remains a viable social and industry goal. By sharing service costs and responsibilities among users, all Americans have benefited from a ubiquitous network that connects as many people as possible. ITA agrees with NARUC and other commenters who believe that intercarrier compensation and universal service policies are closely intertwined.

The 1996 Act contains a number of important public policy principles relating to universal service, including Section 254(b)(1) (Quality services should be available at just, reasonable, and affordable rates), Section 254(b)(2) (Access to advanced telecommunications and information services should be provided in all regions), Section 254(b)(3) (Consumers in all regions should have access to telecommunications and information services that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas), Section 254(b)(5) (There should be specific, predictable, and sufficient Federal and State mechanisms to preserve and advance universal service).

Universal service principles recognize that the costs of providing telephone service vary widely among providers and localities. Rural areas in Iowa are much more expensive to serve on a per user basis than urban areas, particularly those in larger metropolitan areas. All Americans, no matter where they live, should be able to enjoy the benefits of high quality, reliable telecommunications service.

If intercarrier compensation reform causes local rates to rise to levels that drive appreciable numbers of customers from the network because of affordability, universal service principles are lost. Any reform should not allow other carriers to profit from their "free ride" on rural networks, while rural customers pay the shortfall through higher local service rates and SLC charges.

ITA urges the FCC to enact major changes to the current universal service contribution and distribution mechanisms in the high-cost USF program. The support calculation methodology must be based on a competitive ETC's own costs, not those costs of the incumbent. There is no basis to assume that competitive ETCs and ILECs have the same costs, and ITA believes the current system provides an unjustified windfall to any carrier that receives compensation in excess of their own costs. This windfall unnecessarily burdens ratepayers and unduly expands the USF. ITA agrees with NARUC that universal service funding should be technologically neutral and should be structured in a way to avoid the necessity of a state universal service fund.

In addition, the ITA concurs with the Rural Alliance and NARUC in urging the FCC to use the authority granted to it by the 1996 Act to the broadest possible base of service providers to contribute to universal service. All service providers that benefit from the use of the network, including VoIP and IP-enabled services, should be required to contribute to the universal service fund.

INDUSTRY PROPOSALS

Various members of the ITA have been active in the discussion and development of a number of industry proposals including ARIC, ICF and the Rural Alliance. The ITA, through its committees and Board of Directors, has considered the proposals to determine that which it believes best would accomplish intercarrier compensation reform and yet preserve the opportunity for rural LECs to provide high quality telecommunications services to their customers at reasonable prices while maintaining the opportunity for universal service on the network.

A. ITA Concurs with the Comments of the Rural Alliance.

The ITA supports and recommends to the FCC the principles and subpoints identified in the Rural Alliance comments. These principles will best preserve rural telecommunications services for rural users in the State of Iowa. While the ITA fully supports the principles of the Rural Alliance, the review and analysis of the ITA has resulted in a couple of refinement points it is discussing with the Rural Alliance.

B. ITA Applauds the Work of the NARUC Task Force.

The ITA is pleased to have Iowa Utility Board member Elliott Smith as the Chair of NARUC's Intercarrier Compensation Task Force. ITA applauds the efforts of Chairman Smith and his task force to work with all plans in bringing all stakeholders together and attempting to find common ground through its "Strawman" proposals.

ITA has referenced several areas of agreement with NARUC throughout these comments. Generally, ITA is in total concurrence with NARUC's recognition that there needs to be special circumstances for high cost rural carriers. Rural carriers such as those in Iowa provide a high quality service and are part of the universal service policy of the country.

With regard to originating and terminating access, ITA notes that NARUC proposes a tiered set of rates for terminating access and NARUC suggests a small originating access charge. ITA suggests that those rates do not provide adequate compensation for the use of rural networks, and ITA agrees with NARUC's proposal to authorize each state to conduct a study on originating and terminating access to determine if that state has particular circumstances that justify a different "unified" termination charge from that set forth in the tiered charts.

Finally, the ITA concurs that state commissions should retain appropriate authority to address intercarrier compensation issues specific to that state, including any local exchange rate benchmarking and the level of the unified origination and termination rates.

The FCC should not preempt the entire field. Instead, federal and state collaboration and input is necessary to ensure the public policy goals of the 1996 Act are met.

SUMMARY AND CONCLUSION

ITA is in concurrence that intercarrier compensation reform be undertaken. However, in accomplishing that reform, the FCC should assure that any action not be harmful to rural high cost carriers, create rate shock or unaffordability for rural customers or adversely affect universal telecommunications service in the State of Iowa. In the view of ITA, the principles of the Rural Alliance best serve those ends.

Respectfully submitted,

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