Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of:	)	
	)	
Federal-State Joint Board on	)	WC Docket No. 05-337
Universal Service Seeks Comment on	)	
Long Term Comprehensive High Cost	)	CC Docket No. 96-45
Universal Service Reform	)	

Comments of the ICORE Companies

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The consulting firm of ICORE, Inc. (ICORE), on behalf of many small rural incumbent local exchange carriers (ILECs)[1], offers these comments in the above-captioned proceeding. ICORE offers a variety of consulting, regulatory, billing and network services to small ILECs serving rural and suburban America.

[1] ILECs participating in this filing include: Citizens Telephone Corporation, Warren, IN; Doylestown Telephone Company, Doylestown, OH; Dunbarton Telephone Company, Dunbarton, NH; Hot Springs Telephone Company, Hot Springs, MT; Kalida Telephone Company, Kalida, OH; Laurel Highland Telephone Company, Stahlstown, PA; Lexcom Telephone Company, Lexington, NC; Manti Telephone Company, Manti, UT; Mechanicsville Telephone Company, Mechanicsville, IA; Mount Horeb Telephone Company, Mount Horeb, WI; New Lisbon Telephone Company, New Lisbon, IN; Nova Telephone Company, Nova, OH; Palmerton Telephone Company, Palmerton, PA; Pattersonville Telephone Company, Carrollton, OH; The Home Telephone Company, Grand Meadow, MN; The Middle Point Home Telephone Company, Middle Point, OH; The Ottoville Mutual Telephone Company, Ottoville, OH; Van Horne Telephone Company, Van Horne, IA; Venus Telephone Company, Venus, PA; Yukon-Waltz Telephone Company, Yukon, PA.

I. INTRODUCTION

The continuation of sufficient, fair, and reliable high cost universal service support is one of the most critical issues facing small, rural ILECs. The adoption of USF "auctions," as proposed in this proceeding, will destroy the financial viability of these companies, which have long been the carriers of last resort – the standard bearers of universal service – in much of the vast rural, suburban and insular areas of our nation.

Likewise, the "awarding" of high cost support to low cost, competitive eligible telecommunications carriers (CETCs) on any basis other than their actual costs; the use of any cost modeling techniques; and the disaggregation of support below the study area level, all compromise the high cost universal service effort. All of these policies fly in the face of the very concept of high cost support, as they base such support not on the actual costs of universal service providers, but on some surrogate that totally misses the point of providing such support in the first place.

ILECs incur the actual, physical, real costs of providing universal service in rural America. That is the only basis on which high cost assistance should be granted. Why should it be awarded to low cost providers, to the detriment of those that actually need it?

If ILECs are threatened, the long-standing public policy of universal service at affordable rates will be equally threatened. This country would never have had – and will not have in the future – true universal service without the tireless efforts of those dedicated ILECs that serve non-urban America.

In any reasoned debate on high cost universal service support mechanisms, the Commission must recognize and preserve the unbroken and unbreakable link between USF and rural ILECs. Any policy that weakens that link will weaken the Commission's

commitment to universal service. Thus, any changes to high-cost universal support procedures that threaten the only real providers of universal service – the ILECs – cannot possibly be in the public interest.

We have had universal service in this country for decades. Rural ILECs have been, and continue to be, the responsible parties for providing quality telephone service to every home and business in their service areas. Long standing Commission policies have appropriately recognized and affirmed the ILECs' unique role in this effort.

While some changes in universal service rules and procedures are necessary, certain principles must be maintained. We seem to have an inherent need in this country to fix things that are not broken. The ICORE companies strongly urge the Commission, when considering any of the issues in this proceeding, to resist this temptation.

Very simply, high cost universal service support should continue as a mechanism to allow ILECs to provide ubiquitous, affordable telecommunications services in rural America. It should continue to recognize the actual, company-specific embedded costs of providing such services to each and every rural customer.

Universal service support should never be awarded to any carrier whose costs, services, or market coverage does not qualify for such support.

II. REVERSE AUCTIONS ARE TOTALLY ILLOGICAL, CONTRARY TO THE PUBLIC INTEREST, AND BURDENSOME

Reverse auctions have now joined several other proposals for distributing or calculating high cost support for rural ILECs. Forward Looking Economic Costs (FLEC) have previously been discussed, along with cost models, aggregate state costs, and other surrogates.

But small, rural ILECs do not provide universal service using hypothetical networks, nor do they write theoretical checks to pay for forward looking economic costs.

