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

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
A National Broadband Plan for Our Future	)	GN Docket No. 09-51
	)	
Establishing Just and Reasonable Rates for Local Exchange Carriers	)	WC Docket No. 07-135
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	
Developing an Unified Intercarrier Compensation Regime	)	CC Docket No. 01-92

REPLY COMMENTS OF THE MINNESOTA INDEPENDENT COALITION

The Minnesota Independent Coalition ("MIC")[1] submits the following Reply Comments in response to the Notice of Proposed Rulemaking released February 9, 2011, in the above-captioned proceedings.[2]

The MIC has concurred in the Comments filed April 18, 2011, by the National Exchange Carrier Association, Inc., the National Telecommunications Cooperative Association, the

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[1] The MIC is an unincorporated association of over seventy-five small, Incumbent Local Exchange Carriers ("ILECs") providing local exchange service to primarily rural areas in Minnesota. MIC members are responsible for telecommunications service to customers throughout 50% of Minnesota's land mass - including service to over 250 small communities and their surrounding rural areas. MIC members average approximately 4,000 access lines, although half of the MIC members have fewer than 2,000 access lines. The average number of access lines per exchange is approximately 1,100 with half serving fewer than 600 access lines. MIC member company CenturyLink is not a participant in these Reply Comments.

[2] *Connect America Fund*, WC Docket No. 10-90, *A National Broadband Plan for Our Future*, GN Docket No. 09-51, *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135, *High-Cost Universal Service Support,* WC Docket No. 05-337, *Developing an Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Lifeline and Link-Up*, WC Docket No. 03-109, *Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking*, FCC 11-13 (rel. Feb. 9, 2011) (USF/ICC Transformation NPRM).

Organization for the Promotion and Advancement of Small Telecommunications Companies, and the Western Telecommunications Alliance (the "Rural Association Comments"). These Reply Comments are limited in scope to address certain specific issues that are of particular critical significance to the MIC member companies and to other ILECs serving rural areas ("Rural ILECs").

1. Summary.

The MIC supports the many comments expressing strong support for *responsible reform* of the current Universal Service Fund ("USF") High-Cost program and Intercarrier Compensation ("ICC") mechanisms. However, the MIC believes that changes to USF High-Cost program and ICC mechanisms require reasonable, measured transitions and safeguards to avoid possible "rate shock" for rural consumers and significant harm to the ability of Rural ILECs to make infrastructure investments in rural areas.

The Rural Association Comments describe in "Step Three" a recommended process for responsible USF High-Cost program and ICC reform, setting out a methodology for unification of intrastate and interstate access rates and a rejection of mandatory bill-and-keep methodology.[3] The MIC supports the methodology presented by the Rural Association Comments. The MIC further supports a transition period of not less than four years for the unification of access rates,[4] and a correspondingly phased transition period and reasonable caps on local rate increases per year.

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[3] Rural Association Comments at 12-27.
[4] Comments of ICORE Companies ("ICORE Comments") at 21-22.

2. A Transition Period is Necessary to Avoid Unreasonable Impacts.

Without question, Rural ILECs rely upon intercarrier compensation, including switched access charges, for a significant portion of their network cost recovery.[5] In reliance on this revenue source, many Rural ILECs have planned or committed to significant expenditures in 2010 and 2011 (and beyond) for network upgrades that would enhance their ability to provide broadband services. Accordingly, it is essential that adjustments to switched access rates recognize these planned or committed expenditures, provide Rural ILECs with cost recovery needed to serve as Carriers of Last Resort, and enable the continued deployment and ongoing provision of both basic and advanced services.[6]

A "flash cut" approach to unification of interstate and intrastate access rates would clearly be disruptive to Rural ILECs' ability to serve their customers and would create substantial pressure on any restructure mechanism.[7] The MIC agrees that an appropriate transition period, in combination with benchmark local voice service rate of $25 per line per month and a restructure mechanism recommended in the Rural Association Comments,[8] would provide a glide path to allow Rural ILECs "to adjust their fees and operations to accommodate change without disrupting their ability to serve customers."[9] The MIC supports phasing-in Step 3 of the Rural Association's Plan, with periodic scheduled reviews to determine effectiveness during the phase-ins.

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[5] Rural Association Comments at 13; Comments of John Staurulakis, Inc. ("JSI Comments") at 18.
[6] Rural Association Comments at 13-14.
[7] Comments of the Independent Telephone & Telecommunications Alliance ("ITTA Comments") at 8; Comments of the Rural Broadband Alliance ("RBA Comments") at 22.
[8] Rural Association Comments at 16-17.
[9] ITTA Comments at 8.

