Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington DC 20554

In the Matter of

High-Cost Universal Service Support	**)**	**WC Docket No. 05-337**
	)	
Federal-State Joint Board on Universal Service	**)** **)**	**CC Docket No. 96-45**
	)	
Lifeline and Link-Up	**)**	**WC Docket No. 03-109**
	)	
Universal Service Contribution Methodology	**)** **)**	**WC Docket No. 06-122**
	)	
Numbering Resource Optimization	**)**	**CC Docket No. 99-200**
	)	
Implementation of the Local Competition Provisions in the Telecommunications Act of 1996	**)** **)** **)**	**CC Docket No. 96-98**
	)	
Developing a Unified Intercarrier Compensation Regime	**)** **)**	**CC Docket No. 01-92**
	)	
Intercarrier Compensation for ISP-Bound Traffic	**)** **)**	**CC Docket No. 99-68**
	)	
IP-Enabled Services	**)**	**WC Docket No. 04-36**

COMMENTS OF FRONTIER COMMUNICATIONS

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SUMMARY

Frontier agrees that the current Universal Service and Intercarrier Compensation mechanisms are broken and should be reformed. However, the Commission's proposal is likely to create unintended consequences, particularly for mid-size price cap incumbent ILECs. Such carriers would be required to completely reevaluate their cost structures, capital expenditures and employment, with the likelihood of reduced, rather than increased, investment in both existing and enhanced services in rural areas. In addition, rural customers along with rural carriers would bear the largest burden of lost revenue and the need to recover these revenues from other sources. The beneficiaries would be large carriers that would no longer be required to make fair contributions toward network costs. The proposal would pick clear economic winners and losers.

The five-year 100% broadband build-out requirement would put undue and irresponsible pressures on mid-size price cap ILECs and their customers. In conjunction with the near-elimination of access charges, a cap on high-cost Universal Service recovery, and a completely insufficient mechanism to replace lost revenue, the build-out requirement would not bring affordable, high-quality broadband services to rural America. Instead, it would only put at risk the rural ILECs' existing support, to the further disadvantage of rural customers.

Frontier urges the Commission to adopt the modifications recently proposed by ITTA, which would provide an equitable and balanced reform that would be much more likely to achieve the goals of Universal Service. Frontier further urges the Commission to the extent the Commission feels compelled to utilize a costing methodology for all terminating traffic, to use carrier-specific TELRIC, not a uniform estimate of marginal costs, to establish a final access charge rate. Exclusion of joint and common costs and failure to recognize an ILEC's specific costs would only produce a windfall for large carriers, while not providing ILECs with the opportunity to earn a fair return on their investment.

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COMMENTS OF FRONTIER COMMUNICATIONS

I. INTRODUCTION

Frontier Communications ("Frontier")[1] hereby submits comments in the above-captioned proceedings. Frontier appreciates the Commission's decision to provide

[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.

the various stakeholders with the opportunity to provide comment on the recently-released *Order on Remand and Report and Order and Further Notice of Proposed Rulemaking* (FNPRM) in the above-captioned dockets.[2] The Commission ambitiously is attempting to consolidate Intercarrier Compensation and Universal Service reform into a single order but in doing runs the potential of creating unintentional consequences. For example, the impacts of the FNPRM on mid-size price cap Incumbent Local Exchange Companies (ILECs) and the customers they serve would be far-reaching and drastically negative. Mid-size price cap ILECs like Frontier would have to completely reevaluate their cost structures and their capital expenditures. First, the proposed reductions to access revenues, in the absence of balanced compensating revenue streams from other mechanisms, would impair carriers' ability to effect network deployment, maintenance, and other functions necessary to ensure their viability. Second, this FNPRM potentially disrupts the affordability of service for rural consumers by making burdensome local rate increases (larger SLCs) the source of some of the access replacement revenues, with the specter of even larger rate increases to the extent the SLC increase is too small to cover the massive access revenue write downs in rural areas. By having carriers relieved of the responsibility of making fair contribution towards network costs, the solutions in the FNPRM effectively take support from rural price cap companies' customers in order to grant IXCs almost non-existing terminating access rates at the end of the transition and

