

BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION

In the Matter of Proposed New Rule)
4 CSR 240-3.570 Regarding Eligible)
Telecommunications Carrier)
Designations for Receipt of Federal)
Universal Service Fund Support)

Case No. TX-2006-0169

Comments of the Missouri Independent Telephone Group

Comes now the Missouri Independent Telephone Group of rural incumbent local exchange companies¹ and submits the following comments.

1. Although it has not previously filed comments, the MITG has decided to do so at this time. The reason for this is that, prior to the January 3, 2006 suggested changes to the proposed rule, and prior to the January 6, 2006 hearing and subsequent filings, the MITG was not opposed to the proposed rule.

2. The proposed rule published in the state register on December 1, 2005 purported to apply only to Competitive Eligible Telecommunications Carriers (CETCs), not Incumbent Eligible Telecommunications Carriers (IETCs). The MITG are Incumbent Eligible Telecommunications Carriers. The proposed rule published in the state register did not purport to apply to the MITG companies.

3. After reviewing the January 3, 2006 Comments of Staff, with proposed rule changes, and after reviewing the transcript of the January 6, 2006 hearing and subsequent filings, the MITG is aware of discussions proposing, without further notice and opportunity for hearing, to change the rule to apply to IETCs. The MITG respectfully

¹ Alma Communications Company d/b/a Alma Telephone Company, Chariton Valley Telephone Corporation, Choctaw Telephone Company, Mid-Missouri Telephone Company (O'Telco), MoKan Dial Inc., and Northeast Missouri Rural Telephone Company.

suggests, and requests, that if changes to the proposed rule will be considered in order to expand the proposed rule's applicability to IETCs, that the Commission do the following:

a. conduct workshops in which IETCs can explain to the Commission's satisfaction the rules, regulations, and operations of federal USF high cost support;

b. consider another finding of necessity for rulemaking for a rule that will apply to CETCs and IETCs;

c. publish a proposed rule applying to CETCs and IETCs;

d. conduct a hearing on a proposed rule applying to CETCs and IETCs;

e. consider promulgation of such a rule applying to CETCs and IETCs.

4. Federal USF is not administered the same for CETCs and IETCs. The language of the originally proposed rule was not objectionable as applied to CETCs. It is objectionable as applied to IETCs.

5. IETCs have carrier of last resort obligations in rural, insular, or high cost areas. Federal USF is intended to support the high cost of service in these areas in order to promote universal service. Generally, with the exception of "average schedule" companies, IETC USF is based upon the costs of the IETC. IETC costs are assigned by study area. Each year, cost information is submitted to the USF (now administered by the Universal Service Administrative Company, or "USAC"). This cost information includes the amount of annual investment in facilities, which amounts are capitalized in accordance with depreciation schedules, as well as information as to the cost of operations of systems and facilities necessary to support services supported by the USF.

6. IETC federal USF support is calculated each year based upon the cost information submitted to USAC. There is a lag time of approximately two years between

expenditures qualifying for support and actual receipt of support. IETC support is based upon total costs of service, IETC support is not directly tied to the number of lines served, as it is for CETCs. However, as there is no jurisdictional allocation of costs in the USF process, actual IETC USF settlements is compared to national average cost per loop in creating the IETC annual USF settlement.

7. At the time USF was opened for participation by CETCs, IETCs were given certain options to establish disaggregation plans. Disaggregation plans allowed the IETC to assign different costs of service to different areas within its study area. The intent of disaggregation plans was for the IETC to more closely match “higher” and “lower” cost areas with amounts of USF support.

9. CETC support is not based upon its costs of providing services supported by the USF. CETC support is calculated by multiplying the number of CETC lines served times the average per line amount of USF revenue the IETC receives in the study area, subject to a different per line amount specified in the IETC’s disaggregation plan, if any.

10. There are critical differences between the operation of USF support for IETCs compared to CETCs that give the MITG pause and concern with respect to now attempting to modify the originally proposed rule to be applied to IETCs as well as CETCs:

a. IETCs have built (and continue to extend and upgrade) networks throughout their study areas. CETCs have not in all cases (which is why build out plans were imposed upon CETCs by the FCC).

b. IETC support is based upon IETC cost. There is an extensive, and expensive, USF reporting, calculation, and payment system necessary to operate IETC

USF. But CETC support is simply based upon a mathematical exercise of multiplying a number of lines times the IETC's per-line support. As a matter of competitive neutrality, it will cost the IETC more than the CETC to prepare cost studies, perform accounting and separations, and submit periodic filings to USAC than it costs CETCs to prepare mere line counts.

11. Keeping these differences in mind, the MITG believes it would be inappropriate to apply rules suited for CETCs to IETCs for whom their application would not be suited, as follows:

a. Because IETCs have built the networks upon which universal service is being provided, it would be inappropriate for IETCs to have to submit build out plans or statements as to the intended use of high-cost support.

b. IETC support is based upon capitalized investment amounts, as well as the costs of operating the telephone network required to provide service. IETCs do not receive support for the investment entirely in the year for which the investment was made. The support continues for the useful life of the asset. As a consequence it would be inappropriate to require IETCs to state that continued build out investments would not otherwise occur absent the receipt of high-cost support.

c. As IETC support is based upon qualifying capitalized investments, which has been, and is, an ongoing obligation of the IETC, it would be inappropriate to require the IETC to track or demonstrate that its USF support was spent upon infrastructure, or only used to improve coverage. IETC receipt of USF support is, in and of itself, a demonstration that its investments were spent upon qualifying infrastructure.

d. As IETC support is a function of IETC ongoing obligation to provide universal service, and such support is received both for reimbursement of current operation expenses, current investments, and partial recovery of past capitalized investments, it would be inappropriate to require the IETC to state or demonstrate that its plans for system improvements would not otherwise occur absent the receipt of high-cost support, or that its support was only used to improve coverage, service quality, or capacity, or that such support was used in addition to any expenses the IETC would normally incur.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of this pleading was filed with EFIS, and notification of the filing hereof will be provided to the attorneys of record in this proceeding via EFIS, this 17th day of January, 2006.

/s/ Craig S. Johnson
Craig S. Johnson