



RURAL TELEPHONE FINANCE COOPERATIVE
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September 30, 2008

Chairman Kevin Martin
Commissioner Michael Copps
Commissioner Robert McDowell
Commissioner Jonathan Adelstein
Commissioner Deborah Tate

Dear Chairman Martin and Commissioners:

It has come to our attention that a coalition of large telecommunications industry players, including Verizon and AT&T has proposed that the FCC establish a unified \$0.0007 terminating access rate for both price cap and rate-of-return carriers. The Rural Telephone Finance Cooperative (RTFC) strongly opposes this proposal. A key lender to the rural telecommunications industry, RTFC currently has over \$2.2 billion committed to rural telecommunications companies and cooperatives. Without adequate access revenues, rural telecommunications providers (overwhelmingly rate-of-return carriers) may not be able to repay their existing loans or qualify for new loans.

While RTFC primarily lends to rural telcos for infrastructure modernization and takes a first lien on a borrower's assets, in actuality it is the borrowing telco's level of cash flow that provides us with the truest indicator of its ability to repay the loan. As such, RTFC is very sensitive to potentially significant decreases in key revenue sources.


Access revenues recover a significant portion of a rural local exchange carrier's (RLEC's) costs. According to Professor Dale Lehman's recent study of NECA data on 921 rural local exchange carriers¹, 31% of their regulated revenues came from inter-and intrastate access. If RLECs' terminating access rates are arbitrarily reduced to (a non-cost-based) \$0.0007 per minute, rates for other services will have to be significantly increased to make up for the revenue loss. Higher Subscriber Line Charges or local service rates increase the burden on the local ratepayer and increase the likelihood that economically challenged customers who have wireless service will drop their wireline service.

A number of proposals for unifying intercarrier compensation have been proposed and never acted upon in recent years. None were as drastic as what has been proposed by Verizon and AT&T. This plan may work for price cap carriers, but it would be a disaster for RLECs.

¹ The Next Three Years: Likely Scenarios for Rural Local Exchange Carriers

As an entity extremely familiar with the financial condition of RLECs, RTFC can say unequivocally that the Verizon/AT&T plan for a unified terminating access rate of \$0.0007 per minute would end most RLECs' plans for extending increased bandwidth to their customers and negatively impact their ability to repay existing loans. We urge the Commission to reject this proposal and not adopt any intercarrier compensation reform plan that fails to provide for a mechanism to allow RLECs to meet their revenue requirements.

Sincerely,

A handwritten signature in black ink, appearing to read "Lawrence Zawalick". The signature is fluid and cursive, with a large, stylized initial "L" and "Z".

Lawrence Zawalick
Senior Vice President
Rural Telephone Finance Cooperative