Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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

INITIAL COMMENTS OF THE IOWA UTILITIES BOARD

COMES now the Iowa Utilities Board (IUB) and pursuant to the Further Notice of Proposed Rulemaking (FNPR) files its initial comments.

Unlike most states, Iowa's telecom landscape is very complex due to the 150+ incumbent local exchange carriers (ILECs) located within the state. Additionally, many of the small rural incumbent telecommunications companies (RLECs) rely upon a centralized equal access (CEA) provider. This complexity makes it essential that any intercarrier compensation regime the Federal Communications Commission (FCC) adopts be a hybrid of the plans that have been filed if the telecommunications marketplace in Iowa is to survive. None of the proposals currently presented for comment will completely satisfy the needs of the many rural carriers in this state.[1]

To address the many concerns that Iowa has regarding the implementation of a uniform intercarrier compensation regime, the following

[1] Although it was not filed prior to the adoption of the FNPR, the IUB will discuss the proposal filed by the NARUC Task Force on Intercarrier Compensation (NTFIC), which was filed on March 1, 2005, prior to the release of the FNPR.

components, or requirements, will need to be addressed by whatever proposal the FCC ultimately adopts:

(1) The FCC should define a rural carrier as one that has less than 50,000 access lines. Using that distinction, all non-rural carriers should be allowed to charge a default rate for termination of $.002 per minute-of-use (MOU).[2]

(2) The FCC should set a benchmark rate for residential and business service that would later be used for determining universal service support at the state level. Federal universal support should remain at the current levels at the time of the FCC's order prior to any implementation of the final solution.

(3) Each state should undertake a cost study to determine the appropriate rate for all rural carriers of that state. A cost proceeding could be a single undertaking that takes the costs of a cross-section of companies representative of the rural carriers in each individual state. These costs should be accumulated, then averaged to develop a per MOU rate for each state. That rate should then be used for all originating and terminating traffic so that a true unified rate could be achieved. The current level of traffic, based on MOU, should be reported by all rural carriers at the time of the study. At any point in the future, should a carrier report an abnormal increase in traffic (signifying there is gaming of the system by taking advantage of the higher rural rates), the carriers cost would be divided by the higher MOU, which would result in a lower rate for origination and termination.

(4) All competitive local exchange carriers (CLECs), including but not limited to commercial mobile radio service (CMRS), a.k.a., wireless, providers and cable telephony providers, should be permitted to adopt a unified rate for origination and termination no greater than that of the ILEC serving the same area.

(5) All LECs should be permitted to convert the per-minute charges to equivalent capacity charges at any time. The FCC should be responsible for conducting a proceeding to determine how per-minute charges will be converted to capacity charges on a revenue neutral basis. The goal should be to convert all per-minute charges to capacity charges within five years.

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[2] A default rate for termination of $.002 per MOU is consistent with the NTFIC proposal filed March 1, 2005.

(6) All interconnection points should be designated at a tandem switch for non-rural exchanges and at a central office for rural exchanges. Traffic terminating to a rural exchange should pay $.0095 per minute for transport from the corresponding tandem to the central office.[3]

(7) Universal service funding should be technology neutral. Carriers should not experience changes in universal service funding based upon technological changes in their networks, i.e., converting from circuit-switched to IP technology. Funding should be based on the most cost effective and efficient way to provide supported services. The technology employed must be capable of evolving to provide broadband services and must not constitute a barrier to providing advanced services. Definitions of supported services should be modernized and made technologically neutral.

(8) The basis for universal service contributions should be expanded. A unit charge for connections, bandwidth, and possibly telephone numbers is the best approach to date.

(9) Transition from the current access charge regime to the new unified approach should occur gradually over a five-year period.

(10) Lifeline customers should be exempt from any incremental increase in monthly charges that result from intercarrier compensation restructuring. This exemption should include the net impact of unit charges imposed to fund universal service.

(11) A state commission or board that participates in a plan with unified intercarrier charges should determine the distribution of funds within its state, subject to FCC guidelines and review. State commissions and boards should be free to reallocate resources among funds.

(12) States should condition distribution of universal service funds based on an appropriate demonstration that the carrier is providing quality services at reasonable rates throughout their supported areas. Carriers receiving support for rural exchanges should be required to demonstrate that the funds received are being used for rate relief or infrastructure development in those rural exchanges.

(13) Any state that does not currently have a state universal fund would be required to transition to one in a three-year period, if necessary. The determination for support should be based on the relationship to the national benchmark rate established by the FCC.

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[3] A termination rate of $.0095 is consistent with the NTFIC proposal filed on March 1, 2005.

