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

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

REPLY COMMENTS OF MINNESOTA INDEPENDENT COALITION

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SUMMARY OF REPLY COMMENTS OF MINNESOTA INDEPENDENT COALITION

These Comments demonstrate the need for the Commission to apply several principles to move forward with a pragmatic and balanced plan to reform of intercarrier compensation for ROR ILECs.

First. both annual and overall caps on local rate increases are needed to prevent severe adverse impacts on customers of ROR ILECs. Promoting customer benefits and preventing harm to customers should be primary criteria for intercarrier compensation reform. The impacts of intercarrier compensation reform may be particularly severe for ROR ILECs. Accordingly, specific limits on both annual and overall end user charges are needed for customers of ROR ILECs. The MIC recommends that annual increases to end user charges not exceed $1.50 per line per month during each year of transition, and that total monthly charges not exceed Statewide Benchmark levels.

Second, a different solution and different transition are needed for ROR ILECs. The vast economic differences between ROR ILECs and Price Cap ILECs and among ROR ILECs, including much higher network costs of most ROR ILECs, need to be addressed for the Commission to satisfy its obligation to promote the goals of 47 U.S.C. § 254. If intercarrier compensation was replaced with bill and keep, only 10% of MIC Member ILECs would have revenue decreases of less than $15.00 per month and approximately 10% would have revenue decreases of more than $40.00 per month. The remaining 80% would have revenue decreases of $15.00 to $40.00 per month. Such revenue decreases are excessive. Proposals that fail to recognize and prevent these impacts do not provide a reasonable solution.

Third, all users of a ROR ILEC networks must pay a reasonable portion of the cost of that network. Intercarrier compensation rules must be applied in a consistent and competitively neutral manner to all users of local networks to prevent gaming of the system and anticompetitive results. To achieve reform of intercarrier compensation, it is imperative that the Commission prevent arbitrage and vigorously enforce the application of applicable intercarrier compensation rates to all users of the local network.

Fourth, interconnections are required only within the ILEC network, and the status quo for ILEC to ILEC interconnections should be retained. ROR ILECs should not be required to transport or pay for transport of calls beyond their networks, and existing ILEC to ILEC interconnections should not be disrupted. ROR ILEC networks do not include the third-party tandems, including CEA tandems.

Fifth, pragmatic steps are needed to achieve reform of intercarrier compensation rates. The scope and complexity of issues and the broad range of fact circumstances reflected in the record shows that seeking a single, unified solution for all ILECs will lead to gridlock and indefinite delay. Instead, the Commission should establish a series of steps that will make substantial progress toward the goal of reform, while recognizing that substantially different situations require different solutions.

Sixth, the Commission must establish an intercarrier compensation restructuring mechanism to provide adequate alternatives for lost interstate and intrastate intercarrier compensation that cannot be recovered through a controlled and moderate phase-in of increases local charges to a statewide benchmark. The intercarrier compensation restructuring mechanisms must be known, certain, and consistent if the goals of Section 254 and intercarrier compensation reform are to both be met. Consequently, the Commission, not state commissions must establish and control the implementation of the intercarrier compensation restructuring mechanisms. Further, the existing USF should be strengthened.

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REPLY COMMENTS OF MINNESOTA INDEPENDENT COALITION

The following Reply Comments are submitted to the Federal Communications Commission (the "Commission") by the Minnesota Independent Coalition ("MIC") as provided in the Commission's FURTHER NOTICE OF PROPOSED RULEMAKING, CC Docket No. 01-92, released March 3, 2005 (the "*FNPRM*"), as modified by the Commission's Order dated May 31, 2005 extending the date for submission of Reply Comments to July 20, 2005. The MIC is an unincorporated association of over eighty small, Rate-of-Return Incumbent Local Exchange Carriers ("ROR ILECs") providing local exchange service to primarily rural areas in Minnesota. The MIC previously filed Initial Comments on June 10, 2005. These Reply Comments will focus on the implications of Comments for ROR ILECs and their customers.

A review of the Comments shows that the Commission should apply the following principles to provide the framework for a pragmatic and balanced plan to move forward with reform of intercarrier compensation for ROR ILECs:

1. Annual and overall caps on local rate increases are needed to prevent severe adverse impacts on customers of ROR ILECs;

2. A different solution and different transition are needed for ROR ILECs;

3. All users of ROR ILEC networks must pay a reasonable portion of the cost of that network;

4. Interconnections are required only within the ILEC network, and the status quo for ILEC to ILEC interconnections should be retained;

5. Pragmatic steps are needed to achieve reform of intercarrier compensation rates; and

6. The Commission must establish an intercarrier compensation restructuring mechanism to provide adequate alternatives for lost interstate and intrastate intercarrier compensation that cannot be recovered through a controlled and moderate phase-in of increases to local charges to a statewide benchmark.

I. ANNUAL AND OVERALL CAPS ON LOCAL RATE INCREASES ARE NEEDED TO PREVENT SEVERE ADVERSE IMPACTS ON CUSTOMERS OF ROR ILECS.

The promotion of customer benefits and the avoidance of harm to customers should be primary criteria in evaluating proposals for intercarrier compensation reform. The impacts of intercarrier compensation reform may be particularly severe for ROR ILECs. Accordingly, preventing severe adverse customer impacts requires specific limits on both annual and overall end user charges

A. Without Specific Caps, The Impacts of Intercarrier Compensation Reform May Be Particularly Severe For Customers Of ROR ILECs.

Plans that would implement sweeping changes in intercarrier compensation at the expense of un-quantified and uncontrolled increases in end user charges do not provide a reasonable basis for reform of intercarrier compensation. Because ROR ILECs receive such a large share of total revenues from intercarrier compensation, the need for specific caps on increases in monthly charges is most acute for ROR ILEC customers.

In evaluating potential customer impacts, the Commission must recognize that average data may conceal substantially greater impacts on some individual ILECs.[1] NTCA noted the broad variation in impact per study area of the proposal to shift to bill and keep, based on a sample of ROR ILECs. Only 12% of the NTCA sample has impacts of less than $15.00 per access line per month, and 9% had impacts of over $55.00 per month, including 3 ROR ILECs with impacts of over $100.00 per month.[2] Such impacts are similar to results for MIC Member ILECs. For example, assuming that existing USF funding remains in place, only 10% of MIC Member ILECs would have revenue decreases of less than $15.00 per month and approximately 10% would have revenue decreases of more than $40.00 per month. The remaining 80% would have revenue decreases of $15.00 to $40.00 per month. Such impacts are excessive and would lead to local rate increases that would violate Section 254. Further, if current USF levels were decreased, the impacts would be even more severe.

