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December 4, 2008

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: Developing A Unified Intercarrier Compensation Regime, CC Docket No. 01-92; Intercarrier Compensation for ISP-Bound Traffic, WC Docket No. 99-68; Federal-State Joint Board on Universal Service, CC Docket No. 96-45; Universal Service Contribution Methodology, WC Docket No. 06-122; High-Cost Universal Service Support, WC Docket No. 05-337; Lifeline and Link-Up, WC Docket No. 03-109; 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; and IP-Enabled Services, WC Docket No. 04-36

Dear Ms. Dortch:

Mike Rhoda (Senior VP Government Affairs) and I, both from Windstream, met on December 3, 2008 with Scott Deutchman, Legal Advisor to Commissioner Michael Copps, to discuss universal service and intercarrier compensation reform. The conversation was consistent with the positions Windstream has taken previously in the above-referenced proceedings. The attached summary of Windstream's comments was also presented.

Please feel free to contact me if you require additional information.

Sincerely,

/s/

Eric Einhorn

Attachment

cc: Scott Deutchman

Private Investment Is Vital to Broadband Deployment to Rural Consumers.

- Windstream has reached 85% of its customer base with broadband, up from 76% in late 2006. It now has the highest customer subscription rate (over 30% total; 48% residential) among its mid-sized carrier peers and the RBOCs. This performance is especially impressive given Windstream serves primarily rural regions (20 subscribers/sq. mile), but federal high-cost support comprises less than 3% of its total revenues.
- To achieve these results, Windstream has invested hundreds of millions of dollars to deploy broadband aggressively in rural areas. Windstream needs access to capital markets to raise private investment that allows it to deploy boradband to the rural areas it serves.
- Investors in mid-sized carriers – which include many public employee pension funds and insurance companies – are drawn to the carriers due to their historic cash flows, ability to pay dividends regularly, and consistent levels of profitability.
- A mid-sized carrier's stock is similar to a bond in that investors do not expect stock appreciation over the long term, but rather obtain returns primarily through dividends.

To Ensure Continued Private Investment in Rural Regions, the FCC Should Adopt Fair and Balanced Intercarrier Compensation Reforms that Address the Areas Where Commissioners Have Identified a "Growing Measure of Consensus."

- Windstream urges the FCC to adopt the following approach to rate reductions:
  (1) move, intrastate rates to interstate CALLS target rates by study area and then to the lowest CALLS rate of $0.0055;
  (2) over five years;
  (3) with a meaningful opportunity for mid-sized ILECs to recover a significant amount (but not necessarily all) intercarrier revenue reductions, offset by reasonable SLC increases (e.g., $1.50 res. & SLB /2.30 MLB).
- This approach is consistent with the precedent set by *CALLS* and *MAG* – both of which provided a reasonable transition period and recovery mechanism, offset by SLC increases.
- Windstream also asks the FCC to clarify that access and reciprocal compensation is due for IP/PSTN traffic, and to adopt traffic labeling rules to eliminate phantom traffic.

Adopting the Proposals Considered in the FNPRM Would Harm Consumers By Causing Dramatic Reductions in Carriers' Revenues and Scaring Off Further Private Investment.

- The proposals take issue with the fact that mid-sized carriers "consistently are paying dividends." But without dividends, investors would have little reason to maintain their stock, and mid-sized price cap carriers, in turn, would have severely diminished access to debt and equity investments needed to fund their operations, including voice and broadband services.
- Windstream projects that proposed reforms would cause it to lose hundreds of millions of dollars in revenues, with little or no ability to recoup much of these substantial losses – a significant blow given its *total* revenues already are flat to declining.
- Since high fixed costs limit carriers' ability to manage cash expenses, these proposed revenue reductions could jeopardize the financial stability of mid-sized carriers and directly harm consumers. Even relatively small changes in revenues will result in disproportionately large impacts on financial stability, including substantially reduced equity values and operating cash flows, and increased cost of access to equity and debt capital.
- The impact of any revenue reductions is even more heightened now that the U.S. is experiencing one of the largest economic crises in its history.

The Proposed Additional Costs Standard Is Unwarranted and Irrational.

- A new additional costs standard is not needed. The current standard is adequate and has been extensively litigated. If the FCC wants to consider changing it, further review and comment is needed.
- The proposed new standard would result in an irrational assignment of switching costs. Currently joint and common costs that are allocated to switching services are recovered from all users who generate switched traffic. But under the proposed new standard, more switching costs would be classified as joint and common, and carriers would not be allowed to recover any of these costs from carriers using their switched network to terminate calls. Costs, therefore, would be shifted to consumers who purchase services like broadband that may not generate any switched traffic.
- The proposed new standard is inconsistent with longstanding intercarrier compensation and universal service decisions that have determined that mid-sized and small carriers serving high-cost, rural regions incur substantially different costs than large carriers – with different economies of scale – serving lower-cost, urban regions. The resulting uniform, near-zero intercarrier compensation rates would not reflect the cost of serving high-cost areas and would not permit sufficient cost recovery.

The FCC Would Be Unable to Prevent Flight of Private Investment with a Promise of Possible, Supplemental Support in the Future.

- The proposals would allow supplemental support only after the FCC considered all of a mid-sized carrier's regulated and unregulated revenues and found that the carrier was unable to return a "normal profit." This "opportunity" effectively would require carriers to offset reduced intercarrier compensation with broadband revenues before they could be eligible for support. Thus, a carrier's incentive and ability to further deploy broadband and serve high-cost areas would be significantly reduced.
- And by the time any Commission decision would be made (even if a carrier could meet the proposed draconian standard), a carrier already would have suffered significant losses – both in terms of short-run reductions in intercarrier revenues and liquidation of equity investment.

Proposed Reforms to the Universal Service System Are Insufficient and Could Exacerbate Existing Problems with High-Cost Support.

- The proposal to condition receipt of existing universal service support on a carrier's commitment to offer broadband to 100% of its customers would unduly benefit overfunded carriers, while jeopardizing the broadband deployment efforts of underfunded carriers that serve truly high-cost areas. Instead, the Commission should target forward-looking support to high-cost areas.
- The Lifeline/Link Up Pilot Program would fail low-income, rural consumers. Proposed carrier eligibility criteria need to be revised so broadband providers serving rural consumers can participate even if currently it is technically and economically infeasible for the providers to deploy broadband to all of their customers.
- If the Commission were to adopt a new contribution methodology based on telephone numbers, there is no need to complicate matters by adopting a hybrid mechanism as an interim measure. The new methodology should be extended to all other funds that use Form 499 – e.g., TRS, NANPA, and LNP.