(14) Transit services should be left to the discretion of the originating carrier. It should be the obligation of the originating carrier to negotiate interconnection arrangements sufficient to deliver the traffic. If traffic does not carry sufficient detail to identify the originating carrier, it should not be required to be passed beyond the tandem.

(15) The intercarrier charges for origination and termination should not apply to voice over Internet protocol (VoIP) except to the extent that VoIP calls make use of the public switched telecommunications network (PSTN) for origination or termination.

Industry Proposals

A. Intercarrier Compensation Forum (ICF)

ICF represents a group of nine telecommunications companies that includes large incumbent LECs, rural LECs, and interexchange long-distance carriers (IXCs). Its intercarrier compensation proposal is the most comprehensive plan that has been filed to date with the FCC. There still remain many questions, however, as to how it would work after implementation and how the transition phases would be effectuated.

Of particular relevance to rural companies is a question regarding the "Edge" concept and how it would be interpreted in a state where there is a centralized equal access (CEA) provider, such as exists in Iowa in the form of Iowa Network Services. Although this question has been raised with members of ICF, a definitive answer has yet to be received. It is likely that under the proposal as filed many rural carriers in Iowa would have to establish one "Edge" for originating access purposes and another for terminating access. This approach makes the rural company responsible for transporting the originating call to the tandem switch of the CEA. What this ultimately means is that a service for which

these companies are currently compensated becomes a cost to them under the ICF plan, an expense that would apply to approximately half of their traffic.

The rural telecom industry in Iowa has spoken often and loudly that a bill-and-keep system would devastate its segment of the industry. Many of these companies receive 50-80% of their revenues from access charges. In implementing the ICF proposal, local rates and subscriber line charges (SLCs) would rise dramatically. At the same time, larger amounts would have to be drawn out of the Universal Service Fund (USF).

B. Expanded Portland Group (EPG)

EPG is a stakeholder group consisting of small to mid-size RLECs. Since filing its own proposal, the EPG has joined, in principle, with the ARIC proposal (below) to form the "Rural Alliance."

C. Alliance for Rational Intercarrier Compensation (ARIC) – Fair Affordable Comprehensive Telecom Solution (FACTS)

ARIC is a group of small, high-cost RLECs. It recently joined with the EPG to form the Rural Alliance. Both ARIC and EPG have offered interesting concepts regarding the form of a future intercarrier compensation system, most notably in the areas of USF reform and conversion from MOU charges to capacity charges. One early concern voiced about ARIC's original FACTS plan was that significant detail lacked in critical areas, e.g., transport and tandem transit. Like the other major stakeholder groups with proposals in the public domain, the Rural Alliance continues to refine and adjust the FACTS plan as its discussions with other segments of the industry carry on.

D. Cost-Based Intercarrier Compensation Coalition (CBICC)

CBICC is a group of aligned cost-based CLECs. It presents a number of provocative ideas pertaining to origination and termination charges and has advocated well-received views regarding VoIP traffic. Other aspects to CBICC's intercarrier compensation philosophy, however, appear to produce disagreement and confusion as to the use of the FCC's Total Element Long Run Incremental Cost (TELRIC) model when calculating a rate. Its plan also lacks specifics regarding how rate reductions would be recovered via increased universal support. Arguably, there would need to be greatly increased funds flowing into the USF to support this plan. Few details for the funding of this support are included in the proposal.

E. National Association of State Utility Consumer Advocates (NASUCA)

NASUCA filed a proposal with the FCC that transitions rates from current levels over five years to one unified rate for rural carriers and another unified rate for non-rural carriers. It would maintain current interconnection rules, respect established state jurisdictions, and resist any substantive change to the USF. The NASUCA plan does not adopt a SLC increase and advises the FCC to revisit intercarrier compensation at the end of the five-year transition period.

F. Home Telephone Company and PBT Telecom (Home/PBT)

Home/PBT are two smaller telecommunication companies from South Carolina offering a proposal that allows each carrier to develop it own rate, rather than a unified rate. Utilizing this approach, it is likely there would be many

different rates to deal with in a given state. A great deal of information and explanation is missing as to where the revenue would originate for Home/PBT's high cost connection fund along with the basis for any distributions.

G. Western Wireless

Much like the ICF proposal above, Western Wireless proposes a bill-and-keep approach for intercarrier compensation that would be financially disastrous for many rural telephone companies, including those here in Iowa.

H. National Association of Regulatory Utility Commissioners (NARUC) Task Force on Intercarrier Compensation (NTFIC)

1. History of NTFIC

The NARUC Task Force on Intercarrier Compensation was formally organized in March 2003 and began a regular conference call meeting schedule in December of that year. The work group that shaped the initial organizational fact-finding effort was comprised of several commissioners and one dozen or so senior staff from various state commissions and boards.