Section 254(b)(3) establishes a principle that rural customers should continue to have rates (and services) comparable to urban customers:

> Consumers in … rural, insular, and high cost areas, should have access to telecommunications and information services, … **at rates that are reasonably comparable to those services provided in urban areas.**

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[1] NTCA Comments at p. 16:

> "While the rural statistics show vast differences between rural service areas and non-rural service areas, the statistics represent averages, not extremes. Many NTCA members serve areas that are much more sparsely populated than the average and consequently have costs that are significantly higher than those of the average high cost company."

[2] NTCA Comments at p. 23.

(Emphasis added.) While the overall monetary-cost impact of limiting per line impacts on customers is not great, the adverse impacts on individual customers of failing to do so would be very severe. The MIC submits that preventing severe results for the proportionately small numbers of customers of ROR ILECs is required for the maintenance of universal service and fully justifies the modest overall cost of doing so.

B. The Commission Should Establish Criteria For Statewide Residential Benchmarks And Annual Caps On Increases In Local Customer Charges.

The Commission should establish specific caps on both on the maximum annual increases in monthly charges and overall levels of fixed monthly charges.[3] MIC agrees with parties that have recommended specific limits on potential increases in fixed charges to end users. For example, CenturyTel appropriately encourages the Commission to establish ceilings on end user charges.[4] USTA recommends that increases in charges to end users be modest and equitable.[5] NTCA proposed that rural SLCs be no greater than non-rural SLCs.[6] Specific caps on increases to end user charges are necessary because the multitude of variables and factual circumstances that will be involved in reform of intercarrier compensation make predictions of customer impacts or analysis of average impacts too imprecise to assure protection of customers.

Proposals to set the benchmark for local rates at 125% of the national average urban rate, such as NARUC's and Qwest's, violate this principle because a rate that is 25% higher is not

[3] The MIC recommends that additional annual end user charges not exceed $1.50 per line per month and not exceed the Statewide Benchmark. MIC Initial Comments at pp. 27-28.

[4] CenturyTel Comments at p. iv.

[5] USTA Comments at p. 14.

[6] NTCA Comments at p. 9.

comparable. The lack of comparability would be compounded because the 25% higher rates would occur in rural areas that also typically have substantially smaller calling areas. For example, in Minnesota, local calling areas range in size from well under 1,000 access lines to over 2,000,000 access lines in the Minneapolis/St. Paul area.

Instead of a national benchmark, the Commission should direct each State Commission to establish a Statewide Residential Benchmark. The Statewide Residential Benchmark that would limit the amount per line a ROR ILEC could be required to pass on to their end users as a result of the Commission ordered changes to intercarrier compensation.

A Statewide Residential Benchmark is appropriate because rate levels vary between states, reflecting differences in calling areas, densities, line lengths and other state specific variables. A Statewide Residential Benchmark is also appropriate because it would preserve current state specific rate structures with which consumers are typically the most aware, thus providing greater consumer acceptance.

The Statewide Residential Benchmark should be equal to the statewide weighted average RBOC Residential Rate as of January 1, 2005. Both the Statewide Residential Benchmarks and the comparative rate levels of the ROR ILECs should include Federal and State Subscriber Line Charges, and all mandatory local calling area charges, including additives for larger local calling areas (know as Extended Area Service in Minnesota).

The Commission should adopt a uniform approach for the State Commissions to use in developing the Statewide Residential Benchmark and revenue impacts of allowed end user charges to protect the new mechanism from inconsistent approaches between states, which would otherwise occur. State Commissions should, however, perform the calculation of the

Statewide Residential Benchmark and the revenue impact of the allowed annual increases to end user charges, which would be then delivered and certified to the Commission.[7] The formula should also establish whether and how any adjustment to the Statewide Residential Benchmark should be made to reflect any Commission mandated changes to the January 1, 2005 RBOC rates.

II. A DIFFERENT APPROACH AND DIFFERENT TRANSITION ARE NEEDED FOR ROR ILECS.

The comments generally support a movement toward unified rates. Many of those comments also recognize that a unified rate does not mean that all carriers would charge the same rate. In particular, the vast economic differences between ROR ILECs and Price Cap ILECs and among ROR ILECs need to be addressed in order for the Commission to satisfy its obligation to promote the goals of 47 U.S.C § 254. Proposals that fail to recognize these differences do not provide a reasonable solution. The transition to a new intercarrier system should ensure continuity of existing services and prevent significant rate shock to end users.

A. ROR ILECs Have Substantially Higher Network Costs Which Must Be Accommodated By Intercarrier Compensation Reform.

Several parties have confirmed that ROR ILECs have significantly higher network costs than Price Cap ILECs[8] and have also noted the higher network costs of ROR ILECs lead to

[7] ILECs would be not be compelled to impose the allowed annual increases, but support from the new mechanism would be calculated on the basis of the allowed annual increases.

[8] Rural Alliance Comments at pp. 5, 13; TDS Comments at pp. 20-21; NTCA Comments at p. 17.

greater reliance on intercarrier compensation and support mechanisms[9] to meet the legal and policy objectives of Section 254 to keep local charges affordable and preserve comparable statewide urban and rural rates. and Some reasonable portion of these higher rural network costs must be recovered by intercarrier compensation for the foreseeable future in order to prevent unsustainable local rate increases and to limit demands on support mechanisms. As a result, the Commission should reject application of proposals, such as the ICF, Time Warner, CTIA, and Qwest proposals,[10] that would convert existing intercarrier compensation for ROR ILECs to bill and keep. Similarly, proposals, such as the NARUC, CBICC, and Bell South proposals,[11] that would reduce intercarrier compensation rates to inadequate levels, must also be rejected.

A new intercarrier compensation system should recognize that areas served by ROR ILECs are significantly more difficult to serve and have much higher costs than non-rural service areas. Unless these higher network costs are recoverable, ROR ILECs will be unable to maintain existing investments and make further investments needed to maintain service quality and to insure availability of broad-band networks and the services that require a broad-band network. For example, as noted by NTCA, the Administration's goal of making high-speed Internet access available by 2007 cannot be achieved unless ROR ILECs have a reasonable

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[9] NTCA Comments at pp. 14-17; CenturyTel Comments at pp. 37-38; Rural Alliance Comments at pp. 13, 74.

[10] Qwest Comments at pp. 8-14; Time Warner Comments at pp. 1-2; CTIA Comments at pp. 10-11; ICF Comments at pp. 25-26.