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[2] *High-Cost Universal Service Support (Docket No. 05-337); Federal-State Joint Board on Universal Service (Docket No. 96-45); Lifeline and Link-Up (Docket 03-109); Universal Service Contribution Methodology (Docket No. 06-122); Number Resource Optimization (Docket 99-200); Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 (Docket 96-98); Developing a Unified Intercarrier Compensation Regime (Docket No. 01-92); Intercarrier Compensation for IP-Enabled Services (Docket No. 99-68); IP-Enabled Services (Docket No. 04-36): Order on Remand and Report and Order and Further Notice of Proposed Rulemaking,* FCC 08-262 (rel. Nov. 5, 2008).

provide them with an increased profit windfall of billions of dollars. The most prudent step towards intercarrier compensation reform is to address modifications in a manner that assures regulatory and financial parity in their application.

In the FNPRM, the Commission concludes the current intercarrier compensation regime is broken and that expanding competition and changing technology require reform. There is no controversy over this conclusion and Frontier likewise concurs that reforms to both the intercarrier compensation and Universal Service systems are needed. However, the proposals that would to virtually eliminate intercarrier compensation and freeze Universal Service high-cost support while including a five-year, 100% broadband build-out requirement would put undue and irresponsible pressures on mid-size price cap ILECs and their customers. Frontier has currently deployed broadband, at speeds above the 768k contemplated in the FNPRM, to over 90% of its customers. Under the FNPRM, the viability of future investment to the final 10% and continued investment to the existing 90% would be put at serious risk. Putting Frontier's high-cost support at risk by means of an unfunded mandate to deploy broadband service where it is not economical to do so could have a devastating impact not only on Frontier's customers' ability to access advanced services but on the economies of many of the very rural communities that rely on Frontier to provide them with services that are reasonably comparable in nature and price to the services available to consumers in the nation's most urban markets.[3] Reform, while needed, should not pick winners and losers, and should not penalize companies that have made significant investment in deploying rural broadband, yet have looked to operate efficiently in a time when revenue growth is, at best, challenging in increasingly

[3] This rural-urban comparability for both basic and advanced telecommunications and information services is one of the basic principles of the Universal Service statute, 47 U.S.C. § 254(b)(3).

competitive markets and the most difficult economic environment our nation has faced in 75 years.

Frontier believes the modifications to the proposals laid out in the FNPRM are needed, specifically modifications that address the glaring inequities to mid-size price cap ILECs. Frontier filed in support of modifications proposed by Windstream on October 28, 2008.[4] Frontier continues to support this framework, with additional modifications as recently proposed by ITTA, that look to build upon the items laid out in the Joint Statement as areas of "growing measure of consensus."[5] Frontier believes these modifications will help the industry take a big step towards reform, but to do so in a manner that is more equitable and balanced than the current Alternatives in the FNPRM.

II. REFORM MUST PROVIDE BALANCED SOLUTIONS AND NOT PREDETERMINE LOSERS

A. ITTA Proposal

In order to be successfully accomplished and to be sound public policy, any solution to intercarrier compensation and Universal Service must look to fairly and equitably balance the interests and impacts all stakeholders. Reform that addresses the legacy public switched telephone network intercarrier compensation regime by reducing or eliminating the differences in rates for terminating voice traffic based upon type or jurisdiction of the call is a positive step. Accordingly, Frontier, along with ITTA and its

[4] *See* Ex Parte filing by Frontier Communications Corporation in CC Docket No. 01-92, WC Docket No. 05-337, CC Docket No. 96-45, WC Docket No. 06-122, WC Docket No. 99-68, WC Docket No.08-152, and WC Docket No. 07-135 (Oct. 28, 2008).

[5] Joint Statement of Commissioners Michael J. Copps, Jonathan S. Adelstein, Deborah Taylor Tate and Robert M. McDowell, *High-Cost Universal Service Support*, WC Docket No. 05-337 *et al.*, FCC 08-262 (Nov. 5, 2008).

member companies, propose the following modifications to the Alternatives in the FNPRM. The proposal is set forth below:

(a) Terminating access rate transitions

* Years 1-3: A price-cap carrier's intrastate terminating access rates shall be unified to its CALLS target rate in equal increments over three years by study area. If the local reciprocal compensation rate is above the CALLS rate it will be reduced to the CALLS level over the same transition.