These initial discussions of the Task Force led to the development of a "Statement of Principles," the intent of which was to provide a benchmark for evaluating any intercarrier compensation proposal that would enter the public domain. These principles were filed with the FCC *ex parte* on May 5, 2004.

As the discourse on intercarrier compensation issues has progressed over the ensuing months via hundreds of Task Force conference calls and the six 2-day "Workshops" it has conducted (so far), participation by state commissions has grown significantly. Regular active involvement is received from

commissioners representing the states of Alaska, California, Indiana, Iowa, Maine, Michigan, North Dakota, Oregon, Puerto Rico, Montana, Vermont, Washington, along with senior staff from all of the above states in addition to Idaho, Kansas, Massachusetts, Nebraska, New York Pennsylvania, and Wisconsin.

Interestingly, with each successive Workshop there has been noticeable growth in the participation level of the many and various telecom industry stakeholder groups. In addition to the telecommunications businesses, coalitions, and associations listed above that have filed plans or proposals with the FCC, Workshop attendees have included representatives from each of the regional Bell operating companies (RBOCs), cable companies, IXCs, RLECs, CLECs, wireless companies, consumer groups, and national and state telecommunications organizations and associations of all technologies and sizes.

The first Workshop took place on July 12, 2004, utilizing a traditional panel discussion format during the NARUC summer meetings in Salt Lake City, Utah. Following Workshop I, those stakeholders in attendance urged the Task Force to provide a forum in which to continue such conversations. However, they preferred that additional gatherings take place in a closed, industry-only environment so that more candid, forthright talks might take place. It was at this point that a series of separate, stand-alone intercarrier compensation workshops were conducted to begin addressing various elements of this issue.

Workshop II was held in Missoula, Montana, on September 10-11, 2004. Workshop III followed in Washington, D.C., on October 27-28, 2004. Workshop

IV occurred in Nashville, Tennessee, November 12-13, 2004. Then it was back to Washington, D.C., for Workshop V on January 25-26, 2005, and Workshop VI on April 21-22, 2005. During Workshops II - IV, the format allowed the stakeholder groups to present their respective intercarrier compensation proposals, receiving comments and queries from their industry colleagues along the way. The unique atmosphere at these Workshops promoted an enlightening exchange of ideas among a broad array of industry representation. Ultimately, these groups came to better understand the differences among their respective plans, while at the same time offering and fielding constructive criticism and fresh perspectives.

During Workshop IV the stakeholders made an express request of the Task Force to conjure up its own intercarrier compensation proposal. The feeling was that state commissioners and staff had been afforded good opportunity during the first four Workshops to listen to, and draw conclusions about, the sorted components of the various stakeholders' plans. From these observations it was thought that the Task Force could bring together what it perceived to be the best intercarrier compensation alternative for discussion at the next Workshop. This "Straw Man" proposal was completed in December 2004, and it subsequently became the basis for further debate and development during future Workshops.

During the 2005 NARUC Winter meetings in Washington, D.C., the Telecommunications Committee passed a resolution that unanimously endorsed the Task Force process. It stated that the Task Force would be filing a formal

proposal with the FCC, urged the Commission to fully consider the work of the Task Force as embodied in that proposal, and indicated that the Task Force would file with the FCC updated or revised versions of its proposal at a later date.

On March 1, 2005, the Task Force submitted an *ex parte* filing to the FCC that contained Version 5 of the Task Force proposal. On March 3, 2005, the FCC released a Further Notice of Proposed Rulemaking in its intercarrier compensation proceeding, with initial comments due on May 23, 2005, and reply comments due June 22, 2005.

Following the filing of Version 5 the Task Force recognized the need for still further, more granular intercarrier compensation issue review and analysis. As a result, on March 10, 2005, it established the following six work groups within its membership: metric development; termination/origination/VoIP; benchmarking and lost revenue recovery; tandem/transit and the Edge proposal; Federalization and rural access charge transition fund; and, legal issues. Each work group maintained the fair and balanced examination process employed by the Task Force at-large, utilizing resources of the engaged state commissions and those cooperating stakeholders. The goal at the end of the work groups was to bring to the Task Force for consideration any proposed resolutions of outstanding issues.

This continuous process of proposal refinement has produced significant results over the last year, made possible only with the valuable input and assistance from industry stakeholders. The result is a seasoned intercarrier compensation scheme offered by the Task Force to the FCC that is based on thorough and thoughtful vetting of ideas and concepts, civil discourse between

widely disparate parties within the industry, and reasonable compromise reached in many critical areas. The strength of this process lies not only in the dedication of many experienced state commissioners and staff, but it is also reflective of the remarkable amount of work done by the stakeholder groups and their various representative associations --- many of whom dissected and explained their own plans and philosophies for the benefit of the Task Force process. Without their on-going involvement and interaction, the Workshop process of education, discourse, negotiation, and compromise would have been sacrificed at the alter of self-interest and wasted opportunity.