[11] BellSouth Comments at pp. 27-28; NARUC June 9, 2005 Ex Parte, Appendix D, task Force Draft I.3; CBICC Sept. 2, 2004 Ex Parte at pp. 1-2.

opportunity to recover their network costs.[12] Investment in rural infrastructure is more essential than ever to the economic vitality of rural communities.

The Commission and many parties have recognized the need for transition.[13] Given the substantially larger portion of total revenues that ROR ILECs receive from access charges, the need for a separate transition period is needed to preserve the affordability and comparability of local services and rates in rural areas as compared to urban areas and to avoid rate shock.

B. The Higher Network Costs Of ROR ILECs Require Reasonable Levels Of Revenues From Local Rates, Intercarrier Compensation, And Support Funding.

Because of the substantially higher cost of ROR ILEC networks, the three sources of ROR ILEC revenues (intercarrier compensation, support funding, and retail revenue) must be maintained. If the Commission were to implement bill and keep for ROR ILECs (as proposed by Qwest, Time Warner, CTIA, and ICF[14]), or were to reduce ROR ILEC access rates to the levels proposed in some comments (including CBICC's, NARUC's, and BellSouth's[15]), the lost revenues would be so great that the resulting burdens on support mechanisms and/or local rates

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[12] NTCA Comments at pp. 25, 34, 51.

[13] *FNPRM* ¶ 117. "Many of the proposals submitted in this record include some sort of transition period to give carriers sufficient time to make necessary changes in their business operations. Given the substantial changes that are possible in this rulemaking, we seek comment on what type of transition would be needed for a new regime. Rural Alliance Comments at pp. 3, 5; TDS Comments at p 18; CenturyTel Comments at p 7; NTCA Comments at pp. 25-26, 30, 59; NARUC June 9, 2005 Ex Parte, Appendix C, V. II.

[14] Qwest Comments at pp. 8-14; Time Warner Comments at pp. 1-2; CTIA Comments at pp. 10-11; ICF Comments at pp. 25-26.

[15] BellSouth Comments at pp. 27-28; NARUC June 9, 2005 Ex Parte, Appendix D, task Force Draft I.3; CBICC Sept. 2, 2004 Ex Parte at pp. 1-2.

would not be sustainable. NARUC's comments, while recognizing the principal that small ILEC wire centers should have higher access rates, and very small ILEC wire centers should have the highest access rates, proposes specific rates that are much too low to sustain the goals of Section 254 without imposing unsustainable demands on support mechanisms.[16] It is important to note that NARUC's comments contain no analysis of the financial ramifications of its proposal on support mechanisms for the ROR ILECs in these categories.

Even worse are NASUCA's comments that support NARUC's proposed rates and then seek to exempt residential ratepayers from local rate increases, but reject the establishment of new support mechanisms. The need for alternative revenue sources is basically ignored by the NASUCA comments. The NASUCA proposal demonstrates the virtual certainty of inconsistent results and approaches if the Commission does not establish all of the essential components of intercarrier compensation reform.

A more rational process is to implement rate reform in a manner that protects the consumer interests and still limits the need for increases in support mechanisms, as several parties have proposed. In particular, the MIC proposes that both annual local rate increases and

[16] NARUC proposes the following termination rates:

Access Lines in Wire Center	Approximate Percentage of access lines	Termination rate per-minute
Greater than 5,000	90%	$0.001
500-5,000	9%	$0.005
Less than 500	1%	$0.02

In addition, NARUC discusses a transport rate of $0.0095 ($0.018 for transport of over 200 miles), but is not clear when or how those rates would apply, including the relation of those rates to the ICF Edge concepts which NARUC appears to support.

the overall level of local rates be expressly limited and that reform of intercarrier compensation be accomplished in phases.

In the first phase. intrastate and interstate access rates should be unified at interstate levels and reciprocal compensation rates should be set at target levels of $.015 to $0.02[17], increased for lengthy transport routes, for ROR ILECs. The goals of Section 254 can be met and arbitrage can also be substantially reduced if this first phase is implemented over a 3 to 4 year period, with local rate increases controlled by moderate annual increases and capped at the state specific RBOC residential rate, and if new intercarrier compensation restructuring mechanisms provide adequate alternatives for cost recovery.

In summary, prevention of severe adverse customer impacts should be a key criterion for intercarrier compensation reform. Any proposal for intercarrier compensation reform for ROR ILECs must: (i) include a new intercarrier compensation restructuring mechanism that provides an adequate alternative for cost recovery; (ii) implement changes gradually and moderately; and (iii) provide express limits on increases to end user charges so that rural rates remain affordable and comparable to urban rates. Achieving these goals will require different solutions for ROR ILECs and Price Cap ILECs.

III. ALL USERS OF THE NETWORK MUST PAY A REASONABLE PORTION OF THE COST OF THAT NETWORK.

The MIC recognizes that the Commission may not implement all aspects of intercarrier compensation reform in the immediate future. Establishing appropriate rates is an important

[17] A uniform reciprocal compensation rate would be established for ROR ILECs at the lower of: (i) the target level (e.g. $ .015 to $.02 cents per minute) plus an additional amount for lengthy transport routes; or (ii) any rate mutually agreed to in interconnect negotiations. MIC Initial Comments at p. 22.

element of intercarrier compensation reform, but that is not in itself sufficient. To achieve reform of intercarrier compensation, it is also imperative that the Commission prevent arbitrage and vigorously enforce the application of those rates to all users of the local network. Arbitrage would not exist without carriers that have either ignored or attempted to evade compensation rules.[18] Accordingly, the MIC agrees with NECA that:

> [E]ffective enforcement mechanisms are needed to allow carriers to collect legitimate charges from service providers utilizing their networks. Absent effective enforcement, no Intercarrier compensation mechanism will remain viable.[19]

Other parties have also recognized the need for enforcement of existing rules.[20] As NECA notes: "Absent effective enforcement, no intercarrier compensation mechanism will remain viable."[21] Effective enforcement remains necessary for any system to function.

Intercarrier compensation rules must be applied in a consistent and competitively neutral manner to all users of local networks to prevent gaming of the system and anticompetitive results. Arbitrage is the result of several factors, including: (i) exemptions and failures to enforce compensation obligations on VOIP and virtual NXX traffic: (ii) treatment of CMRS traffic within an MTA as local traffic; (iii) the fraudulent termination of interexchange access traffic as local traffic; and (iv) the absence of provisions that would allow blocking of calls terminated without adequate call identification detail. The Commission needs to impose uniform requirements on all users of the network and must take on the burden of enforcing those rules.

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[18] Verizon Comments at p. 2.