* Years 4-5: Beginning in year four and continuing through year five, the unified interstate/intrastate/local rate shall be reduced to lesser of the current rate for such service or the carrier's next lower interstate CALLS target by study area pursuant to 47 C.F.R. § 61.3(qq) (*i.e.*, $0.0095, $0.0065, or $0.0055). By way of example, if a study area's current CALLS target is $0.0095, then it would move to $.0.0065 in years 4-5; if current CALLS target is $0.0055 it would stay at this level.

* The Commission shall issue a FNPRM after year 4 to determine whether additional measures are necessary. This FNPRM shall include a referral to the Federal-State Joint Board on Universal Service to address separations and other relevant matters.

(b) Alternative cost-recovery mechanism

* An Alternative Recovery Mechanism (ARM) shall be established to enable revenue replacement opportunity for revenue losses due to mandated rate reductions for ILECs.

* The ARM shall be available to non-National price-cap carriers that lack a combination of National wireless and wireline local and long-distance coverage, *e.g.*, all price cap carriers to the exclusion of AT&T and Verizon, the latter of which have advocated specific terminating rates that are presumably sufficient for themselves.

* For Years 1-3, the ARM shall equal annual revenue loss due to intrastate access rate reductions and reciprocal compensation reductions, adjusted annually to reflect access line counts on December 31 of the preceding year.

* For Years 4-5, the ARM shall equal 50 percent of the total reduction attributed to the lowest CALLS-targeted reductions rates, plus 100 percent of the cumulative total from Years 1-3.

* SLC increases shall be phased-in in equal increments during years 1-3 at $0.50 per year for residential lines. SLC increases for MLB shall be phased-in at $0.75 per year in years 1 and 2, and $0.80 in year 3. Accordingly, the total SLC increase for residential lines shall be $1.50; the total SLC increase for MLB shall be $2.30.

(c) Treatment of VoIP traffic

* Terminating access charges for non-local traffic and reciprocal compensation for local traffic shall be paid for all IP-to-PSTN traffic and originating access shall apply to all non-local PSTN-to-IP traffic in accordance with the glide path described above.

(d) Universal Service reform

* Reform of the Universal Service Fund will be achieved through adoption of the modified Broadband and Carrier of Last Resort proposal, as described in ITTA's *ex parte* filing of October 10, 2008 (Docket Nos. 96-45, 05-337).

B. The Commission Should Immediately Take Steps to Reduce Phantom Traffic.

Frontier agrees with the Commission that any reform of the intercarrier compensation regime must include a solution for phantom traffic. As Frontier has stated in prior comments,[6] dealing with phantom traffic would have many benefits, not the least of which is potentially reducing the size of the revenue recovery mechanisms that will be needed by comprehensive intercarrier compensation reform. There is little question that the network's integrity is being marginalized by carriers are that are intentionally manipulating traffic and sending it to carriers to terminate in ways that avoid the assessment of the proper or, in a growing number of cases, any access charges.

The solution that the Commission puts forward in the Alternatives as part of the FNPRM put a burden on tandem owners to make sure that traffic transiting the tandem

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[6] *See* Frontier Comments on Missoula Plan, CC Docket No. 01-92, *Developing a Unified Intercarrier Compensation Regime*, filed Oct 25, 2006.

has the proper record. There are multiple other alternatives that have been put on the record, including by Frontier, that may provide better solutions[7] but Frontier believes the Commission must take a step, and the proposed action is better than no action.

