# BEFORE THE TENNESSEE REGULATORY AUTHORITY NASHVILLE, TENNESSEE

In the Matter of	)	
Petition of the Tennessee Rural Independent Coalition	)	Docket No. 06-00228
Petition for Suspension and Modification	)	•
Pursuant to 47 USC § 251 (f)(2)	)	

## BRIEF OF THE TENNESSEE RURAL INDEPENDENT COALITION

#### on behalf of

Ardmore Telephone Company, Inc. Ben Lomand Rural Telephone Cooperative, Inc. Bledsoe Telephone Cooperative CenturyTel of Adamsville, Inc. CenturyTel of Claiborne, Inc. CenturyTel of Ooltewah-Collegedale, Inc. Concord Telephone Exchange, Inc. Crockett Telephone Company, Inc. Dekalb Telephone Cooperative, Inc. Highland Telephone Cooperative, Inc. Humphreys County Telephone Company Loretto Telephone Company, Inc. Millington Telephone Company North Central Telephone Cooperative, Inc. Peoples Telephone Company Tellico Telephone Company, Inc. Tennessee Telephone Company Twin Lakes Telephone Cooperative Corporation United Telephone Company West Tennessee Telephone Company, Inc. Yorkville Telephone Cooperative

June 8, 2007

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### BRIEF OF THE RURAL COALITION OF SMALL LECs AND COOPERATIVES

The members<sup>1</sup> of the Tennessee Rural Independent Coalition (collectively, the "Coalition" and, individually, "Petitioner"), by their counsel, respectfully submit this Brief in support of the Petition for Suspension ("Petition") submitted in this proceeding to the Tennessee Regulatory Authority (the "TRA") pursuant to Section 251(f)(2). Each Petitioner is a Rural Local Exchange Carrier ("Rural LEC"), and, accordingly, qualifies to seek suspension and modification of the application of Section 251(b) of the Telecommunications Act of 1996 (the "Act").<sup>2</sup>

In this proceeding, each Petitioner requests suspension of the requirements of Section 251(b) of the Act to the extent that those requirements have been interpreted as requiring them to

<sup>&</sup>lt;sup>1</sup> The petitioners, each members of the Tennessee Rural Coalition (the "Coalition"), include the following individual rural local exchange carriers ("RLECs") companies: (1) Ardmore Telephone Company, (2) Ben Lomand Rural Telephone Coop.,Inc. (3) Bledsoe Telephone Cooperative, (4) Century Telephone Enterprises, Inc. Companies in Tennessee consisting of CenturyTel of Adamsville, Inc.; CenturyTel of Claiborne, Inc.; CenturyTel of Ooltewah-Collegedale, (5) Dekalb Telephone Cooperative, (6) Highland Telephone Cooperative, (7) Loretto Telephone Company, (8) Millington Telephone Company, (9) North Central Telephone Cooperative, (9) TDS Telecom Companies in Tennessee consisting of Concord Telephone Exchange, Inc., Humphreys County Telephone Company, Tellico Telephone Company, and Tennessee Telephone Company, (10) Telephone Electronics Corp. ("TEC") companies in Tennessee consisting of Crockett Telephone Company, Inc., Peoples Telephone Company, Inc. and West Tennessee Telephone Company, Inc., (11) Twin Lakes Telephone Cooperative, (12) United Telephone Company, (13) Yorkville Telephone Cooperative (now West Kentucky).

<sup>&</sup>lt;sup>2</sup> 47 USC Section 251(b).

establish charges for transport and termination of any traffic on the basis of a Total Element Long Range Incremental Cost ("TELRIC") methodology.<sup>3</sup>

I. The grant of the requested suspension will serve the public interest. Suspension of the TELRIC requirement will lead to an efficient and equitable conclusion of a regulatory process initiated over four years ago.