[19] NECA Comments at. p. 2

[20] TDS Comments at pp. 9-11; CenturyTel Comments at pp. 4-6

[21] NECA Comment Summary at p. 2.

A. Tandem Service Should Remain Regulated, And Transiting Traffic Identified.

The MIC also agrees with those comments that advocate the continued regulation of tandem service providers.[22] Conversely, the MIC opposes the position of carriers like BellSouth[23] and Qwest[24] who argue that tandem services should not be regulated. As Nextel explains, tandem service is largely a bottleneck, monopoly service, particularly for ROR ILECs. A ROR ILEC subtending a tandem must, except in unusual cases where traffic volumes exchange with a particular IXC, CLEC or ILEC is quite large, receive its traffic indirectly through the tandem operator. In addition, many ROR ILECs have no practical alternative to using tandems for origination of traffic. Therefore, the Commission must not deregulate tandem service.

The Commission should also maintain jurisdiction over tandem service to require that tandem service providers implement traffic recording and appropriate blocking capabilities. The tandem operator is able to identify every carrier that interconnects with the tandem and has the ability to bill the interconnecting carrier for all traffic delivered over an interconnection trunk for interconnection and to provide that information to terminating ILECs. However, the interconnecting carrier can strip its call identification from its traffic or carry traffic for another carrier that has stripped its call identification from its traffic. Because the traffic will be routed

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[22] See e.g. Rural Alliance Appendix B, pp. 6-8; Nextel Comments at p. 9; and Western Wireless Comments at p. 28.

[23] BellSouth Comments at p. 32.

[24] Qwest Comments at p. 36.

from the tandem to subtending ILECs over common trunks groups, the terminating carrier is unable to identify the originating carrier (phantom traffic).

Therefore, the MIC supports those commenting parties such as the Rural Alliance[25]and CenturyTel[26] requesting that the FCC adopt rules (i) requiring adequate carrier identification on all traffic; (ii) requiring tandem operators to block traffic coming from any carrier where the traffic is not identified; and (iii) imposing financial penalties on carriers violating the Commission's rules. The MIC further agrees with the Rural Alliance[27] that the first tandem provider in the call path should be required to create billing records identifying the originating carrier and the nature of the traffic.

Carriers that strip call identification from their traffic are engaging in fraud. Removing call detail requires a deliberate decision and action by a carrier. The Commission needs to take strong and decisive action against carriers that intentionally evade intercarrier compensation obligations. The MIC supports the Rural Alliance,[28] NARUC,[29] and CenturyTel [30] in the position that traffic that is not properly identified may be blocked. Unless these practices are stopped, they will continue to grow, imposing an increasing burdens on ILECs, their customers, and support funding mechanisms.

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[25] Rural Alliance Comments at p. 108.

[26] CenturyTel Comments at p. 7.

[27] Rural Alliance Comments p. 109.

[28] Rural Alliance Comments at p. 108.

[29] June 9, 2005 NARUC Ex Parte, Appendix D, p. 6.

[30] CenturyTel Comments at p. 7.

B. VoIP Traffic Needs To Be Identified And Subject To Access Charges For Interexchange Traffic.

As an interim step in intercarrier compensation reform, SBC has recommended application of access rates to all VoIP traffic delivered to the Public Switched Telecommunications Network ("PSTN") regardless of whether the service provided to VoIP customers is classified as an information service.[31] Such a step would be appropriate to prevent further erosion of revenues. If the Commission does not take action to impose access charges on VoIP traffic, new regulatory disparities and arbitrage opportunities will increase and access revenues will be further reduced as additional carriers make use of this new arbitrage opportunity. As a result, the Commission would need to provide even more support funding.

If the traffic is identified as interexchange traffic, it should be subject to access charges, even if it is terminated through a local interconnection trunk or EAS arrangement. If the traffic is identified as local traffic, it should be subject to reciprocal compensation. If the VoIP provider delivers traffic without jurisdictional identification, such traffic should be subject, by default, to (interstate) access rates.

Further, the Commission should reject the claims that the jurisdiction of VoIP traffic cannot be determined because customer locations cannot be determined. To the contrary, the response to the Commission's recent E-911 decisions for VoIP traffic shows that there are methods to determine VoIP customer locations.[32] From those locations, the jurisdiction of VoIP traffic can be determined.

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[31] SBC Comments at p. 18.

[32] Yahoo Finance PRNews 6/27/05 and www.ip911resource.com/press_release2.htm.

Some VoIP providers may also seek to evade all payments for use of ILEC networks by purchasing local retail access lines for the purpose of terminating traffic. By purchasing a local retail line, a VoIP carrier would be able to terminate all of its traffic as if it originated locally from a retail customer, escaping the payment of both access and reciprocal compensation. Such a practice would be particularly effective in an EAS situation, allowing the VoIP carrier to disguise its traffic as ILEC or CLEC end user traffic and thus terminate traffic throughout the extended calling area without paying compensation. The MIC agrees with NARUC[33] that such practices need to be strictly prohibited.

Because the routing of VoIP traffic can be hidden by the telecommunications carrier providing the VoIP service, the Commission should take reasonable action to address and reduce the level of available arbitrage, and all VoIP traffic should provide at least some contribution toward the cost of maintaining the rural facilities needed to make the VoIP service viable. Some plans, such as the ICF plan, seek to solve the arbitrage problem by substituting a bill and keep approach. That approach is inappropriate for ROR ILECs and a far too radical solution to the problems posed by intercarrier compensation for ROR ILECs.

C. Virtual NXX Traffic Should Pay A Reasonable Portion Of The Cost Of The Network.

The MIC agrees with CenturyTel[34] that some of the worst abuses of the current rules involve the use of "virtual NXX" codes. Virtual NXX calls originate and terminate in different exchanges and virtual NXX carriers effectively function as toll carriers (providing interexchange connections to end user customers located in exchanges that are not part of a local calling areas).

[33] June 9, 2005 NARUC Ex Parte, Appendix C, p. 7.

[34] CenturyTel Comments at p. 4.

However, no access charges are paid with respect to virtual NXX traffic. Virtual NXX traffic occurs between exchanges that are not part of a local calling area, and virtual NXX carriers typically do not offer any service that both originates and terminates within the areas served by ROR ILECs. Further, virtual NXX traffic originating in ROR ILEC areas is primarily destined for dial-up ISP providers in remote exchanges served by price cap ILECs, so it can represent very high volumes of minutes of use originating in the ROR ILEC areas.