C. The Commission Should Clarify That Access Charges Apply to Non-Local VoIP.

The lack of clarity surrounding VoIP traffic is leading to growth in intercarrier disputes on VoIP originated traffic. These disputes come in multiple forms, with some parties paying interstate access and other claiming the call is local. The reality is that a VoIP call is no different from any other voice call when it transits the PSTN. An ILEC providing PSTN origination or termination of a voice call that is VoIP on the other end provides exactly the same service for a call as it does for a call that is POTS on both ends. The FCC should order that, until terminating rates are unified, when the jurisdiction of such a call can reasonably be determined, the same intercarrier compensation rates that apply to a call that is POTS on both ends should apply to the PSTN portion of the VoIP call. Where a call originates on the POTS network and terminates to a VoIP network, the Commission should clarify that the proper originating access charges apply to non-local traffic.

In many cases, there is no difficulty in determining the jurisdiction of a VoIP call. For example, VoIP service provided by cable television providers is generally fixed. At most, a subscriber might be able to move a cable television VoIP terminal adapter to another cable outlet within the same cable company's local region, but even this is a rare occurrence because cable television VoIP service is not marketed as a nomadic service.

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[7] *See* Comments of Frontier Communications on Phantom Traffic Proposal, CC Docket No. 01-92, *Developing a Unified Intercarrier Compensation Regime,* filed Dec. 7, 2006.

For these and other fixed VoIP services, the jurisdiction of the call can be determined the same way as the jurisdiction of a POTS call is determined. If it is local, reciprocal compensation (or bill-and-keep, depending on the interconnection agreement in question) should apply. If it is interexchange, then either intrastate or interstate access charges should apply depending on whether the end points of the call are intrastate or interstate.

Such a ruling will increase the amount of access charges paid by VoIP providers, especially the providers who fail to pay any compensation for their traffic, but the treatment of VoIP interexchange calls like POTS interexchange calls is fair and reasonable. In addition to providing similar treatment for similar traffic regardless of the technology used, the increased revenue from this classification of VoIP could reduce the amount of revenue that would be needed to be replaced from other sources as part of broader intercarrier compensation reform.

D. The Commission Should Recognize That Mid-Size Price Cap ILECs need Fair and Rational Access to Recovery Mechanisms Beyond SLC Increases

Frontier believes that reform that removes jurisdictional differences in rates and unifies terminating traffic over a reasonable glide path as described above is the right step. This only works where reasonable and equitable opportunities exist for revenue recovery. The Alternatives proposed in the FNPRM contemplate a burdensome, irrational and unfair test before price cap ILECs will be able to have access to recovery beyond the proposed SLC increases. This is most problematic for mid-size price cap ILECs like Frontier that do not have the interexchange and wireless networks of the largest price cap carriers. Therefore there is no ability to offset these revenue reductions with the significant access reductions that will be realized by the largest interexchange and wireless carriers. To place more of the cost burden directly on the terminating LECs and their customers without equitable recovery would have far reaching implications. It would stifle investment in rural America, limit broadband deployment and cost jobs as these companies are forced to find ways to remain profitable. The approach of putting the most severe burdens on rural price cap carriers and their customers also fails to recognize the benefits that other carriers obtain from the wireline network. These benefits range from access to the LECs' end-users to the critical 911 network utilized by all carriers.

The Commission should recognize the challenges of mid-size price cap ILECs and the continued need to ensure that the costs of the network continue to be recovered. The FCC should modify the current Alternatives to allow access to recovery mechanisms beyond the SLC as outlined above. This would provide a needed and balanced component of reform. The modification proposed by the ITTA and supported by Frontier contemplates that this support would reduce along with line loss, and the percentage of revenue above the amount of SLC increases that could be recovered would be reduced in years 4 and 5.

This proposal, by limiting the amount of terminating rate reductions and reducing the recovery mechanism payments over time, balances the need to continue to provide service in rural and high costs areas with the need to control growth of the Universal Service fund. The Alternatives fail to address the problems of areas served with low customer densities and networks with long transport routes that are dependent on the tandem of others. These cost differences originally created the need for higher access charges in these areas and, under the Alternatives proposed in the FNPRM, create a need for access to Universal Service to help offset access reductions. Providing stable and sufficient revenue recovery for a reasonable period will allow companies to adjust their businesses in way that enable them to avoid many of the unintended consequences.