The regulatory process regarding the establishment of interconnection terms and conditions between the Rural LECs and the CMRS providers began over four years ago. <sup>4</sup> The process has been unduly burdensome to all parties, to the Authority and to the public which ultimately bears the costs of regulatory processes. The innumerable filings and hearings in all of the related proceedings of this still unresolved matter are in stark contrast to the norm. The record before the Authority in this proceeding, and the readily available public record, provide ample evidence that the CMRS providers and Rural LECs throughout the nation generally are able to reach negotiated interconnection terms and conditions incorporating reciprocal compensation rates that all parties mutually agree are reflective of a "a reasonable approximation of the additional costs of terminating such calls."

The Rural LECs have sought in this proceeding to obtain suspension of the TELRIC cost methodology imposed as a result of the arbitration decision in Docket No. 03-00585. The Rural

<sup>&</sup>lt;sup>3</sup> Petition, p. 1.

<sup>&</sup>lt;sup>4</sup> The inception of this matter was in Docket No. 00-00523. The Rural LECs were concerned with obtaining payment for the use of their networks to terminate CMRS traffic. Four years ago, the Rural LECs did not even have the right to request interconnection terms and conditions from the CMRS providers under Sec. 252 of the Act. The Pre-hearing officer's May 5, 2003 Order in Docket No. 00-00523 established the beginning of the negotiation process that resulted in the arbitration in Docket No. 03-00585. In the absence of that Order, the rural Independents could not even get the wireless carriers to the negotiating table. More than four years have passed and the Rural LECs are still without equitable compensation rates consistent with the industry standards established in most states throughout the nation. The Rural LECs have endeavored to negotiate fair "reasonable approximations" of transport and termination rates with the Tennessee CMRS providers and remain willing to do so. The imposition of the TELRIC requirement has proven to be both an undue burden and an obstacle to reasonable agreements consistent with the "reasonable approximations" of rates mutually negotiated throughout the nation.

<sup>5</sup> 47 U.S.C. Sec. 252(d)(2).

LECs hope not only to avoid undue economic burden as a result of the grant of the requested suspension, but they also submit that the requested suspension will lead to resolution of the prolonged process that started over four years ago. The efficient resolution of all matters related to the terms and conditions of interconnection between the Rural LECs and the CMRS providers will serve the interests of all parties and the public interest in general. The application of TELRIC costing methodology, as the record in Docket No. 03-00585 reveals, has been the single greatest obstacle to resolution.

The resulting undue burden in the Rural LECs is readily apparent in the record of Docket No. 03-00585 and affirmed by the evidence offered by the Rural LECs in this proceeding. The Authority witnessed first-hand the response that the Rural LECs received when they attempted to provide a TELRIC model prior to undertaking the burden of a TELRIC cost study and hearing. No model was good enough for the CMRS providers — not even the one utilized previously by the Authority. The TRA has also witnessed first-hand the submission of individually negotiated interconnection agreements between some of the Rural LECs and some of the CMRS providers. Each of these agreements was reached without the undue burden of performing a TELRIC cost study or any cost study.

The TELRIC requirement – a requirement not imposed in any proceeding by the FCC on any rural telephone company – has proven to be a discouragement to mutual agreements. The CMRS providers have apparently come away from phases of the related proceedings with confidence that they will be able to impose a TELRIC methodology that results in an extremely low rate that serves their financial interests. The grant of the requested suspension will remove the TELRIC obstacle and foster productive negotiations of mutually agreeable rates consistent

with those established throughout the nation. Accordingly, grant of the requested suspension will serve the public interest and will not harm the legitimate interests of any party.

The burdensome TELRIC costing methodology is not only unnecessary, but it is also not a requirement of the Communications Act or even mentioned in the Act. TELRIC was established as an interconnection pricing methodology by the Federal Communications Commission ("FCC"). Yet, no party can point to a single instance where the FCC has imposed the use of TELRIC on any rural telephone company. The only discussions the FCC has made with respect to TELRIC and rural telephone companies are in the context of why the FCC has not imposed TELRIC on rural telephone companies.