There is no sound basis to exempt virtual NXX traffic from payment of access charges, since it typically functions to provide interexchange service (between the exchanges of ROR ILECs and the remote exchanges of price-cap ILECs). Similarly, there is no basis to characterize virtual NXX traffic as local traffic since it is traffic between customers located in separate exchanges that are not part of the same local calling area and virtual NXX providers typically do not provide service that originates and terminates in the exchanges of the ROR ILECs. Accordingly, there is no sound basis to impose reciprocal compensation, which applies to the exchange of local traffic between local service competitors. Thus, if the Commission decides to not require access charges to be paid by virtual NXX providers, it should not compound the harm and require the ROR ILECs to pay reciprocal compensation on traffic bound for ISP providers in remote exchanges of price-cap ILECs.[35] Similarly, ROR ILECs should not be responsible for any third party transit costs for transport of such traffic to a Virtual NXX provider's point of interconnection located outside of the ROR ILEC's network.

[35] Further, if that carrier desires to purchase transport from the originating ROR ILEC for such traffic, the transport should be purchased off of the originating ILEC's access tariff (special access if a dedicated facility is used).

IV. INTERCONNECTIONS ARE REQUIRED ONLY WITHIN AN ILEC'S NETWORK, AND THE STATUS QUO FOR ILEC TO ILEC INTERCONNECTION SHOULD BE RETAINED.

The MIC recognizes that the Commission may not implement all aspects of intercarrier compensation reform in the immediate future. However, on other issues, including development of clear rules on interconnection requirements, should not be delayed.

A. ROR ILECs Should Not Be Required To Transport Or Pay For Traffic Transported Outside Of Their Networks.

The MIC supports the comments of parties such as the Rural Alliance and CenturyTel that recognize that, under the Act, the ILECs are only required to interconnect within their networks. The requirements of Section 251(c)(2) of the Act set forth the ILEC's duty regarding interconnection. An ILEC has:

> The duty to provide ... interconnection with the local exchange carrier's network—
> ***
> (B) at any technically feasible point within the carrier's network.

It may be technically feasible for *RBOCs* to provide a single point of interconnection for an entire LATA through an access tandem or its interconnected access tandems, as proposed by BellSouth[36] and Western Wireless.[37] With rare exceptions, however, ROR ILECs do not have such interconnected networks.

LATAs can cover hundreds of miles, and there can be dozens of potential interconnecting carriers all claiming to need to exchange local traffic. The cost and burden of allowing each such carrier to establish its desired point of presence ("POP") and requiring every ROR ILEC in the

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[36] BellSouth Comments at p. 18.

[37] Western Wireless Comments at p. 23.

state to deliver traffic to that POP would be incredibly costly, unnecessary and burdensome. There is already an existing and economical network available for carriers seeking and willing to pay for such indirect interconnection. These interconnecting carriers should make arrangements with and pay third party transport and tandem switching providers for such service for their originating and terminating traffic. If the CMRS, Virtual NXX, CLEC, or VoIP provider determines that it wants to provide local service in, or exchange traffic with, an ROR ILEC's service area, the cost of establishing a local interconnection for that traffic should be borne by that carrier, not the ROR ILEC.

In addition, each carrier should be responsible for providing facilities on its side of the point of interconnection, and ROR ILECs should not required to interconnect at points outside of their networks. For example, if a CMRS provider elects to use an indirect connection through a third-party tandem (rather than a direct connection to a Rural LEC end office) then any resulting third party tandem or transport charges are the CMRS carrier's responsibility. This is reasonable since it is the CMRS carrier that desires interconnection and determines whether there is a direct or an indirect connection.

The Commission should not accept the request of carriers like Nextel,[38] Western Wireless,[39] BellSouth[40] that support requiring interconnection at a single point within each LATA or proposals such as T-Mobile,[41] CTIA,[42] and Qwest[43] that suggest that an originating

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[38] Nextel Comments at p. 23.

[39] Western Wireless Comments at p. 21.

[40] BellSouth Comments at p. 18.

[41] T-Mobile Comments at p. 18.

ILEC is responsible to deliver traffic to the edge of the terminating carrier's network. Not only would such a requirement violate the requirements of the Act, they would impose huge financial obligations on ROR ILECs as a result of charges from transit providers of provide duplicate facilities without any significant benefit to ROR ILEC customers.

Further, as noted by the Rural Alliance, the costs of transport for ROR ILEC traffic are similar to the costs of transport between switches in an interexchange network. A bill and keep approach to such traffic would deny to ROR ILECs the recovery of costs that are typically recovered by other third-party tandem and transport providers and discourage investment in rural networks.[44] Such a result should be avoided.

B. Existing ILEC To ILEC Interconnections And Compensation Should Not Be Disrupted.

ILECs have interconnections with other ILECs already in place and compensation plans already exist for such interconnections, the cost of which are already reflected in rates. The MIC joins Verizon,[45] TDS, and USTA in their opposition to any change in those interconnections.

TDS interprets the ICF edge plan as requiring ILECs to develop interconnections with each RBOC tandem within a LATA. ROR ILECs typically interconnect with a single third-party Tandem which routes traffic to other tandems as necessary. It would be extremely inefficient to

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[42] CTIA Comments at p. 22.

[43] Qwest Comments at p. 10.

[44] Rural Alliance Comments at p. 16.

[45] Verizon Comments at p. 29.

change existing network arrangements and require every ROR ILEC to establish new connections to every RBOC tandem.

Similarly, the MIC objects to the Bell South[46] and Western Wireless[47] proposals that would require ILECs to allow interconnection at an ILEC tandem, making the ILEC responsible for transport to the tandem. A third party tandem does not represent a technically feasible point on the ROR ILEC's network for interconnection and would not comply with the Act. Further, it would impose the same level of burden on ROR ILECs as proposals to require ROR ILECs to deliver traffic to a single point in a LATA or to the edge of the terminating carrier's network.

C. ROR ILEC Networks Do Not Include A CEA Tandem.

The MIC fully supports the comments of the Rural Alliance, Onvoy (others) that the Commission should not establish central equal access ("CEA") tandems used by ROR ILECs to provide equal access as the interconnection point.

The ROR ILECs network should not be determined to include any third-party transport provider's facilities, including third-party CEA providers because these facilities are not part of the ROR ILEC networks. Even when the ROR ILECs are partial owners of the third-party CEA providers, the ROR ILECs do not control the transport or tandem facilities in a manner that is at all comparable to the control of an individual ILEC that owns the transport or tandem facilities. Imposing such an obligation on ROR ILECs would also have unreasonable financial consequences. Because the ROR ILEC's networks do not include such third-party facilities, the Act would not support creating the CEA tandem as a point of interconnection. Existing

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[46] Bell South Comments at p. 18.

