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

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

FURTHER NOTICE OF PROPOSED RULEMAKING

Reply Comments of Frontier Communications

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INTRODUCTION

Frontier Communications ("Frontier")[1] hereby submits its reply comments in the above captioned Further Notice of Proposed Rulemaking ("FNPRM")[2] on intercarrier compensation. On May 9 2005, Frontier filed its Universal Telecommunications Freedom Plan (UTF) with the FCC and filed comments in support of this on May 23, 2005.[3] Frontier believes that it has proposed a straightforward solution to address multiple difficult and interdependent issues. Frontier proposes a default, unified capacity based regime for intercarrier compensation based

1 Frontier is a mid-size holding company with incumbent local exchange carrier (ILEC) operations in 24 states. As an ILEC, Frontier operates in one of the most competitive (both residential and business) urban markets in the country (Rochester, NY), but the balance of its ILEC operations are located in several small, high cost rural markets throughout the United States. In most of its ILEC markets, Frontier operates under federal price cap regulation, but operates under NECA Average Schedules in some of its smallest rural markets; on an intrastate basis, Frontier mostly operates under a mix of traditional rate-base, rate-of-return regulation and alternative forms of regulation. Additionally, Frontier's affiliate, Electric Lightwave, LLC (ELI), is a leading competitive local exchange carrier (CLEC) and enhanced service provider, with local operations concentrated in six western states (in five of which, Frontier also operates as an ILEC), and long distance operations throughout the country. This somewhat unique mix of size, industry segment, geographic scope and business conditions allows Frontier special insights into the major issues confronting the Federal Communications Commission (the "Commission") and the industry in regard to intercarrier compensation and universal service.

2 Developing a Unified Intercarrier Compensation Regime, CC Docket No. 01-92, Further Notice of Proposed Rulemaking, (rel. March 3, 2005).

3 See Ex Parte of Frontier Communications, CC Docket No. 01-92, ("UTF Plan") (May 9, 2005).

on free market principles to enhance and balance competition in the marketplace. UTF eliminates the minute-of-use based regime, resolving current problems stemming from arbitrage and phantom traffic, while allowing an opportunity to significantly reduce costs through the elimination of the need to capture and bill minutes based usage. Yet, mandatory bill and keep, as proposed by some, would create new arbitrage opportunities and create either a growth in Universal Service that would be unsustainable or end user rate increases that would unfairly impact rural end users and the companies serving them, thereby undermining that goals of Universal Service. By retaining the "Retail Service Provider" pays concept as the default mechanism, the Commission will acknowledge that there is value in networks, and by moving to a default capacity-based system the Commission will create a culture of efficient network use.

I. MANDATORY BILL AND KEEP DOES NOT PROMOTE EFFICIENCY

The creation of a mandatory bill-and-keep regime would prohibit reasonable cost recovery from the cost causer deflating the value of networks. Frontier agrees that two service providers which have balanced traffic patterns, or which for other reasons may want to implement bill and keep, should be allowed to do so pursuant to voluntary negotiation. However, failure to establish fixed charges as the default for interconnection would create a subsidy floor from network providers to other retail service providers.

Some commenters argue that intercarrier compensation charges create a competitive burden.[4] This is a peculiar interpretation, as "payment for use" is a basic tenet of the free market system. To the contrary, failure to establish a default structure to provide positive compensation to those service providers which invest in and provide network facilities, would result in a "free ride" and a competitive advantage to service providers which are net users of

[4] See Comments of T-Mobile at 6, CC Docket No. 01-92, (May 23, 2005).

other service providers' networks. In addition, failure to establish default compensation could simultaneously stimulate use of intercarrier facilities and suppress new investment in such facilities.

Certain commenters state that disparate compensation obligations create the incentives for arbitrage and that bill and keep is the only solution.[5] While Frontier agrees that the current regime provides incentives and opportunities for arbitrage, it strongly disagrees that bill and keep is the solution. By eliminating minutes-of-use compensation, the UTF plan virtually eliminates the opportunities and incentives to engage in such practices, while maintaining strong incentives for efficient network use and investment. Many of the other advantages cited by bill and keep supporters, such as elimination of minute-of-use measurement and associated billing functions, also adhere in the UTF capacity-based intercarrier compensation plan.

Mandatory bill-and-keep sends the wrong economic signals by failing to account for asymmetric traffic patterns between Service Providers. The capacity-based system posited in the UTF Plan, by contrast, achieves all the anti-arbitrage and simplicity benefits of bill-and-keep, without the distorted efficiency and investment incentives bill-and-keep may generate.

II. NETWORK INTERCONNECTION RULES SHOULD SUPPORT THE RETAIL SERVICE PROVIDER PAYS CONCEPT

The Commission should adopt a single default network architecture that accounts for the geographical and cost differences in the transport networks, and that supports the concept of the "Retail Service Provider" pays. Transport facilities have positive costs that must be directly recovered in order to maintain proper incentives for investment and use of such facilities.

[5] See Comments of T-Mobile at 10-11, CC Docket No. 01-92, (May 23, 2005).

Proposals based on an "edge"-type architecture or a "Meet Me at the Tandem"[6] concept fail to meet this principle and should thus be rejected as default architectures. The default interconnection architecture proposed in the UTF Plan fully satisfies the principle that the retail Service Provider bear ultimate responsibility for the origination, transmission and termination of traffic. Where two or more Service Providers determine that it may be to their mutual benefit to agree to an interconnection architecture that is different from the default they should be free to do so in a non-discriminatory manner.

CONCLUSION

As stated in our initial comments in this proceeding comprehensive intercarrier compensation and USF reform should: (i) be competitively and technologically neutral; (ii) send rational price signals; and (iii) conform to the principle that the retail Service Provider of any given traffic should bear ultimate responsibility for originating, routing and terminating such traffic. Proposals that are based on bill-and-keep compensation structures and "edge" type interconnection architectures as the default solutions, or mechanisms which attempt to create different compensation charges based on carrier segment, traffic type, jurisdiction or the technology used, should be dismissed by the Commission as they inherently violate one or more of these criteria. The UTF Plan uniquely satisfies all three criteria and will enable optimally efficient markets for network interconnection and provide the proper incentives for investment.

Finally, Frontier reiterates its call for the Commission to consider intercarrier compensation reform, USF reform and regulatory reform as three elements of an integrated

[6] See Comments of T-Mobile at 22-23, CC Docket No. 01-92, (May 23, 2005). Under "Meet Me at the Tandem" each carrier would provide transport to the transit tandem office of the transit service provider. Each carrier would be wholly responsible for all transport costs between its network and the tandem office.

telecommunications reform solution, as changes in one element can have long reaching impacts on the others. The UTF Plan is the most comprehensive and integrated proposal addressing all three of these interdependent areas. UTF will allow for fee and stabilized markets by harnessing market forces to rationalize compensation and support, with no up front mandatory increases in end user rates.

Respectfully Submitted,

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