2. NTFIC Version 7

As discussed above, once Version 5 was filed on March 1, 2005, Task Force commissioners and staff continued to hold Workshops and utilize the work group process to give stakeholders a chance to suggest additional alterations to the document. The result was another filing at the FCC by the NTFIC on May 18, 2005, this being a revision of its proposal to be known as "Version 7."

The IUB sees many benefits in Version 7, including:

(1) It adopts a unified rate for all traffic by applying a single rate for all carriers in all jurisdictions, making interconnection less complicated.

(2) It allows for an alternative origination charge that would help the rural carriers recover some of their cost for originating traffic that is not present in the other plans.

(3) It provides a tiered termination scheme, applying the higher rates to all but three of Iowa's companies.

(4) It allows states to conduct cost proceedings to prove a higher termination rate is justified for high-cost areas. Iowa could do a single high-cost proceeding for its rural exchanges that would include the rural companies, Qwest, Iowa Telecom, and Frontier.

This could lessen the need for increased Federal or new state universal service support.

(5) It has an out-of-balance restriction that would prevent a carrier from attempting to take advantage of the higher rural rate.

(6) Other competitive carriers can charge access rates no higher than the ILEC serving the same area.

(7) Carriers can negotiate their own interconnection compensation arrangements, but must submit them to state commissions for review.

(8) Per-minute rates should migrate to capacity-based rates within five years making billing, measuring, and interconnection easier.

(9) Carriers would transition their rates from the current rates to the lower rates in equal steps over the first four years.

(10) Phantom traffic is not allowed. Tandem providers must participate in a program to eliminate unbillable traffic saving everyone unnecessary costs.

(11) VoIP traffic would be billed by the unified rates for all traffic that originates or terminates on the public switched telephone network.

(12) USF would be technology-neutral so that a carrier is not penalized for converting to new cost-efficient advanced technologies.

(13) USF support would be based on the characteristic of the exchange and not the carrier, providing universal service revenue to Qwest, ITS, and Frontier that they do not receive today.

(14) The USF contribution base would be expanded by using connections, bandwidth, or telephone numbers to provide support for the mechanisms detailed in this plan.

(15) An Access Charge Transition Fund (ACTF) provides an interim fund to move local rates toward a national benchmark in equal steps through SLC increases. The total SLC revenue increase cannot be more than the revenue loss. Carriers with local basic rates below $12.00 would be allowed to raise their monthly SLC charge by $2.00 per year for the first four years. Carriers with basic rates over $12.00 would be allowed to increase their SLCs by $1.00 per year.

(16) Lifeline subscribers would be exempt from any incremental increase.

(17) The State Allocation Mechanism (SAM) is a fund established by the FCC to be distributed to the states. The SAM would initially provide high cost and low income support at a level no less than that of the 2004 disbursements and must be sufficient to meet the standards spelled out in 254(b)(3), access in rural and high cost areas.

(18) State commissions or boards would determine how funds are to be distributed subject to FCC guidelines. Annual certifications by carriers that the funds are being used for appropriate services would be required.

(19) The proposal includes a default rate for terminating transport, but also allows for a state cost proceeding to determine a higher rate for rural exchanges, if necessary.

(20) State participation is voluntary pursuant to the terms of the proposal.

Summary

Many portions of the current intercarrier compensation system are rapidly becoming unsustainable, best evidenced by the ever-widening hodgepodge of provisions that unduly advantage various advanced telecommunications technologies at the expense of legacy landline networks. Intercarrier compensation controls how various carriers compensate one another for handling calls or for leasing dedicated circuits. Reciprocal compensation, the fee for handling local traffic, has increasingly flowed from the ILECs to the CLECs by virtue of such developments as CLECs terminating an increasing share of Internet service provider (ISP) traffic. Access charges are intercarrier fees for handling toll traffic. Long distance or toll compensation between carriers existed for decades under the old Bell/AT&T monopoly, and it supported a portion of the

cost of common wires and facilities. Following divestiture of AT&T in 1984, access charges were created for toll traffic.

The emergence of new communications technologies has placed stress on this current compensation system. Because it was assembled in a piecemeal fashion over time, today's intercarrier compensation regime has inconsistencies that result in discriminatory practices, arbitrage, and gaming of the current system, along with other unintended outcomes and consequences.

WHEREFORE, the IUB agrees with the conclusion of the FCC that there is a need for comprehensive reform and provides these initial comments.

Respectfully submitted,

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