The record before the Authority provides compelling evidence that alternative mechanisms establish transport and termination rates that are "a reasonable approximation of the additional costs of terminating" the traffic exchanged between the Rural LECs and the CMRS providers. The evidence offered by the Rural LECs demonstrates the large number of agreements nationwide that exist between some of the rural LECs and the CMRS providers; these agreements reflect a range of rates that the parties have mutually agreed to utilize. Even the evidence offered by the CMRS providers demonstrates that it is unnecessary for the Rural LECs to perform a TELRIC cost study. The CMRS providers suggest in this suspension proceeding that in lieu of a costly TELRIC cost study, the reciprocal compensation rate can be established on the basis of "some simple cost algorithms."

The CMRS providers' suggestion in this proceeding to establish a rate based on a mechanism other than a full costly TELRIC study is not only welcome, but a significant

<sup>&</sup>lt;sup>6</sup> See, e.g., Individual Discovery Responses of the TDS Companies and CenturyTel. The Rural Coalition notes that Cingular and CenturyTel had an established interconnection agreement in place in Tennessee. Subsequent to the Authority's April 10, 2007 data request for information regarding billing of interconnection, CenturyTel received notice of Cingular's intent to cancel the established agreement.

departure from the position they took in Docket No. 03-00585. It was, in fact, the exasperating prior responses of the CMRS providers in that proceeding which resulted in the need for the filing of the suspension request.

Each of the Rural LECs sought the requested suspension only after undertaking considerable expense and effort to work with the CMRS providers in Docket No. 03-585 to come to agreement on TELRIC cost study methodology.<sup>8</sup> The Rural LECs had sought in that proceeding to ensure that the process of establishing a TELRIC rate would not be unduly burdensome. As recognized by the FCC and most parties, TELRIC proceedings have generally been elongated and costly.

The Rural LEC thought that it made sense to try to reach agreement on a TELRIC methodology model with the CMRS providers in order to avoid costly proceedings, the potential endless recasting of studies, and further litigation. Accordingly, each Rural LEC offered a TELRIC model, but the CMRS providers maintained that "none of the models were TELRIC compliant." The CMRS providers did not even find the model used in the past by the Authority acceptable!

<sup>&</sup>lt;sup>8</sup> See, e.g., Order Suspending Procedural Schedule in this proceeding, issued October 25. 2005; Proposed TELRIC Cost Study Methodology Filed On Behalf Of Each Member Of The Rural Coalition, September 28. 2005; and Response Of CMRS Providers To Cost Study Methodologies Propose By Rural Coalition., August 21, 2005.

The Coalition members have maintained throughout both Docket No. 03-00585 and this proceeding that they are not subject to the TELRIC requirement. While each Rural LEC has preserved its respective rights in that regard with respect to judicial review, it has been the desire of the Rural LECs to reach resolution of the interconnection terms and conditions with out further formal expensive and extensive processes.

<sup>&</sup>lt;sup>10</sup> Response of CMRS Providers To Cost Study Methodologies And Model Descriptions Proposed By Rural Coalition, October 18, 2005.

This was the very cost study model used by the Authority to establish TELRIC rates when CMRS witness Dr. Christopher C. Klein was an employee of the TRA. Dr. Klein's testimony appears to acknowledge the burdensome nature of the TELRIC model used by the Authority and rejected by his new clients. Testimony of Christopher C. Klein, p. 7, lines 11-17. Dr. Klein suggests that a TELRIC proceeding in Docket No. 03-00585 will not be as "complex and time-consuming" because only a single rate is involved. *Id.* Dr. Klein's testimony, however, does not indicate how any aspect of the burdensome TELRIC cost study would be avoided. He simply suggests that there is less burden because there are fewer rates to establish, but he offers no expert opinion or factual basis to conclude that the costly undue burden associated with conducting TELRIC studies could in any way be reduced much less

The exchange of pleadings that took place in Docket No. 03-00585 with respect to TELRIC costing methodologies verifies the accuracy of the FCC's assessment of TELRIC cost proceedings: "These cases are extremely complex . . . The drain on resources for the state commissions and interested parties can be tremendous."12

Although the Rural LECs were stunned by the CMRS providers' wholesale rejection of the TELRIC costing methodologies they had proposed – even the model previously used by the TRA. the Rural LECs nonetheless maintained their efforts to seek mutual resolution with the CMRS providers. Throughout Docket Nos. 00-00523 and 03-00585, the Coalition has been concerned that the Authority may not be fully aware of the efforts undertaken by its members to reach mutual compromise solutions.

