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

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

TO: The Commission

COMMENTS OF INTERSTATE TELCOM CONSULTING, INC.

Bruce C. Reuber, President
Interstate Telcom Consulting, Inc.
130 Birch Avenue West (P.O. Box 668)
Hector, Minnesota 55342-0668
Phone: (320) 848-6641
Facsimile: (320) 848-2466

Dated: October 25, 2006

TABLE OF CONTENTS

Summary

Interstate Telcom Consulting, Inc. ("ITCI") supports the basic approach of the industry-negotiated Missoula Plan, including the majority of the current compromise proposal before the Commission. At this time, ITCI proposes one clarification (regarding classification of the Restructure Mechanism) and one modification (regarding classification of rural competitive local exchange carriers ("CLECs")).

The Missoula Plan will encourage and enable investment in essential rural telecommunications infrastructure by preserving a significant, stable and cost-based access revenue stream for small rural carriers. The proposed residual Restructure Mechanism will permit the plan to be revenue neutral, without producing unaffordable increases in subscriber line charges or local service rates for rural customers. If properly classified as a Section 201 access mechanism, the Restructure Mechanism will not exacerbate growth pressures upon universal service mechanisms.

The Missoula Plan will ease the stresses upon the current intercarrier compensation system by minimizing arbitrage opportunities. It also includes call signaling and call record rules that will address the "phantom traffic" problem that is harming both rural carriers and interexchange competition. In fact, ITCI urges that the "phantom traffic" provisions be implemented and enforced immediately. The Missoula Plan contains a "Modified Rural Transport Rule" intended to eliminate disputes over the application of "transit" costs to the termination of local traffic through intermediate carriers.

Finally, ITCI urges that rural CLECs be classified as Track 3 carriers, allowed to maintain their current interstate access charges, and permitted to receive funding from the Restructure Mechanism to offset decreases in their intrastate access rates.

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

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

TO: The Commission

COMMENTS OF
INTERSTATE TELCOM CONSULTING, INC.

Interstate Telcom Consulting, Inc. ("ITCI") submits its comments in response to the Public Notice (*Comment Sought on Missoula Intercarrier Compensation Reform Plan*), CC Docket No. 01-92, DA 06-1510, released July 25, 2006.

ITCI supports the basic approach of the negotiated package of intercarrier compensation compromises known as the Missoula Intercarrier Compensation Reform Plan ("Missoula Plan"). It applauds the efforts of the broad cross-section of large and small telecommunications service providers (including providers of local exchange services, competitive local exchange services, interstate and intrastate interexchange services, wireless services, data services, Internet access services, and Internet Protocol services) that have developed the current proposal. Whereas ITCI understands that negotiations are continuing and that there may be some future changes, it supports the current compromise package with one clarification and one modification.

ITCI believes that a key factor for evaluating any and all intercarrier compensation and universal service mechanisms is the degree to which they encourage and enable investment in essential rural telecommunications infrastructure. The Missoula Plan passes muster on this critical issue. First and foremost, it enforces the right of those that invest in costly "last mile" networks to be compensated for the use of their networks by other entities providing telecommunications and information services. The Missoula Plan also recognizes the important and delicate balance among the customer, access and universal service revenue streams that rural telephone companies rely upon to recover their costs and repay their investment loans, and (if designed properly) will be revenue neutral without imposing additional strains upon the federal Universal Service Fund ("USF"). Finally, it proposes a new intercarrier compensation rate structure that minimizes arbitrage and evasion, allocates appropriate costs to the cost-causers, recognizes new technologies, and protects rural telecommunications customers.

Whereas ITCI supports the majority of the compromise Missoula Plan presently before the Commission, it will limit its comments to the following aspects thereof: (1) the pro-investment benefits of a significant, stable and cost-based access revenue stream; (2) the need for the residual Restructure Mechanism to be revenue neutral and to be classified as a Section 201 access mechanism; (3) the benefits of minimizing arbitrage by reducing differences between interstate and intrastate access charges; (4) the need to eliminate "phantom traffic" by adopting and enforcing strict requirements for the provision of complete and accurate call records; and (5) the benefits of the Modified Rural Transport Rule.

The only change that ITCI proposes to the existing Missoula Plan proposals is that small rural competitive local exchange carriers ("CLECs") be classified and treated as Track 3 carriers rather than Track 1 carriers.

I

Interstate Telcom Consulting, Inc.

