

**frontier**

COMMUNICATIONS SOLUTIONS

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September 22, 2006

James J. McNulty, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street – Filing Room (2<sup>nd</sup> Floor)  
Harrisburg, PA 1712

Re: In the Matter of FCC Intercarrier Compensation Proceedings at FCC in CC  
Docket No. 01-92, Docket No. M-00061972; **REPLY COMMENTS OF  
FRONTIER COMMUNICATIONS SOLUTIONS**

Dear Secretary McNulty:

Enclosed for filing with the Commission, on behalf of Frontier Communications Solutions (“Frontier”), are an original and fifteen (15) copies of Frontier’s Reply Comments. Please note that Frontier did not file Comments in this proceeding, but would appreciate the Commission’s consideration of these Reply Comments.

If you have any questions with regard to this filing, please direct them to me. Thank you for your attention to this matter.

Very truly yours,



Kenneth Mason  
Director, Government & External  
Affairs

NJK/ajt  
Enclosure

cc: Honorable Kandace F. Melillo  
Joseph Witmer, Esquire – Law Bureau

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In the Matter of FCC Inter-carrier Compensation :  
Proceedings at FCC in CC Docket No. 01-92, : Docket No. M-00061972

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REPLY COMMENTS OF  
FRONTIER COMMUNICATIONS SOLUTIONS

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I. INTRODUCTION

- Like the Missoula group, Frontier acknowledges the need for constructive inter-carrier compensation reform. This is a very difficult and complex issue. While we believe that the Missoula plan offers some constructive steps, this Plan does not provide the solution.

II. COMMENTS

A. **The “Missoula” Inter-carrier Compensation Plan Has Numerous Flaws That Must Be Remedied.**

- The plan shifts too much cost to residential end-users in terms of higher SLCs (\$2.25) and increased universal service surcharges. The USF surcharge could increase for customers by \$1 or more per month based on the potential increase in the fund size. The plan does not address a solution to the funding mechanism.
- The recovery mechanisms (SLC and the replacement fund) are tied to line gain/loss after the third step for price cap carriers. For Track 2 carriers the amount per line is significant and companies losing access lines faster than minutes will have a financial burden with this regime change. We would recommend a piece of the recovery to be guaranteed for a longer period of time or utilize minutes of use as a factor in calculating support.
- In light of Congressional advocacy for a cap on universal service funding, we question the merit of shifting so much money to an access restructure mechanism / universal service fund.
- Frontier believes that the Track 2 inter-carrier compensation levels established in the “Missoula” plan are too low.

- We are also concerned about the speed of the transition. The plan reaches target rates in two years on terminating and three years on originating traffic. With the amount of money displaced in the plan and the recovery mechanisms established, this does not allow companies that are dependent on access charges the proper time to adjust business plans to account for changes.
- The plan does have a provision for pricing flexibility of the SLC charge, allowing companies to differentiate the SLC based on geography, products and bundles. However, to fully utilize this the company would need to have a SLC below the SLC cap. Additionally, there is not enough flexibility to address some of the other imbalances in the plan.

**B. Significant Modifications To The “Missoula” Plan Are Required.**

- The plan’s rate design places too much intercarrier compensation on consumers and the universal service fund through subscriber line charge (SLC) increases (\$2.25) and a corresponding increase in the universal service to fund the access restructure mechanism. Frontier advocates that any end user recovery be discretionary as to the products that can be increased to recover the displaced revenues. Each market has different competitive situations and the ILECs should be able to decide how and where to recover based on this.
- For the recovery mechanisms we would recommend that a piece of the recovery be guaranteed for a longer period of time or minutes of use be utilized as a factor in calculating support. This would reduce some of the burden of this plan from shifting recovery in high cost and competitive markets to the residential customers.
- Frontier believes the Missoula Plan should have a longer transition time period to reach its end state. The plan advocates reform over a 24 -36 month time frame. Our view is that the plan should have a transition period of at least 5 years and should eliminate the FCC proceeding in Step 4. There is too much change for the FCC to be opening a new proceeding looking at additional changes in only 3 years.
- The plan should provide more relief from retail pricing and earnings regulation. With the amount of money that would be shifted out of intrastate access rates and the additional risk of all of the recovery being tied to the ability to keep access lines, our view is that a significant amount of pricing flexibility should be a key component of this plan.

**C. There Are Positive Aspects To The “Missoula” Plan That Should Be A Part Of Intercarrier Compensation Reform.**

- The Missoula Plan should have two tracks, not three, one for the RBOCs and then a separate track for all other carriers. Rural study areas should be under similar

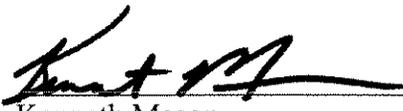
rate design (rates do not need to be identical for all carriers) and not carved up as proposed under the Missoula Plan.

- The Plan calls for a one-time resizing of the high cost loop fund that would allow for funding to more closely match investment.
- The Plan creates additional funding for companies that make investments in acquired properties.
- The plan calls for the simplification of the access compensation structure and ultimately gets to the point where “a minute is a minute.” It reduces the arbitrage opportunities we see today in terms of the rate disparity between access minutes and reciprocal compensation minutes.
- The plan has favorable network architecture / protection for rural LECs as defined under the rural carveout.
- The plan provides a phantom traffic solution and calls for the resolution of phantom traffic prior to broader intercarrier compensation reform. We still would have preferred stronger enforcement action, including fines and steps to block traffic from habitual offenders but this does take a significant step in resolving the issue.

### III. CONCLUSION

- Significant adjustments must be made to the “Missoula” plan in order to remedy the flaws outlined in these comments and the Pa. PUC should suggest this course to the FCC. Frontier appreciates the opportunity to provide these comments to the Pa.PUC.

Respectfully submitted,



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