The Commission must reject the position in the FNPRM that companies that pay dividends to shareholder should have a different and unreasonable test placed upon them before they can access any additional Universal Service funding.[8] Besides being unfair[9] and putting consumers in rural America at risk, it fails to recognize the reality of equity markets. This position turns price cap regulation on its head, by penalizing companies that accepted the regulatory compact that allowed them to keep the benefits of operating efficiently in exchange for agreeing to caps on their prices. In effect, the special and unfavorable rule for mid-sized price cap carriers turns these carriers into rate-of-return carriers whether or not they elect to return to rate-of-return regulation on a formal basis.

E. The Commission Should Implement Universal Service Reform That Targets Support to the Highest Cost Areas.

The FNPRM proposes in its Alternatives an admirable but misguided attempt to increase broadband deployment to all Americans, including those in the most difficult to serve and highest cost areas. The concept of using Universal Service to explicitly fund broadband deployment is a concept that is overdue. To attempt to accomplish this through an unfunded mandate versus providing additional funding is flawed. To add the threat of reverse auctions to companies that are seeing declines in their Universal Service funding is misguided, at best. The Commission would require all recipients of high-cost

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8 Appendix A at ¶ 324.

9 he primary reason that dividend returns for companies like Frontier are currently high is that their stock prices have sunk to extremely low levels. It is manifestly unfair and Draconian to penalize investors for high dividend returns that stem from the punishment that they have already taken in the form of share price losses.

support to offer broadband access at a minimum of 768k to all customers within five years as a condition to receiving high-cost support.[10] The Commission would cap the overall high-cost support fund as of December 2008, and for those study areas where the ILEC makes the 100% broadband commitment freeze each ILEC's individual study area annual high-cost support, also as of December 2008.[11] Failure to make the commitment or to certify compliance with these buildout requirements would put the support for the ILEC study area at risk through a reverse auction.

Reverse auctions have previously been proposed and commented upon.[12] Frontier remains extremely concerned that the use of reverse auctions in the ILEC high cost funding process would have negative impacts on the companies that Universal Service funding was designed to support. By tying support to a broadband commitment that will likely be significantly more expensive than the declining amounts of support received by companies like Frontier, it is likely that this policy will lead to less broadband deployment not more. Frontier already provides broadband to 90% of its customers, but it is the final 10% that will be the most costly. Current high-cost support is less than 3% of Frontier's total revenues and that number has continued to decline. While Frontier is continually reviewing ways to deploy broadband more cost effectively, the Alternatives in the FNPRM would force Frontier to make a decision whether it makes sense to give up its high-cost support since it would only make up a small percentage of what the capital expenditure requirement to reach the 100% market. It is unlikely that any other party

[10] Appendix A at ¶ 4.

[11] Appendix A at ¶ 16.

[12] *See* Comments of Frontier Communications, WC Docket No. 07-267 and CC Docket No. 96-45, *High-Cost Universal Service Support; Federal-State Joint Board on Universal Service*, filed October 10, 2006 and April 17, 2008.

would agree to come in and build out to those unserved customers when it would only be eligible to receive the same support the incumbent was receiving in December 2008.

In response to Alternative B in the FNPRM, Frontier incorporates by reference its comments filed October 10, 2006 in this proceeding. As previously noted, the application of reverse auctions to the ILEC support mechanism would guarantee that support would no longer be predictable, in complete violation of 47 U.S.C. §254(b)(5). By definition, the results of periodic auctions are not predictable. It is also probable that in some areas reverse auctions would result in support no longer being sufficient, because the ILECs losing support would no longer be able to maintain rates or services comparable to those in urban areas, a further violation of both §254(b)(3) and §254(b)(5). A wireless carrier winning such an auction cannot be counted on to supply voice or broadband services comparable in either quality or price to the wireline services available in urban areas. Especially for data services, wireless services are less robust, slower and considerably more expensive than their urban wireline counterparts. Wireline carriers would be unlikely to bid in such an auction. If ILEC DSL technology is not economical, neither cable modem nor any other wired technology is likely to be any more economical.

The Commission's ultimate goal in this proceeding should be to advance and maintain Universal Service and to ensure adequate funding to deploy broadband to the high-cost areas in the nation, not to minimize the size of the fund by damaging Universal Service.