Given the nature of confidential negotiations, the Coalition has not had the luxury of providing the Authority with detailed information regarding those efforts. The Coalition has been concerned that the Authority has somehow been given the impression that the Coalition has been recalcitrant and unwilling to cooperate and compromise. If the Authority was given this impression, it is inequitable and false.

avoided. Dr. Klein offers no explanation of why the model was useful when the TRA was his "client" and not acceptable to him in his new role with his new CMRS clients. The CMRS rejection of all of the models offered by the Rural LECs demonstrated the burdensome nature of the TELRIC Proceeding. On October 18, 2005, Dr. Klein's clients rejected each model offered including the HAI model previously used by the Authority with Dr. Klein's participation. The October 18, 2005 CMRS filing in Docket No. 03-00585 reflects the unwillingness of the CMRS providers to pursue a reasonable approach and the resulting undue burden imposed on the Rural LECs.

<sup>12</sup> In the Matter of Review of the Commission's Rules Regarding the Pricing of Unbundled Network Elements and the Resale of Service by Incumbent Local Exchange Carriers, WC Docket No. 03-173, Notice of Proposed Rulemaking, adopted September 10, 2003 and released: September 15, 2003 ("TELRIC NPRM") at para. 6. The Coalition has addressed this matter in more detail in its August 3, 2006 Brief filed initially in Docket No. 03-00585 and subsequently filed in this proceeding on September 8, 2006. The Coalition respectfully notes that all of the FCC concerns regarding the burden of conducting TELRIC studies are set forth in the TELRIC NPRM in the context of the requirement imposed on large carriers. As the Authority is aware, the Coalition respectfully maintains that the FCC did not intend to impose on rural telephone companies the burden of establishing reciprocal compensation rates on the basis of TELRIC.

To the extent possible, the Coalition has attempted to set forth before the Authority its continuing efforts to resolve all matters related to interconnection with the CMRS providers. Even when faced with the rejection of each of their proposed TELRIC cost models, the Coalition Members attempted to offer alternative solutions and processes to resolve the open issues in the Docket No. 03-00585 Arbitration Proceeding.<sup>13</sup> The terse response of the CMRS,<sup>14</sup> however, made clear the intent of the CMRS providers to force the rural companies to choose between moving forward with the complex and costly TELRIC pricing phase of this proceeding or accepting far lower reciprocal compensation rates than those utilized between rural carriers and the CMRS providers in Tennessee and throughout the nation.

Given this choice, together with the knowledge of the costs already incurred in the preparation and presentation of TELRIC cost models and the expectation of the economic burden each Petitioner would incur as a result of a TELRIC rate setting proceeding, each Petitioner determined to file the request for modification and suspension from the requirement to utilize TELRIC. The Petitioners filed their suspension requests based on the knowledge and understanding of the undue economic burden imposed by the TELRIC requirement with which the Petitioners and the Authority have become all too familiar in the course of the good faith effort of the Rural LECs to participate in the TELRIC process in Docket No. 03-00585.

The TELRIC cost study requirement established in the Docket No. 03-585 arbitration Order has proven to be an undue an unnecessary economic burden. The TELRIC methodology is neither required by nor mentioned in the Communications Act. No case or proceeding at the

<sup>&</sup>lt;sup>13</sup> See, e.g., "Letter To Directors From Bill Ramsey On Behalf Of The Rural Coalition," May 23, 2006, Docket No. 03-00585.

See, e.g., "Filing Of Verizon Wireless Concerning The Filing Of The Rural Coalition On May 23, 2006," May 26, 2006, Docket No. 03-00585.