[47] Western Wireless Comments at p. 23.

interconnection responsibilities related to CEA tandems and third-party transport facilities should not change as a result of this docket, and CEA tandems should be allowed to provide transport and tandem services in the same manner as other third-party tandem providers, and IXCs should have the same compensation obligations as are currently applicable.

V. A PRAGMATIC APPROACH IS NEEDED TO REFORM INTERCARRIER COMPENSATION.

The scope and complexity of issues and the broad range of fact circumstances reflected in the record shows that seeking a single, unified solution for all ILECs will lead to gridlock and indefinite delay because solutions that may be appropriate in some circumstances will have unacceptable impacts in others. Instead, the Commission should establish a series of steps that will make substantial progress toward the goal of reform, while recognizing that substantially different situations require different solutions.

A. Bill And Keep Would Not Provide A Workable Replacement For Intercarrier Compensation For ROR ILECs.

A critical threshold issue is whether bill and keep should be imposed as a general rule. Some parties suggest that bill and keep is the only way to solve disputes between carriers. However, as the record makes clear, bill and keep is not generally appropriate for ROR ILECs because it will lead to consequences that are unacceptable and because such an approach would violate the Act. Further, as noted by Verizon, if bill and keep was generally required, "disputes would simply shift to other areas…."[48]

For ROR ILECs, replacement of intercarrier compensation with bill and keep would lead to either excessive local rate increases or increases in high cost support levels that may be

[48] Verizon Comments at p. 24.

unsustainable. The NTCA comments showed the severe results that would be experienced by many ROR ILECs and their customers. The average impacts were a revenue reduction of over $22.00 per month, and ROR ILECs with less than 500 lines would have revenue reductions of over $50.00 per line per month.[49] Only 12% of the NTCA ILECs would have impacts of less than $15.00 per access line per month, and 9% would have impacts of over $55.00 per month, including 3 ROR ILECs with impacts of over $100.00 per month.[50]

The results for MIC Members would be similar. The average impacts would be over $26.00 per line per month. MIC Members with fewer than 500 line would experience reductions averaging over $47.00 per line per month. Half of the MIC members have fewer than 2,000 access lines and would experience average reductions of over $31.00 per line per month.

Replacing current intercarrier compensation with bill and keep would also fail to resolve disputes between carriers. Rather, as noted by Verizon: "A bill-and-keep regime regardless of whether it is mandated by rule or in practice – also creates a host of new arbitrage opportunities."[51]

Further, as noted by the Wyoming Office of Consumer Advocate: "a national unified bill & keep regime is contrary to several principals of 1996 Telecommunications Act…"[52] Sections 251(b)(5) and 252(d)(2) of the Act requires that carriers compensate each other for the additional cost of terminating local traffic and Section 251(g) maintains access charges until expressly

[49] NTCA Comments at p. 22.

[50] NTCA Comments at p. 23.

[51] Verizon Comments at p. 22.

[52] Wyoming Office of Consumer Advocate Comments at p. 6.

altered by the Commission. Replacing intercarrier compensation with bill and keep would also lead to a massive loss of revenue for most ROR ILECs, which would have severe adverse consequences on local rates, quality of service or universal service support costs that would violate the Act's goals that urban and rural rates and service quality remain comparable[53] and the universal service support be specific, predictable, and sufficient.[54]

The revenue needed by ROR ILECs to support high quality service in sparsely populated, high cost rural areas comes from three sources: (1) local rates; (2) intercarrier compensation; and (3) public universal service support. If intercarrier compensation was replaced with bill and keep, ROR ILECs would be faced with a three-part dilemma. Either: (1) rural rates would increase to an unaffordable level; or (2) the quality of service and future investments would be reduced to a substandard level; or (3) the cost of universal service support would be forced to an unsustainable level. Either of the first two alternatives would violate the principles of Section 254 that both rural rates and rural service remain comparable to rates and service in urban areas. The third alternative would threaten the principle that universal service funding remain predictable and adequate.

B. TELRIC Costs Do Not Provide A Feasible Basis For Unified Intercarrier Compensation Rates For ROR ILECs.

The MIC supports the principle that intercarrier compensation rates should ultimately be unified. However, for ROR ILECs, those rates must be sufficient to support a reasonable portion of the costs of rural networks used by other carriers. Further, the costs of ROR ILEC networks

[53] 47 U.S.C.§ 254(b)(3).

[54] 47 U.S.C.§ 254(b)(5).

cannot be reliably determined on the basis of TELRIC costs, contrary to the recommendations of some parties.[55]

As the record shows, the costs of rural networks are substantially higher than the costs of networks in urban areas. These higher costs must be recovered if ROR ILECs are to continue to maintain their networks, much less make the additional investments required to assure that service in rural areas remains reasonably comparable to service in urban areas. Because these higher costs cannot be recovered from end users (without increasing monthly charges to levels that are both unaffordable and not comparable to urban rates), there is a practical need to continue to recover a portion of these costs from the carriers that use the rural networks to provide service to their customers. The NTCA has demonstrated that the financial impacts of eliminating intercarrier compensation would be overwhelming for many ROR ILECs.[56] Intercarrier compensation rates for ROR ILECs cannot be practically based on TELRIC costs because: (1) there is no forward looking cost model that provides reliable costs for ROR ILECs; and (2) TELRIC costs do not reflect the full costs of providing ILEC networks, much less ROR ILEC networks. The Commission has previously recognized that there is currently no forward-looking cost model that provides accurate and reliable estimates of costs for ROR ILECs.[57] This

[55] CBICC Sept. 2, 2004 Ex Parte at p. 3; Time Warner Comments at pp. 2, 7, 11; NARUC June 9, 2005 Ex Parte, Appendix D.I.1., Task Force Draft pp. 7-8; XO Communications Comments at pp. 8-9.

[56] NTCA Comments at p 23.

[57] FOURTEENTH REPORT AND ORDER, TWENTY SECOND ORDER ON RECONSIDERATION, AND FURTHER NOTICE OF PROPOSED RULEMAKING IN CC-DOCKET NO. 96-45, AND REPORT AND ORDER IN CC DOCKET NO. 00-256, 16 FCC Rcd. 11244 (2001).

fact alone makes adoption of a TELRIC cost basis impossible for ROR ILECs. Further, the assumptions underlying TELRIC models are fundamentally inconsistent, ranging from assumptions of a single provider (to create economies of scale) to a fully competitive market (to justify assumptions of a fully state-of-the-art network).[58] These inconsistent assumptions are particularly inappropriate in the sparsely populated, high cost areas served by ROR ILECs. Accordingly, the Commission should not adopt a TELRIC basis for unifying intercarrier compensation rates for ROR ILECs.