As an alternative, to advance the goal of increased broadband deployment to the highest cost areas and to ensure that support is targeted to the areas that truly need it, Frontier urges the Commission to adopt the proposal from ITTA that looks to blend the

Embarq Broadband and Carrier-of-Last-Resort Support (BCS) Solution filed by Embarq on September 18, 2008, as modified by the inclusion of the Qwest Broadband Pilot Program proposed on July 9, 2007.

By adopting this combined proposal the Commission would accomplish USF reform in a manner that bring benefits to consumers in areas served by price cap local exchange carriers, and the Qwest Broadband Pilot would increase broadband availability in unserved areas nationwide.

This proposal would more appropriately target support to the wire centers that most need it but would do so in a way that would not have a significant impact on the overall size of the fund. It would instead be funded by using dollars freed up from other areas, including the elimination of the same support rule and the elimination of past access replacement support (Interstate Access Support and Interstate Common Line Support) that is currently being paid to wireless Competitive Eligible Telecommunication Carriers (CETCs). By directly supporting high-cost loops in a more granular and targeted way the Commission will efficiently ensure high-cost support is distributed in price cap ILEC study areas in a manner that is "specific, predictable and sufficient . . . to preserve and advance universal service."[13]

In addition to the advantages of targeted support, the Broadband Pilot Program would provide a more rational solution to broadband deployment than the Alternatives laid out in the FNPRM. By creating specific, explicit funding for the deployment of broadband to unserved areas, the Commission will acknowledge the need for funding to provide broadband to most difficult to reach Americans. Explicit funding as opposed to

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[13] 47 U.S.C. § 254(b)(5).

placing unrealistic and uneconomical commitments on existing high-cost funding will create incentives for companies to spend the extensive capital required to deploy broadband to many of the nation's unserved areas.

III. ANY COSTING METHODOLOGY MUST INCLUDE JOINT AND COMMON COSTS

The Commission in its review of intercarrier compensation tentatively concludes that common costs should no longer be included in calculating the incremental cost of call termination.[14] Frontier disagrees with this conclusion based on the following reasoning, which demonstrates that the failure to include joint and common costs leads to inefficient pricing, inadequate recovery, higher rural rates and potential declines in the quantity and quality of services available to rural consumers.

The recovery of a firm's total cost is critical to its economic survival in the long run. Economic forward looking total costs include both fixed and variable costs. Fixed costs do not vary as the volume of a service provided changes. Fixed costs can be split into service-specific costs, shared costs and common costs. Service specific costs are costs the firm incurs to provide a specific service. The firm would avoid these costs altogether by ceasing production of the service. Shared costs are costs the firm incurs to provide a group of services. Shared costs do not vary with the level of any individual service in the group and do not vary with decisions to produce or cease producing any one service or subset of services within the group. Shared costs can be avoided only when the firm no longer produces any of the services in the group. Common costs are fixed

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[14] Appendix C at ¶ 254.

costs shared by all services produced by the firm. These costs are not avoidable in the long run.

Variable costs vary with the volume of service provided. Two measures of variable cost are incremental cost and marginal cost.[15] Incremental cost is usually considered over the long run. Long-run incremental cost (LRIC) is the cost of producing a given increment of output, including an allowance for an appropriate return on capital to reflect the costs of financing in facilities as well as the capital costs of those facilities. Total-service long run incremental cost (TSLRIC) is a special case of incremental cost, where the relevant increment is the total volume of the service in question and the time perspective in the long-run. TSLRIC by definition, includes service specific costs and is measured relative to the capacity of a network element or service.[16] Total Element Long Run Incremental Cost (TELRIC) is a costing methodology which includes shared and common costs in addition to service specific costs.[17]

Efficient prices typically consist of recovery of the variable or incremental costs of the service plus a mark-up to recover that service's fixed costs, including any shared or common costs. Absent efficient pricing of its services, including terminating access services, a firm will not generate the necessary resources to attract and retain investor capital in the long run. In a competitive market such as the access market, the efficient price of a service provided by a multiple service operator (ILEC) must be equal to the full

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[15] Incremental cost is the additional cost of producing a given increment of output, while marginal cost is the incremental cost of producing one additional unit of output.