FCC addressing TELRIC and rural telephone companies has ever resulted in the imposition of TELRIC on rural telephone companies. The TELRIC requirement is not necessary (or imposed by the FCC on rural LECS) to establish reasonable rates that reflect the statutory requirement of "reasonable approximations." The exhibits filed by the TDS companies and CenturyTel provide compelling evidence that the Rural LECs and the CMRS providers can establish rational rates without TELRIC cost studies. These exhibits reference numerous agreements that have been reached; and these same agreements provide compelling evidence of what those rates should be.

The records in both this proceeding and in Docket No. 03-00585 include substantial information (including the references to hundreds of executed agreements between rural telephone companies and the CMRS providers both nationwide and in Tennessee) that provide "reasonable approximations" that can form the basis of reciprocal compensation rates without incurring the further undue burden of TELRIC cost studies and additional litigation. The grant of the requested suspension will avoid undue economic burden and serve the public interest.

# II. The Rural LECs have met the burden of proof necessary to sustain the requested suspension.

Pursuant to the Communications Act, the Authority:

shall grant such suspension petition to the extent, that and for such duration as, the State Commission determines that such suspension or modification

- (A) is necessary –
- (i) to avoid a significant adverse economic impact on users of telecommunications services generally
- (ii) to avoid imposing a requirement that is unduly economically burdensome; or
- (iii) to avoid imposing a requirement that is technically infeasible; and

### (B) Is consistent with public interest, convenience and necessity. 15

The Petitioners each respectfully submit that the requested suspension of the TELRIC requirement is necessary to avoid a requirement that is unduly economically burdensome, and that, as discussed in Section I above, the grant of the requests will be consistent with the public convenience and necessity. Moreover, the FCC and numerous industry parties, including AT&T and BellSouth prior to its merger with AT&T, have recognized that the imposition of TELRIC cost methodology on rural carriers is likely to result in "significant adverse economic impact on users of telecommunications services generally."

## A. Requiring the Rural LECs to perform TELRIC cost studies will result in unnecessary undue economic burden.

Congress recognized the need for rural carrier relief from the Section 251(b) and (c) interconnection obligations that were designed primarily to address competitive market concerns in markets generally served by the Bell Operating Companies and other large incumbent carriers. In response to this need, the Congress included Section 251(f) in the Communications Act. It is pursuant to Section 251(f) that the Rural LECs seek relief in this proceeding.

There are two distinct and specific aspects of Section 251(f): Section 251(f)(1) "Exemption For Certain Rural Telephone Companies;" and Section 251(f)(2) "Suspensions And Modifications For Rural Carriers." This proceeding addresses only Section 251(f)(2).

<sup>&</sup>lt;sup>15</sup> 47 USC Sec. 251(f)(2)

<sup>&</sup>lt;sup>16</sup> Section 251(f)(1)(A) sets forth a specific exemption of rural carriers from certain interconnection requirements. Section 251(f)(1)(B) sets forth the specific procedure pursuant to which a carrier requesting interconnection may seek to remove the exemption. The Rural LECs have maintained throughout this proceeding and Docket No. 03-00585 that they are exempt pursuant to Sec. 251(f)(1) from any requirement to utilize TELRIC costing methodology, and they have preserved their right of review of this issue in Docket N. 03-00585. Although the Rural LECs asserted this exemption in negotiations with the CMRS providers, the CMRS providers did not choose to seek removal of the exemption in accordance with Sec. 251(f)(1)(B) of the Act.

When a carrier requesting interconnection seeks to remove an exemption established pursuant to Section 251(f)(1), it is the requesting carrier that has the burden of proof to sustain the request to remove the exemption; and, when a rural or small local exchange carrier seeks a suspension pursuant to Section 251(f)(2), as in this proceeding, it is the requesting carry that has the burden of proof.<sup>17</sup>

The *Iowa Utilities Board* decision is clear in its intent is to ensure that the Section 251(f)(1) rural exemptions are not improperly removed and that requests for Section 251(f)(2) suspensions are not improperly withheld – there is no legal question with respect to whether the requirements constitute an economic burden on rural carriers. The *Iowa Utilities Board* decision corrected the initial FCC rule which had restricted the rural carriers seeking a suspension by forcing them to carry their burden of proof by focusing only on "just a discrete part" of economic burden, thereby making it more difficult to support a suspension – again, contrary to Congressional intent. The *Iowa Utilities Board* decision made clear that the rural carrier seeking suspension may rely on any aspect of the "whole of the economic burden" imposed by the interconnection requirement from which the carrier seeks suspension.

