

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 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 IOWA TELECOMMUNICATIONS SERVICES, INC.

Iowa Telecommunications Services, Inc. (“Iowa Telecom”) hereby files these comments in response to the Federal Communications Commission’s (“Commission’s” or “FCC’s”) Further Notice of Proposed Rulemaking released on November 5, 2008 in the above-captioned

proceedings.¹ The *Further Notice* requests comments on three separate proposals.

Cumulatively, the three proposals contain proposed rules addressing the global reform of intercarrier compensation and universal service. In the order which the *Further Notice* accompanied, the Commission chose not to adopt the November 2007 Recommendation of the Federal-State Joint Board on Universal Service,² but did address some of the universal service issues raised in three Notices of Proposed Rulemaking that were issued by the Commission in March 2008.³

As the incumbent local exchange carrier (“ILEC”) in three price cap rural study areas in Iowa, Iowa Telecom is very concerned that existing Universal Service Fund (“USF”) rules do not adequately “preserve and advance” universal service, as required by 47 U.S.C. § 254.

Specifically, Iowa Telecom urges the Commission to adopt Embarq’s Broadband and Carrier-of-

¹ *High-Cost Universal Service Support*, WC Docket No. 05-337, et al., Order on Remand and Report and Order and Further Notice of Proposed Rulemaking, FCC No. 08-262 (rel. Nov. 5, 2008)(“*Global Reform FNPRM*” or “*Further Notice*”).

² *High-Cost Universal Service Support*, WC Docket No. 05-337, 22 FCC Rcd 20477, 20506 (Fed.-St. Jt. Bd. USF, 2007)(“*Comprehensive USF Reform Recommended Decision*”). Notwithstanding, the Order declines to implement the Recommended Decision, but instead expresses interest in exploring further the issues contained in that Decision. *Global Reform FNPRM* at ¶ 30.

³ *See High-Cost Universal Service Support*, WC Docket No. 05-337, 22 FCC Rcd 20477, 20506 (Fed.-St. Jt. Bd. USF, 2007)(“*Comprehensive USF Reform Recommended Decision*”). *See also High-Cost Universal Service Support; Federal-State Joint Board on Universal Service*, Notice of Proposed Rulemaking, WC Docket No. 05-337; CC Docket No. 96-45, 23 FCC Rcd 1531 (2008 (“*Joint Board Comprehensive USF Recommended Decision NPRM*”)); *High-Cost Universal Service Support; Federal-State Joint Board on Universal Service*, Notice of Proposed Rulemaking, WC Docket No. 05-337; CC Docket No. 96-45, 23 FCC Rcd 1467 (2008)(“*Identical Support Rule NPRM*”); *High-Cost Universal Service Support; Federal-State Joint Board on Universal Service*, Notice of Proposed Rulemaking, WC Docket No. 05-337; CC Docket No. 96-45, 23 FCC 1495 (2008) (“*Reverse Auctions NPRM*”)(collectively “*USF Notices*”).

Last-Resort (“BCS”) Solution, as supported by the Independent Telephone & Telecommunications Alliance (“ITTA”). Iowa Telecom also urges the Commission to adopt the proposals of ITTA and US Telecom Association (“US Telecom”) in this proceeding as a way to achieve positive benefits for consumers and rural carriers.

I. INTRODUCTION

Iowa Telecom is dedicated to providing excellent service to its rural and small town customers, which it acquired from GTE. Since 2000, Iowa Telecom has invested more than \$170 million to modernize its infrastructure and make it capable of providing technologically advanced voice and broadband services. Although this investment has produced excellent results for Iowans, the company has not been able to invest at levels which would accelerate broadband use in many of its rural exchanges. Although broadband service is available in every Iowa Telecom exchange, roughly one quarter of Iowa Telecom’s access lines are not DSL-qualified due to their copper loop lengths. Further, many of the customers who are DSL qualified are limited to maximum download speeds of below 1.0 mbps.⁴ These conditions are likely to remain for some time in the future absent federal universal service support.

II. THE *FURTHER NOTICE*’S PROPOSALS PROVIDE A GOOD FRAMEWORK FOR RESOLUTION OF INTERCARRIER COMPENSATION AND UNIVERSAL SERVICE REFORM, BUT ARE MISSING SIGNIFICANT DETAILS NECESSARY TO MAKE REFORM WORKABLE.