[16] TSLRIC represents the additional cost incurred by a firm when adding a new service to its existing lineup of services, holding the quantities of all those other service constant. For an existing service, TSLRIC measures the decrease in costs associated with discontinuing supply of the service entirely, other things being constant.

[17] Also TELRIC is measured relative to the actual demand of a given network element or service as compared to TSLRIC which is measured relative to capacity.

economic cost of the service. Full economic costs include incremental costs and an appropriate contribution towards shared and common costs. Efficient pricing using full economic costs of a service are in direct alignment with the overall goals of regulation: (1) to prevent the exercise of market power (fair and reasonable pricing encourages prices that one would observe in a competitive environment); (2) to achieve economic efficiency (providing firms with the proper incentives to invest in new technologies and deploy new services); (3) to promote competition; (4) to minimize regulatory cost; (5) to ensure high service quality; and (6) to generate compensatory earnings (providing the regulated company with the opportunity to earn a reasonable profit and to achieve compensatory earnings). If there is no opportunity to achieve compensatory earnings, the firm may be forced to reduce investment -- or abandon the market altogether -- and the quantity and quality of service may decline.

To the extent the Commission determines that a specific costing methodology is appropriate to determine a carrier's unified terminating rate, Frontier proposes that the Commission use the Total Element Long Run Incremental Cost (TELRIC) costing methodology when determining charges for the transport and termination of traffic on another carrier's network. This costing methodology has been deemed appropriate by the Commission in the past for setting interconnection and unbundled network element rates pursuant to Section 252(d)(1) of the Telecommunications Act, where Congress specifically directed the Commission to consider a "reasonable profit" in the computation of just and reasonable rates. TELRIC methodology complies with the goals of regulation, including establishing a competitive price based on the most efficient forward-looking network design, but still permits the firm to include in its cost of providing services, a proportionate share of its joint and common costs. As discussed above, the risks of failure to allow carriers an opportunity to recover their true economic costs will far exceed any marginal benefits passed on in the form of below-cost prices to interconnecting carriers. By not using a costing methodology that includes the common costs in the price of services, the burden of fixed common costs will be placed squarely on the shoulders of end user customers who will have to pay higher local service rates at the expense of lower access rates to interconnecting carriers. In addition, the use of a methodology like TELRIC will allow rates to be established on a per carrier basis, accounting for the unique differences between companies and the cost differences between rural and urban networks, due to both loop and transport distances.

IV. CONCLUSION

Frontier believes that the Commission is appropriately considering reform of both intercarrier compensation and Universal Service. These issues individually are extremely complex; together they bring consequences that could have far reaching impacts to companies and consumers. Frontier appreciates the decision that the Commission reached in giving stakeholders the ability to comment on this FNPRM. It increases the likelihood that any decisions that are reached will be made with a greater understanding of the impacts.

The impacts of the current Alternatives in the FNPRM, if unchanged, would be far reaching and extremely negative to mid-sized price cap ILECs. This reach would go beyond revenue reductions. These companies would have to completely overhaul their capital and operating expense structures to remain profitable. This would carry potential serious consequences for customers and employees of these companies.

Frontier asks the Commission to adopt the proposal of ITTA for mid-size price cap ILECs. These steps would be significant, yet would provide the proper balance in the Commission's attempt to reform the current intercarrier compensation and Universal Service systems. In addition, the Commission should take action to ensure that enforceable phantom traffic rules are adopted. Finally, any decisions on costing methodologies need to consider the need for a company to recover the investment in the network from all parties that use the network. These costs must continue to include common costs to allow the differences in each carrier's network to be appropriately recovered. To that end, TELRIC would be a better methodology than the "additional cost" standard proposed in the FNPRM.

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CERTIFICATE OF SERVICE

WC Docket No. 05-337 *et al.*

I, Gregg C. Sayre, do certify that on November 26, 2008, the aforementioned ***Comments of Frontier Communications*** were electronically filed with the Federal Communications Commission through its Electronic Comment Filing System and were electronically mailed to the following:

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