C. Embedded Costs Or Adequate Target Rates Could Provide A Feasible Basis For Unified Intercarrier Compensation Rates For ROR ILECs.

Embedded costs or an adequate target rate would both provide an appropriate and workable basis for a unified intercarrier compensation rates for ROR ILECs. However, a target rate must reflect the higher costs of ROR ILECs, rather than being set on the basis of a nationwide rate that would reflect the lower costs of price cap ILECs, as BellSouth,[59] recommends.

The Rural Alliance is correct in recommending the use of embedded costs as a foundation for a unified intercarrier compensation rate for ROR ILECs. Embedded costs are known, actual, and subject to existing rules and standards. In contrast, forward looking costs are estimates, and

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> "The present record fails to provide the analysis necessary to permit a transition of rural carriers to a forward-looking high-cost support mechanism. Before we could transition to such a mechanism, it would need to be fully analyzed and considered. Even commenters who urge the commission to move toward a forward-looking support methodology for rural carriers as soon as possible recognize the need for additional time to develop an appropriate mechanism."

[58] SBC Comments at pp. 14-15.

[59] BellSouth Comments at p. 17.

determination of forward looking costs is typically subject to considerable dispute. Further, determination of forward looking costs imposes considerable additional administrative costs. Use of embedded costs would recognize the realities of the cost of building and maintaining networks in high cost rural areas.[60]

The use of embedded costs by ROR ILECs would be consistent with the policy goal of achieving a uniform rate for similar services. The policy goal of charging a uniform rate for similar services is met if any particular carrier charges all other carriers the same rate for the same use of network facilities. Charges need not be uniform for all carriers. As NECA has observed: "A uniform rate for similar services does not necessarily mean all carriers across the country change the same rate, as this would clearly not reflect widely divergent cost characteristics of all ILECs…"[61]

The establishment of adequate target rates would also provide a workable alternative. The plan contained in the MIC Initial Comments also provides a pragmatic transition process to unified intercarrier compensation rates. The MIC Plan would establish a 3-4 year transition of Intrastate Access Rates to Interstate levels. During that period, target interconnect rates of $.015 to $ .02 cents per minute would be imposed to limit further arbitrage between access and Interconnect service. Toward the end of that transition period, a further proceeding could be held to establish a final unified intercarrier compensation rate for ROR ILECs.

It is essential, however, that the target rates be adequate. In this regard, the NARUC, Western Wireless, and BellSouth target rates are not adequate and would not provide a workable

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[60] Rural Alliance Comments at pp. 34-41.

[61] NECA Comments at pp. 15-16.

alternative. In particular, the Western Wireless and BellSouth rates, which would establish rates for price cap and ROR ILECs based on the price cap ILEC costs, are grossly inadequate.

D. Switching Costs Are Usage Sensitive And Should Be Included In Intercarrier Compensation Rates Under Any Cost Standard.

Irrespective of whether intercarrier compensation is analyzed under traditional access standards or under the additional cost standard of Section 252(d)(2), switching costs are usage sensitive and should be recovered in intercarrier compensation rates. Any other approach would result in the subsidization of carriers using ROR ILEC networks by the end user customers of the ROR ILECs.

Some parties have claimed that the costs of local switches are not usage sensitive.[62] To the contrary, local switching cost are clearly usage sensitive. As BellSouth notes, most of the costs of the switch, including line and trunk modules, are usage-based and switches are engineered on a usage sensitive basis.[63] NTCA notes that traffic patterns affect a switching network.[64] The Rural Alliance notes that the processor and matrix of switches are designed for heavy use situations.[65]

Further, the higher costs of termination by ROR ILECs should be recognized in higher termination charges. NARUC recognizes this principle, but the rate suggested by NARUC fails to provide adequate recognition of this fact. For example, the Wyoming Office of Consumer

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[62] Nextel Partners Comments at pp. 10-11; Western Wireless Comments at p. 11.

[63] BellSouth Comments at pp. 22-26.

[64] NTCA Comments at pp. 36-39.

[65] Rural Alliance Comments at pp. 53-54.

Advocate notes: "[T]he NARUC proposal does not suggest that one-price fits all when it comes to termination charges....It is unfair and inappropriate to assume that a higher cost is necessary because of inefficiencies or irresponsible spending. Rather these higher costs are often driven by the lack of economics of scale....We do not know from whence the specific numbers on the NARUC proposal were derived. Thus we do not know if they represent the best and most proper prices for the three sizes of wire carriers."[66] The specific rate levels proposed by NARUC are inadequate to provide the needed revenue to support the higher costs.

E. Negotiations Do Not Provide A Feasible Mechanism To Resolve All Intercarrier Compensation Arrangements.

Negotiations and commercial agreements should be allowed to function when they will be efficient and effective. However, such an approach will not be efficient or effective in all circumstances. Accordingly, that approach should not be the only mechanism available to ROR ILECs.

Commercial agreements may be completely effective and quite efficient for larger carriers with substantial resources and comparable bargaining power. However, those assets are not available to most ROR ILECs. For them, a different approach is more appropriate. As noted by NECA: "[C]ontinued use of tariff arrangements may also provide reasonable and efficient solutions to setting interconnect rates, terms, and conditions."[67]

Similarly, pooling may provide the most effective and efficient approach for some ROR ILECs and that option should remain available. As noted by NECA: "[M]any carriers continue

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[66] Wyoming Office of Consumer Counsel Comments at p. 21.

[67] NECA Comments at p. 2.

to need the ability to participate in common revenue pooling arrangements similar to those administered by NECA today. Revenue pooling provides substantial administrative savings and risk-sharing benefits … ."[68]

VI. THE COMMISSION MUST ESTABLISH A MECHANISM TO PROVIDE AN ADEQUATE ALTERNATIVE FOR LOST INTERSTATE AND INTRASTATE INTERCARRIER COMPENSATION.

The MIC strongly disagrees with plans such as those proposed by CBICC, Qwest, Bell South, Nextel,[69] NASUCA, CTIA, and Western Wireless[70] which would significantly reduce intercarrier compensation revenue without adequate opportunity to recover those revenue reductions. Equally important, the intercarrier compensation restructuring mechanisms must be known, certain, and consistent in its application if the goals of intercarrier compensation reform are to be met. Consequently, the Commission, not state commissions must establish and control the implementation of the intercarrier compensation restructuring mechanisms. Further, the Commission should take steps to strengthen existing Universal Service Funding.