The *Global Reform FNPRM* establishes a ten-year transition period to equalize currently disparate intercarrier rates, but dramatically reduces terminating rates for all types of intercarrier compensation. It forces states to utilize a new incremental cost standard based on a hypothetical

⁴ In fact, large portions of Iowa Telecom’s distribution network require improvement, whether or not broadband is provided over such facilities.

network to establish one terminating rate in each state, regardless of the costs of any individual carrier. The proposals described in Appendix A would mandate increases in subscriber line charges (“SLCs”) and would compensate only rural rate-of-return carriers for a loss of revenues from such rate adjustments.⁵

The proposal is to be commended for its demonstrated willingness to seek a solution to uneconomic arbitrage, and providing a framework within which to attain reform. Its lengthy implementation period is significant; reform of this magnitude will take some time for carrier’s to adjust to and for consumers to reasonably accommodate. The proposal also makes some important rulings on issues which Iowa Telecom believes should be made, such as establishment of a new USF contribution mechanism based on numbers,⁶ elimination of the identical support rule,⁷ and adoption of “phantom traffic” rules.⁸ Regardless, details of the proposal must be changed in order to protect consumers from significant rate increases and adequately compensate carriers for constructing and maintaining, and ensure investment in, rural networks.

The proposal’s details are not workable for five reasons. First, the proposal fails to address insufficient universal service support for certain carriers under the current system. Second, it forces adoption of very low (near zero) intercarrier compensation rates, despite the fact that these rates are below cost for many carriers. Third, it fails to provide adequate

⁵ See, e.g., *Global Reform FNPRM*, Appendix A, ¶¶ 159, *et seq.*

⁶ See, e.g., *Global Reform FNPRM*, Appendix C, ¶¶ 88, *et seq.*

⁷ See, e.g., *Global Reform FNPRM*, Appendix C, ¶¶ 51, *et seq.* ITTA has pointed out some problems with the phantom traffic proposal which would be a helpful modification to Appendix C’s proposal. Comments of Independent Telephone & Telecommunications Alliance, WC Docket Nos. 05-337, *et al.* (Nov. 26, 2008)(“ITTA Comments”).

⁸ *Global Reform FNPRM*, Appendix A, ¶¶ 326, *et seq.*

alternative recovery mechanisms, particularly for price cap carriers. Fourth, it eliminates access charges from IP-enabled service providers, even though they utilize the network in the same manner as other voice carriers. Fifth, it imposes a one hundred percent broadband mandate for rural ILECs without providing an adequate source of compensation to accomplish such a mandate. These serious policy and legal deficiencies must be rectified before a global solution is adopted.

ITTA has submitted a workable framework to achieve reform, which the Commission should adopt.⁹ ITTA would require rate unification over a reasonable period of time, establish workable alternative cost recovery systems, and address the deficiencies in the current USF mechanism. Iowa Telecom also supports the proposals made by USTA in its comments, because they provide helpful guidance to the Commission in formulating approaches that should be taken in the reform process.¹⁰ Iowa Telecom urges the Commission to adopt these proposals as soon as possible in order to begin the process of correcting uneconomic arbitrage that has been plaguing the industry, placing carrier cost recovery at risk, and thus harming consumer interests. Consumers would benefit from the proposal by permitting them to enjoy reasonably priced voice and broadband communications at comparable prices and availability as compared to urban areas of the country. Indeed, adoption would further Section 254's universal service mandates.¹¹

⁹ ITTA Comments.

¹⁰ Comments of US Telecom, WC Docket No. 05-337, et al. (Nov. 26, 2008)(“US Telecom Comments”).

¹¹ 47 U.S.C. § 254.

III. THE FCC MUST ADDRESS THE DEFICIENCIES IN THE EXISTING UNIVERSAL SERVICE SYSTEM.

Universal service high-cost support has been essential to ensuring that rural Americans receive modern and advanced telecommunications. Telephone companies serving rural America have utilized high-cost funds to modernize their networks to extend their reach into expensive areas and to install and maintain network infrastructure to provide both voice and broadband services. A study by Balhoff, Rowe, and Williams established this close nexus between existence of the funds and telecommunications development.¹² The FCC should continue this policy mechanism that is so important to building vital network infrastructure.

The *Global Reform FNPRM* proposes to require all ILECs to commit to serve one hundred percent of its subscribers with broadband communications within five years.¹³ Iowa Telecom recognizes the importance of broadband services to rural Americans and appreciates the policy behind such a mandate. However, the Commission has failed to provide an adequate support mechanism to attain that goal. And it has failed to address the existing problem that certain carriers, such as Iowa Telecom, receive no high-cost loop support to help build out rural networks to the most remote customers, the very mandate contained in Section 254 of the Act, and the very mandate that is made in the broadband proposal.

Some FCC rules stand in the way of supporting and encouraging investment in rural network infrastructure. For instance, a rural telephone company may only receive universal service support if its net investment exceeds the “national average,” a figure that is indexed to a

¹² M. Balhoff, R. Rowe, and B. Williams, *Universal Service Funding: Realities of Serving Telecom Customers in High-Cost Regions* (Summer 2007).