ITCI is a telecommunications consulting firm located in Hector, Minnesota. Its five principal employees have over 150 years of collective experience in the telecommunications industry. ITCI has served rural telephone companies continuously since it commenced operations in April of 1981. ITCI performs a variety of telecommunications consulting services for rural telephone companies, including cost separation studies, revenue forecasting, access tariff development, depreciation studies, continuing property record maintenance, traffic engineering and analysis, Carrier Access Billing System ("CABS") billing and reviews, long distance consulting, National Exchange Carrier Association ("NECA") reporting, average schedule settlements, access service requests ("ASRs"), Administrative Operating Company ("AOCN") services, Service Order Administration ("SOA") services for local number portability, circuit provisioning, accounting services, business plans, and exchange acquisition assistance.

ITCI's rural incumbent local exchange carrier ("ILEC") clients are all Track 3 carriers under the proposed Missoula Plan definitions. They are small companies (ranging in size from approximately 30 access lines to approximately 20,100 access lines), and generally serve small communities and outlying farms and ranches in the states of Minnesota, Wisconsin, Michigan, Iowa, Ohio and Montana. Their service areas are characterized by relatively small populations and low population densities, and relatively long loops and high costs. In fact, the "last mile" facilities of many ITCI clients are actually "last 10-to-30 mile" facilities. A list of the thirty-nine rural ILECs and rural CLECs that ITCI is representing in this proceeding is attached.

ITCI's clients have an established record of investing in essential rural telecommunications infrastructure and furnishing their rural customers with quality, state-of-the-art services at affordable rates. They have installed digital switches and soft switches, implemented Signaling System 7, installed fiber optic cable and digital subscriber line (DSL) capabilities, buried cable and fiber to limit weather damage and outages, provided local or centralized equal access, offered custom calling options, complied with Emergency 911 (E-911) and Communications Assistance for Law Enforcement (CALEA) responsibilities, and enabled access to the Internet and information services. Both currently and in the future, these companies will provide their rural customers with the broadband and other facilities necessary to receive advanced telecommunications and information services. In fact, in most of their rural service areas, they are the only entities that can be relied upon in both the short and long run to make the commitments and investments necessary to furnish state-of-the-art facilities and services reasonably comparable to those available in urban areas.

II

Preservation of the Access Revenue Stream Will Encourage Investment in Essential Rural Telecommunications Infrastructure

The investment necessary to maintain, upgrade and expand essential rural telecommunications infrastructure requires both adequate financing and adequate incentives.

ITCI clients are small businesses with limited financial resources and limited access to capital markets. They generally must rely upon loans to finance significant infrastructure investments. In order to obtain such loans, they must provide both prospective lenders and their own directors and investors with reasonable assurances that they can recover their costs and repay their investment loans. Currently, ITCI clients and other rural telephone companies rely upon three primary revenue streams – namely, customer revenues, access revenues and USF revenues – to provide these assurances and to operate their networks. The typical ITCI rural ILEC client derives: (1) approximately 36 percent of its revenues from its customers [including federal subscriber line charges (SLCs)]; (2) approximately 32 percent of its revenues from interstate and intrastate access charges and other reciprocal compensation; (3) approximately 25 percent of its revenues from federal USF mechanisms; and (4) approximately 7 percent of its revenues from miscellaneous sources.

The Missoula Plan will preserve the important access revenue stream in significant part, and will do so in the form of cost-based access rates. While it contemplates an increase in the residential SLC from $6.50 to $8.75 per line per month, it avoids substantial increases in local service rates and/or SLCs that would make service unaffordable for many rural customers, not to mention much more expensive than comparable urban services. And if the proposed Restructure Mechanism is properly classified as a Section 201 access mechanism rather than a Section 254 universal service mechanism, it will not exacerbate the growth issues that threaten the sustainability of the federal USF revenue stream.

A significant and stable access revenue stream will help rural ILECs obtain infrastructure investment loans at affordable interest rates. Most prospective lenders will be more comfortable with the greater diversity and lower risk of a financial plan based upon three significant revenue streams rather than one comprised solely or predominately of a customer revenue stream (that cannot be increased indefinitely) and a universal service revenue stream (that can be changed significantly and precipitously by one or more regulatory decisions).

In addition, the incentives to invest in costly "last 10-to-30 mile" facilities will be much greater if all carriers enjoying the benefit of such facilities to originate and terminate their traffic are required to pay their reasonable and equitable share of the costs thereof. If the access revenue stream were eliminated in favor of a "bill and keep" regime, there would be little or no incentive for anyone to invest substantial dollars in rural exchanges if they could use the facilities of another carrier for free. Rather, carriers would be encouraged to over-invest in more profitable facilities and services, while the more expensive and less profitable "last mile" facilities would rarely be constructed without substantial government intervention.