In other words, small, rural ILECs have never had the luxury of being the cherry pickers or one trick ponies that are so prevalent in the industry today, the ones that would benefit from reverse auctions. They have never had the good fortune of being solely wireless carriers, or VoIP providers, or business suppliers. They have been telephone companies, or in more contemporary terms, telecommunications carriers, offering a variety of services to each and every person and entity in their service area, using a combination of technologies to get this critical task accomplished.

To ignore, as competitive bidding would, the real, actual, embedded costs – including all joint and common costs – of rural ILECs in determining their high cost universal support would thus be unfair and unjust. The proposed auctions would deny their long history of providing universal service at affordable rates, and totally undercut the vital role they have played in building the PSTN.

Rural ILECs have borne the very real costs of providing universal service in their unique and specific franchised areas. These costs are known and verifiable. To use auctions, or any other method that ignores their company-specific embedded costs, puts rural ILEC high cost universal service support at serious risk.

Rural ILECs, decade after decade, have built the infrastructure to make universal service a reality, using hard earned –and often hard to come by – United States currency. They have tirelessly invested in whatever equipment, facilities and services were required, at any particular time, to meet their social and regulatory obligations.

These traditional wireline ILECs, who have incurred the tremendous costs of providing the most reliable and advanced services in rural America, will no longer have an economic incentive to invest in the infrastructure necessary to continue such services. Reverse auctions will simply make infrastructure costs a burden in attempting to win high cost support through low cost bidding.

It is ironic that in building this universal wireline infrastructure – which has resulted in the public switched telephone network (PSTN) – rural ILECs have allowed their competitors to claim to offer universal service, too. That is, the new market entrants – the wireless carriers, the CLECs, the VoIP providers and others – all use the PSTN in some way for switching, transport, and origination or termination of calls.

Without the rural ILEC infrastructure, the services of these new technology providers would have far less value, and could certainly not be offered as universal. Yet many of these new competitors – the same ones who clamor for the benefits of universal high cost support but not the attending regulatory responsibilities – want either the same level of support as their incumbent ILEC, the ILEC's support to be cut by the introduction of surrogate cost estimation methods, or the awarding of support by totally non-cost based auctions.

It is difficult to imagine how small, rural wireline LECs – with their high embedded infrastructure costs – could win low cost bidding contests against wireless or VoIP providers. It is equally difficult to imagine how these same small LECs, serving high cost rural America, could survive without much needed – and appropriate – universal service support.

Reverse auctions, then, will almost certainly make large numbers of rural Americans totally dependent on far less reliable, stable and secure wireless technology for their telecommunications needs.

The use of low cost bidding to award high cost support is thus totally illogical and contrary to the public interest. It will ignore the actual, embedded costs of rural ILECs that have served rural America so long and so well, while providing undeserved support to carriers that have had the luxury of choosing their favored technology, markets, and pricing strategies.

The awarding of high cost support on a low bid basis will also provide disincentives for small, rural ILECs to further invest in the infrastructure that has for so long provided reliable and advanced telecommunications services in rural America.

Instead, small ILECs will have to devote their limited resources to the auction process. While no one can say exactly what the costs of such auctions will be, the Commission must ask: Is the public interest better served by small, rural ILECs' spending their scarce time and money on USF auctions, or on building the infrastructure to provide universal service?

III. EMBEDDED COSTS MUST BE USED TO DETERMINE HIGH COST SUPPORT FOR COMPETITIVE ETCS

Clearly, wireless carriers (traditional cellular as well as VoIP providers) generally account for the most serious form of competition in areas served by small, rural ILECs. Wireline competition is less prevalent, for the very reasons that led this industry to implement universal service policies in the first place. That is, it is very costly to provide

physical facilities to serve everyone, everywhere, particularly when the most costly to serve are often the least profitable to serve.

Quite frankly, rural America is not the most attractive market for wireline competition. Wireless providers, with their lower cost structures, are far better suited to serve rural areas. In the past, wireless service was more often a complement to, rather than a replacement for, the ILEC's wireline service. This left the rural ILEC with its traditional responsibility for universal service in rural America.

Increasingly, however, wireless lines – cellular and VoIP – are actually replacing ILEC primary lines. This is due in large part to the pricing schemes of wireless providers, which generally bundle minutes and services into extremely attractive flat monthly rates. Such pricing packages are absolute proof that wireless carriers have far lower costs than the small, rural ILECs with whom they compete.

Wireless providers have no physical loop costs, while availing themselves of economies of scale and scope that dwarf those of small, rural ILECs. Because of these advantages, wireless companies can offer bundled pricing plans which ILECS – because of their much higher costs – cannot possibly match.