¹³ *Global Reform FNPRM*, Appendix A, at 22.

much higher level to fund support only below a certain cap.¹⁴ If investment in network infrastructure has been inadequate for years, such as has been the case with exchanges sold by large, urbanized companies, the purchased operations would not be eligible to receive high-cost loop support because their loop costs are far below the national average. Even millions of dollars of investment often is insufficient to bring the carrier's average costs above the national average and the safety valve rules reimburse companies for new investment at a small fraction of needed investment.¹⁵ Because of the way the rural mechanism formula works, the company operating in a high-cost area which has invested on an annual basis for a number of years would exceed the national average loop cost.

Although mid-size companies should make reasonable investments in these companies' infrastructure, they cannot rationally do so at the levels necessary to bring modern infrastructure and services to their customers. The nature of rural properties, given their small subscriber base and low density, makes it impossible for subscribers to fund all of these investment costs on a self-sufficient basis, even if they charge local exchange service rates at or slightly above the national average level.

¹⁴ See 47 C.F.R. §§ 36.601-04 and 36.621-31. In light of this, the national average loop cost figure used as a threshold for gaining support increases dramatically from year to year pursuant to 47 C.F.R. §§ 36.622 and 36.601(c). For funding in calendar year 2008, this average loop cost, including the indexed threshold, was over \$350 dollars, whereas the uncapped cost per loop is only \$240.

¹⁵ Section 34.305(d) makes a carrier eligible to receive Safety Valve Support only if it is eligible for USF in the first place, regardless of the level of added investment it makes after the purchase. And even if the carrier is initially eligible, it only receives a small percentage of its actual investment. 47 C.F.R. § 34.305(d).

One way to address this problem as part of permanent USF reform would be to adopt Embarq's BCS Solution.¹⁶ The BCS Solution would reprogram existing, no-longer-needed, USF amounts and provide proportional loop support to price cap carriers targeted to their most costly wire centers. These high-cost wire centers currently receive very little support today, and none in Iowa Telecom's territories, which remain a gaping hole in the Commission's implementation of Section 254. The BCS Solution uses existing data and mechanisms of the Commission, so would be easy to implement. The BCS Solution also allows competitive carriers to gain a portion of the BCS support, if they agree to the same minimum standards that the Commission would adopt for all recipients of support under the BCS plan. This proposal is supported by other industry members, such as ITTA.¹⁷

The need to fund such high-cost wire centers, however, is critical now. In these treacherous economic times, funding sources have dried up, but consumer interest in receiving modern advance services has not. Therefore, if the Commission cannot adopt the plan promptly, it should grant the current waiver Iowa Telecom has on file which requests treatment as a non-rural carrier for purposes of receiving high-cost loop support.¹⁸ Iowa Telecom's waiver petition

¹⁶ See Letter from David C. Bartlett, Embarq, to Chairman Kevin J. Martin, FCC, et al., WC Docket Nos. 05-337, et al. (Sept. 18, 2008), *attaching* A Plan To Promote Broadband Deployment And Reform High-Cost Support Without Increasing Overall USF Levels: *The Broadband and Carrier-of-Last-Resort Support (BCS) Solution* (Sep. 18, 2008).

¹⁷ See ITTA Comments. ITTA makes one modification to its support. Instead of funding broadband commitments pursuant to the BCS proposal, it would adopt the Qwest plan to establish a \$ 500 million pilot program to fund broadband. Iowa Telecom supports this modification as well.

¹⁸ Iowa Telecom Petition for Interim Waiver of the Commission's Universal Service High-Cost Loop Support Mechanisms, WC Docket No. 05-337 (filed May 8, 2006).

has been pending for over two years, and thus the Commission should act on its request promptly.

IV. CONCLUSION

Iowa Telecom applauds the Commission for moving forward with intercarrier compensation and universal service reform. However, as described above, the Commission should modify its proposals consistent with the reasonable and thoughtful proposals of ITTA and USTA. The Commission should establish a more reasonable glide path to unified rates, and adopt a workable alternative cost recovery system. And it should adopt the Embarq BCS Solution, as modified by ITTA, to address the critical needs of high-cost loop support for rural price cap carriers, or in the alternative, Iowa Telecom's pending waiver.

Respectfully submitted,

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Certificate of Service

I, Gregory J. Vogt, do hereby certify that I have on this 26th day of November 2008 caused a copy of the foregoing “Comments of Iowa Telecommunications Services, Inc.” to be served by electronic mail upon the following:

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