III

The Restructure Mechanism Must Be a Section 201 Access Mechanism

The Missoula Plan contemplates substantial reductions in the existing intrastate access charges of Track 3 carriers, and the offset of such reductions by a series of residential SLC increases and a residual Restructure Mechanism. It is very important that the changes be revenue neutral, for otherwise customers could be faced with unaffordable monthly service rate increases in rural service areas in states served by ITCI's clients.

The Restructure Mechanism should be classified as a Section 201 access mechanism, and not a Section 254 universal service mechanism. Its purpose is to offset and replace access revenues that currently help rural telephone companies and other incumbent local exchange carriers (ILECs) to recover the costs imposed upon their networks by the other service providers whose traffic they originate or terminate. Moreover, if the Restructure Mechanism is classified as a universal service mechanism, it will be subject to arguments that the per-line dollars received by rural ILECs should be "portable" to wireless carriers serving overlapping areas. This could increase the size of the Restructure Mechanism by significantly more than the amount needed to offset access charge reductions by rural ILECs.

IV

The Missoula Plan Will Improve
 <u>The Present Intercarrier Compensation System</u>

ITCI agrees that the current intercarrier compensation system is under significant stress, and that it needs to be revised to deal with the host of economic, technological and regulatory changes that have been occurring during the past decade.

The Missoula Plan will relieve a great deal of this stress by minimizing arbitrage opportunities and practices. It will reduce the rate differences between interstate and intrastate access charges, and between access charges and reciprocal compensation. This will benefit consumers by decreasing toll rates. It will also place various types of toll and information service providers on a level playing field where they can focus upon service and quality improvements rather than ways to evade or avoid access charges.

V

The Missoula Plan Will
 <u>Address and Reduce "Phantom Traffic" Problems</u>

The Missoula Plan also includes important call signaling and call record rules that address the "phantom traffic" problem which has plagued both rural telephone companies and honest service providers that pay appropriate access charges for termination of their traffic.

The "phantom traffic" problem refers to the intentional or inadvertent stripping of carrier and location information from call records, such that terminating access charges cannot be billed to the originating carriers responsible for the affected calls. As a result, a growing proportion of traffic received by rural ILECs over common trunks from access tandems cannot be identified and billed. ITCI understands that the problem affects as much as 15-to-20 percent of the traffic terminated by some rural ILECs.

The Missoula Plan seeks to eliminate "phantom traffic" by requiring the delivery of accurate call records to both intermediate and terminating carriers, providing a uniform method for record exchange, and prescribing serious consequences and penalties for non-complying service providers.

ITCI urges the expeditious adoption and vigorous enforcement of the Missoula Plan's "phantom traffic" proposals. In fact, ITCI believes that these measures can and should be adopted and enforced before the remainder of the Missoula Plan is implemented, for they are needed to discourage and eliminate questionable and downright unethical tactics employed by some carriers to gain unfair and unwarranted advantages in the competitive market place.

If and when all terminating traffic can be properly identified and billed, the increased volume of billable terminating access minutes will allow per-minute interstate and intrastate access rates to be reduced. Equally important, the elimination of "phantom traffic" will promote fair and equitable competition among all interexchange service providers, and will eliminate the substantial competitive disadvantages suffered by honest service providers vis-a-vis those who currently misidentify their traffic to evade or avoid access charges.

VI

The Missoula Plan Contains Appropriate Protections for Rural Telephone Companies and Customers

The Missoula Plan contains "Covered Rural Telephone Company" provisions, including a "Modified Rural Transport Rule" intended to eliminate disputes over the application of "transit" costs to the termination of local traffic through an intermediate carrier. This rule is a compromise that should avoid most such "transit" disputes and the costs associated with them. ITCI supports these Covered Rural Telephone Company provisions.

VII

Rural CLECs Should Be Classified as Track 3 Carriers

The one modification that ITCI would make to the proposed Missoula Plan is to classify rural CLECs as Track 3 carriers rather than Track 1 carriers.