A. The Commission Must Develop An Adequate Intercarrier Compensation Restructuring Mechanism Before It Requires Reductions In Intercarrier Compensation.

ROR ILECs have three sources of revenue: (i) end users; (ii) intercarrier compensation; and (iii) support funds. All three are needed to support the high cost of networks in ROR ILEC areas. If intercarrier revenues are decreased, intercarrier compensation restructuring mechanisms that provide adequate alternatives for lost intercarrier compensation are needed. Further, the

[68] NECA Comments at p. 21-22.

[69] Nextel Comments at pp. 3 and 19-25.

[70] Western Wireless Comments at pp. 16-20.

Commission's obligations to rural consumers under Section 254, to maintain comparable rural and urban rates, acts as a cap on the amount of increase that may be imposed on end uses. Consequently, the MIC supports the position of TDS[71] that, if movement toward uniform inter-carrier compensation is to occur, there must first be an adequate intercarrier compensation restructuring mechanisms for reduced intercarrier compensation revenues that cannot reasonably be recovered from end-users.

Further, as noted by SBC, current access charges are designed to recover an ILEC's real costs, including the costs of call origination and termination. "Cuts to one source of revenues must be matched by substantially equivalent revenue opportunities."[72] In the absence of an adequate intercarrier compensation restructuring mechanism, inter-carrier reform must necessarily be limited by the difference in current local revenues and local revenues generated if rural local rates were equal to the statewide RBOC Benchmark rate. **In other words, if support funding is capped, so too must be the reduction in inter-carrier compensation.**

B. The Commission Has Authority To Act And Cannot Delegate This Responsibility To The States.

Delegation to the State commissions of the Commission's authority and responsibility to provide a intercarrier compensation restructuring mechanism would be wholly inappropriate. Under NARUC's State Allocation Mechanism ("SAM"), each State would determine how the support funds would be allocated. Some of the States may not possess authority to perform the necessary functions, and having 50 State Commissions independently determine the basis on

[71] TDS Comments at pp. 12-13.

[72] SBC Comments at p. 16.

which carriers should, or should not, receive funding would defeat the consistency needed for intercarrier compensation reform to proceed on a consistent nationwide basis.

The need for consistency to fulfill valid federal policy objectives and the mixed use doctrine provide to the Commission the authority to unilaterally set requirements applicable to both interstate and intrastate access charges and other intercarrier compensation and establish requirements. Further, the need for consistency to achieve the Commission' objective of consistency in intercarrier compensation precludes acceptance of NARUC's recommendation that would allow individual states to opt in or opt out of the new intercarrier compensation regime or to decide which carriers should or should not receive support for lost intercarrier compensation revenues.

C. A Joint Board May Prove Useful In Establishing The Necessary Consistent Nationwide Approach.

To reduce the probability and scope of legal challenges, the Commission may wish to convene a Joint Board pursuant to 47 U.S.C.§ 410 to address issues relating to intrastate access charges and other intercarrier compensation and the new intercarrier compensation restructuring mechanism. Such a Joint Board would provide a mechanism for state participation and input and collaboration between the Commission and the states. However, after obtaining the recommendations of a Joint Board, it remains essential that the final decision, including the determination of payment criteria, be made by the Commission so that consistency is achieved.

D. Only Carriers That Lose Intercarrier Compensation Revenues Should Be Eligible For The New Intercarrier Compensation Restructuring Mechanism.

The MIC agrees with CenturyTel,[73] USTA,[74] NTCA,[75] and Rural Alliance[76] that only carriers that are losing revenue as a result of intercarrier compensation reform should be eligible to receive any new support and that no criteria other than the loss of revenues should be required. The Commission's goals should be to take positive steps to unify intercarrier compensation rates, while implementing Section 254 goals of unifying urban and rural retail rates and supporting state-of-the-art broadband service expansion in rural communities. Those goals cannot be obtained without a consistently applied, uniform and Commission controlled intercarrier compensation restructuring mechanism, which will provide the predictability needed to attract capital.

E. The Existing USF Must Be Preserved And Strengthened.

As noted by several parties, a new intercarrier compensation restructuring mechanism is no substitute for the current USF. Rather, the current USF must be preserved and strengthened.[77] The MIC supports the comments of the Rural Alliance[78] that all carriers who use and benefit from the ILEC networks must provide universal service funding support. That means that

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[73] CenturyTel Comments at p. 37.

[74] USTA Comments at p. 40.

[75] NTCA Comments at p. 55-56.

[76] Rural Alliance Comments at p. 14.

[77] USTA Comments at pp. 14-15; TDS Comments at pp. 9-10.

[78] Rural Alliance Comments at p. 163.

Internet Service Providers, which terminate traffic over the PSTN, should also contribute to Universal Service funding support.

The MIC also supports the request of CenturyTel[79] (endorsing the recommendation of Frontier and ICF) to remove the cap on the existing high-cost fund. The Commission should lift the cap and restore the support to where it would have been, so customers are assured that rates will remain affordable going into the new regime envisioned by the Commission. The MIC supports CenturyTel and Frontier's proposal to reset the current fund at levels appropriate to the national average cost per loop. In summary: 1) the amount of inter-carrier reform that may be required is directly dependent on the availability of off-setting support funding and the amount of monthly increases to end user customers that can be reasonably imposed; 2) the Commission, not State commissions, must be responsible for determining how the fund will be administered; 3) only those carriers losing inter-carrier compensation should be eligible; 4) all carriers who benefit from access to the rural network should contribute to the funding mechanism in a non-discriminatory manner; and 5) the Commission should resize the existing Universal Service fund.

CONCLUSION

The Comments demonstrate several principles that the Commission should apply in connection with reform of intercarrier compensation rates. Annual and overall caps on local rate increases are needed to prevent severe, adverse impacts on customers of ROR ILECs. Further, the substantial economic differences between ROR ILECs and Price Cap ILECs, including far higher network costs of ROR ILECs, require different approaches and a difference transition. As

[79] CenturyTel Comments at pp. 38-39.

a result, all users of ROR ILEC networks must pay a reasonable portion of the cost of using those networks. Further, interconnections are required only within ILEC networks, and the status quo of interconnections of ROR ILECs should be retained.

Pragmatic steps and a pragmatic approach are needed to achieve reform of intercarrier compensation rates. Further, the Commission must establish the intercarrier compensation restructuring mechanism needed to provide adequate alternatives for lost revenues that cannot be recovered from modest increases in local rates. The Commission cannot delegate that responsibility to the States.

Respectfully submitted,

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