The MIC agrees that a minimum transition period of at least four years is necessary for the unification of interstate and intrastate access rates.[10] This period, in combination with a benchmark local voice service rate of $25 per line per month and a restructure mechanism, would permit Rural ILECs to adjust their operations to the shift away from access revenues as a cost recovery mechanism, without immediate and excessive rate increases for their customers.

The MIC also agrees with the Rural Association Comments that unified switched access rates must take into account the differences in costs incurred by carriers, and the unique challenges associated with providing service in high-cost rural areas.[11] These differences and unique challenges also require a measured, phased approach to intercarrier compensation reform. The risk of customers' exposure to "rate shock" is magnified by the existing differences in Rural ILECs' local service rates, and a transition period for, and cap on, local service rate increases should be applied to alleviate this risk.

In Minnesota, as in many other states, there are significant differences in the local rates charged by Rural ILECs. To some extent, these local rate differences result from differences in the cost of providing services. However, in many cases, the differences between local service rates also reflect the significantly smaller local service calling areas available to customers, and thus the value of the local service.

For example, Rural ILEC customers in areas with extremely small local calling areas may have significantly lower local service rates than customers located in the Minneapolis-St. Paul Metropolitan Area ("Twin Cities Metro-Area"). While the Rural ILEC may have high costs in

[10] ICORE Comments at 21-22.
[11] Rural Association Comments at 20-21.

providing local service in such areas, the local service it provides is not perceived to be as valuable as the Twin Cities Metro-Area local service because its rural customers, by necessity, are required to make many more intrastate toll calls. In some of the smallest rural local service areas, Rural ILEC customers must make intrastate toll calls daily to contact schools, businesses, and government entities, and to reach doctors and other medical facilities.

While the rates charged for these customers' frequent toll calls could be expected to decrease with the transition of intrastate access rates to interstate levels, experience with past reductions in access rates in Minnesota have shown that few toll rate reductions flow to rural residential or small business customers. Accordingly, it is unlikely that any toll rate reductions resulting from intrastate access rate reductions would be sufficient to offset the local rate increases for a majority of rural residential and small business customers. As a result, many Rural ILEC customers could pay substantially higher local service rates, without corresponding reductions in toll service rates, while still having small calling areas that are not reasonably comparable to the larger calling areas available to Twin Cities Metro-Area customers.

For a sample of 64 Rural ILECs in Minnesota which are MIC member companies, the reduction of intrastate access rates to interstate levels would result in an average increase in residential local service rates of 57 percent. With the implementation of a benchmark local voice service rate of $25 and a restructure mechanism as proposed by the Rural Association, the percent of local rate increase would be reduced to 34 percent. With a $25 local benchmark rate, 75 percent of the sample companies would have local rates, plus SLC charges, at least 20 percent higher than Qwest's Twin Cities Metro-Area residential rate plus SLC charge. If a higher local benchmark rate were adopted, these percentages in the local service rate increases for Rural ILECs and differential from Qwest's Twin Cities Metro-Area rate would be even greater. As a result, it would be doubtful that local service rates in rural Minnesota could be seen as reasonably comparable to Twin Cities Metro-Area rates, particularly in light of the large difference in local calling scope between Twin Cities Metro-Area carriers and most Rural ILECs in Minnesota.

It is worth noting that there are also a number of Rural ILECs serving exchanges on the fringe of the Twin Cities Metro-Area that have Extended Area Service additives in their rates. These additives cause their residential local rates to be not only significantly higher than those of larger carriers serving customers in the Twin Cities Metro-Area metropolitan area, but also significantly higher than the a $25 benchmark.

A reasonable phase in of local rate increases to the benchmark is needed to accommodate these differences between Rural ILECs and Twin Cities Metro-Area rates in Minnesota. A per line per year cap on local service rate increases, such as $1.50 or $2.00 per line per month increase, would reduce "rate shock" and provided a reasonable transition for local rate increases for Rural ILEC customers and should result in minimal increased requirements for Restructure Mechanism support. For Rural ILECs with local residential rates already higher than benchmark rates, there should be a mechanism to allow some reduction in local residential rates towards the benchmark rate.

3. Conclusion.

For the reasons described above, the MIC recommends that the Commission include these elements for transition in any plan for reform of intercarrier compensation and USF for Rural ILECs.

Date May 23, 2011

Respectfully submitted,

/s/ Richard J. Johnson

and

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Attorneys on Behalf of the Minnesota Independent Coalition