Section 61.26 of the Commission's Rules presently distinguishes between CLECs serving rural areas and CLECs serving larger and more populous areas.[1] This permits rural CLECs to charge higher interstate access rates in order to recover their higher investment and operating costs. As proposed, the Missoula Plan does not appear to preserve any distinction or protection for rural CLECs, but rather appears to classify all CLECs as Track 1 carriers. This treatment will reduce the access rates that rural CLECs may charge, and preclude recovery of their lost access revenues from the Restructure Mechanism. It will seriously impair the ability of rural CLECs to offer competitive telecommunications and information services (including advanced services) in long-underserved rural communities.

ITCI urges that the Missoula Plan, as adopted, retain the existing distinction for rural CLECs. They should be classified as Track 3 carriers, allowed to maintain their current interstate access charges, and made clearly eligible to receive funding from the Restructure Mechanism to offset decreases in their intrastate access rates.

[1] Section 61.26(a)(6) of the Commission's Rules defines a "Rural CLEC" as one that does not serve any end users located within either (i) an incorporated place of 50,000 inhabitants or more; or (ii) an urbanized area.

VIII

Conclusion

ITCI re-emphasizes its support for the negotiated Missoula Plan approach, including the existing package of compromise proposals before the Commission with the clarification (to classify the Restructure Mechanism as a Section 201 access mechanism) and modification (to classify rural CLECs as Track 3 carriers) proposed herein. Whereas ITCI has addressed certain matters of particular interest to its rural clients, it recognizes that the Missoula Plan is the result of long, difficult and continuing negotiations among a broad cross-section of large and small telecommunications service providers. ITCI urges the Commission and State Commissions to support the negotiated Missoula Plan approach, and looks forward to the opportunity to review and endorse a final package of compromise proposals. Finally, ITCI believes that the Commission can and should address the "phantom traffic" issue expeditiously by adopting and enforcing the currently proposed call signaling and call record provisions of the Missoula Plan while the remainder of the Plan is being negotiated and considered.

Respectfully submitted,
INTERSTATE TELCOM CONSULTING, INC.

By Bruce C. Reuber/GDD
Bruce C. Reuber, President

Interstate Telcom Consulting, Inc.
130 Birch Avenue West (P.O. Box 668)
Hector, Minnesota 55342-0668
Phone: (320) 848-6641
Facsimile: (320) 848-2466
Email: brucer@interstatetelcom.com

Dated: October 25, 2006

Interstate Telcom Consulting, Inc.
List of Participating Companies

ACE TELEPHONE ASSOCIATION

ACE TELEPHONE COMPANY OF MICHIGAN

AMHERST TELEPHONE COMPANY

BAYLAND COMMUNICATIONS, INC. (CLEC)

BAYLAND TELEPHONE, INC.

BERGEN TELEPHONE COMPANY

BERNARD TELEPHONE COMPANY

BLOOMER TELEPHONE COMPANY

BORDERLAND COMMUNICATIONS, LLC

BRUCE TELEPHONE CO., INC.

CHEQUAMEGON COMMUNICATIONS COOP., INC.

CHEQTEL COMMUNICATIONS, INC.

CHIBARDUN TELEPHONE COOPERATIVE, INC.

CITY OF BARNESVILLE MUNICIPAL TELEPHONE

CLEAR LAKE TELEPHONE COMPANY, INC.

COCHRANE COOPERATIVE TELEPHONE CO.

CTC TELCOM, INC.

DELAVAN TELEPHONE COMPANY

FARMERS INDEPENDENT TELEPHONE COMPANY

FARMERS MUTUAL TELEPHONE CO. (OHIO)

HARMONY TELEPHONE COMPANY

HILLSBORO TELEPHONE COMPANY, INC.

HOME TELEPHONE COMPANY

LAKEFIELD TELEPHONE COMPANY

LAVALLE TELEPHONE COOPERATIVE, INC.

LOST NATION-ELWOOD TELEPHONE COMPANY

MABEL COOPERATIVE TELEPHONE COMPANY

MANAWA TELEPHONE CO., INC.

MILLTOWN MUTUAL TELEPHONE COMPANY

MOUNT HOREB TELEPHONE COMPANY

NELSON TELEPHONE COOPERATIVE

NIAGARA TELEPHONE COMPANY

RICHLAND-GRANT TELEPHONE COOP., INC.

SHARON TELEPHONE COMPANY

SIREN TELEPHONE COMPANY, INC.

STATE LONG DISTANCE TELEPHONE COMPANY

THE MOSINEE TELEPHONE COMPANY

VERNON TELEPHONE COOPERATIVE, INC.

WITTENBERG TELEPHONE COMPANY