This constitutes a major competitive disadvantage for small, rural ILECs. The portability of USF for eligible telecommunications carriers (ETCs) compounds this problem. The lower costs of wireless ETCs give them a huge pricing advantage over small ILECs, allowing the wireless companies to sell new lines or to take existing lines from the wireline incumbent. Yet in the current portability process, the wireless company is presumed to have the same costs as the ILEC. This is, a wireless provider receives the same per line support as the incumbent when it sells a new line or

captures an existing line – in reality, lines obtained primarily because of the wireless providers' lower costs.

First and foremost, any serious analysis of universal service support calculations must begin with cost. High cost universal support for small, rural ILECs is predicated on the fact that they have higher than average costs. They receive high cost loop support, dependent on the level of their cost per loop; and local switching support (LSS) dependent on the number of lines served, which is a reliable measure of their per line switching costs.

It is not competitively neutral to award high cost support to ETCs on the same per line basis as the ILEC. Wireless ETCs do not provide physical loops, whereas ILECs generally have per loop costs of several hundred dollars. Where wireless switches can serve large portions, or all, of a state, only those ILECs with fewer than 50,000 lines receive LSS – and the bulk of that goes to very small ILECs with fewer than 10,000 lines.

Thus, for rural ILECs, high cost support is cost-dependent. Only those whose loop costs exceed a certain threshold receive high cost loop support. Only those which serve relatively small amounts of lines have high enough per line or per minute switching costs to warrant receipt of LSS. Wireless ETCs have no such cost-related tests to pass. In fact, they use their low costs to underwrite pricing schemes that allow them to obtain lines in high cost ILEC territories, and then are awarded per line support as if they, too, were high cost companies.

Small, rural ILECs need, and are deserving of, high cost support. They must build expensive loop plant, often miles and miles from their central office, to serve the very last customer in their service area. They must provide state-of-the-art switching, with CLASS and custom calling features, SS7, and all other functions required by our nationwide, integrated network, to serve – in many cases – a few hundred or a few thousand customers.

Wireless providers, on the other hand, use a technology which avoids most of the substantial costs associated with physical loop plant. They also enjoy economies of scale and scope in switching and other areas that are unknown to small, rural ILECs. They are not, in general, according to the standards and definitions which apply to ILECs, high cost companies.

If the purpose of high cost universal support is to assure ubiquitous telephone service at affordable rates, it is difficult to understand how wireless carriers can qualify for such support. High cost support does not give ILECs a competitive advantage. It simply helps level the playing field with competitors that use new, low cost technologies to create pricing schemes against which ILECs cannot reasonably compete.

The provision of high cost support to low cost companies obviously imposes greater costs on the universal service fund. It is totally contrary to the public interest both to provide support to companies that would not otherwise qualify for such support, and to increase the size of the universal service fund by so doing. Wireless carriers enjoy other forms of regulatory relief as well, including multi-state MTAs and exemption from access charges. They should not arbitrarily be given high cost support, which has been carefully designed to help offset the unavoidable high costs of small, rural ILECs.

If a wireless or wireline competitor meets each and every duty, obligation and responsibility that the ILEC must fulfill in providing universal service; and if the Commission deems it in the public interest to grant ETC status to that carrier, then any high cost support it receives must be based on its actual costs, not the ILEC's.

It is neither just, reasonable, equitable nor in the public interest to award high cost assistance to one carrier, based on the costs of another. Wireless and wireline ETCs must be made to submit their specific loop costs, and their number of lines served, in order to receive high cost loop support and local switching support, just as the ILECs must report their specific data. Wireless and wireline ETC reporting for high cost support purposes must be held to the same standards as are applied to rural ILECs.

IV. ETC DESIGNATION, AND COST SUPPORT MUST BE AT THE STUDY AREA LEVEL

The study area has long defined the total service territory for rural ILECs. It is a common, well understood, standard definition. Rural ILECs, in fulfilling their universal service and carrier of last resort obligations, provide high quality, reliable, facilities-based services, for all supported services, to everyone in the study area. Potential ETCs should have to do no less.

To designate ETCs at anything less than the study area level will very likely allow certain customers to go unserved, and the competitive ETC to have less service responsibility than the ILEC.

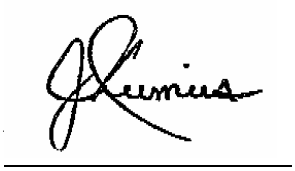
V. CONCLUSION

Any measure that provides high cost universal service support on any basis other than actual costs is arbitrary, capricious and not in the public interest.

To ignore the real costs of ILECs in the provision of their universal service obligations – through auctions, surrogate costs or other means – puts universal service at severe risk in rural America.

Respectfully submitted,

ICORE, Inc.



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