The Rural LECs requesting suspension of the TELRIC requirement have each met the burden of proof by demonstrating both the undue economic burden they each would bear in the absence of suspension, and how the grant of the suspension will serve the public interest by fostering the resolution of proceedings and processes that have lasted over four years (as discussed in Section I). The undue economic burden that would be imposed on each Petitioner

<sup>&</sup>lt;sup>17</sup> See, Iowa Utilities Board v. Federal Communications Commission, 219 F. 3<sup>rd</sup> 744 at 762 (8<sup>th</sup> Cir. 2000) (hereafter "Iowa Utilities Board"), rev'd in part on other grounds, 535 U.S. 467 (2002).

<sup>&</sup>quot;There can be no doubt that it is an economic burden on an ILEC to provide what Congress has directed it to provide to new competitors in § 251(b) or § 251(c)." *Iowa Utilities Board*, 219 F. 3d at 761.

in the absence of the grant of the requested suspension is manifested by both: 1) the quantifiable direct costs associated with preparing and defending the studies in the inevitable lengthy company specific hearings held to consider the studies to establish a TELRIC-based rate for reciprocal compensation; and 2) the operational burden that would result by requiring each Petitioner to devote the internal managerial resources necessary to undertake the TELRIC studies and to participate in the resulting hearing and rate-setting process.

In the Petition, the Petitioners requesting suspension and modification each identified the preliminary estimate of the cost of preparing a TELRIC study, and the Coalition noted: "The costs vary because different companies, depending on their current regulatory status, may have more or less cost data required for the studies already assembled. These cost estimates are limited to simply preparing a TELRIC cost study, and do not include the costs of defending or revising the resulting cost study, preparing testimony or appearing to testify before the TRA." Each Petitioner went to the initial expense of retaining expert advice to describe the process and costs of participating in a TELRIC cost study and hearing. <sup>20</sup>

Each of the Petitioners has gone to the additional expense of retaining expert assistance to provide further affirmation of the economic burden of participation in a TELRIC cost study and hearing. Emmanuel Staurulakis, President of John Staurulakis, Inc. ("JSI"), estimated that the costs of providing a TELRIC cost study for his firm's clients would be approximately \$33,000 to \$36,000 per company.<sup>21</sup> Jeffrey W. Reynolds, a principal in the consulting firm of Parrish,

<sup>&</sup>lt;sup>19</sup> Petition, at para. 10.

<sup>&</sup>lt;sup>20</sup> See, Appendix to the "Supplemental Statement" of the Petitioners filed in this proceeding on October 2, 2006.

<sup>&</sup>lt;sup>21</sup> Testimony of Emmanuel Staurulakis, p. 10. Mr. Staurulakis testified on behalf of Ardmore Telephone Company, Inc., Ben Lomand Rural Tel. Cooperative. Inc., Highland Telephone Cooperative, Inc., Loretto Telephone Company, Inc., Millington Telephone Company, Inc., North Central Telephone Cooperative, Inc., Twin Lakes Telephone Cooperative Corporation, United Telephone Company, Yorkville Telephone Cooperative, and three TEC

Blessing and Associates, Inc., estimates in proprietary exhibits to his testimony costs in the same range and higher for his firm's clients.<sup>22</sup>

In their respective testimony and proprietary exhibits on behalf of each Petitioner,
Witnesses Reynolds and Staurulakis have each provided individual Petitioner-specific
information to describe the direct quantifiable undue economic burden that would be imposed on
each Petitioner in the absence of the requested suspension as a result of performing a TELRIC
study. Even CMRS witness Conwell estimates that the costs for each Rural LEC to conduct a
TELRIC cost study would be \$15,200 and that is his conclusion using his numbers and his
methodology without any consideration of the additional costs that will undoubtedly be
incurred.<sup>23</sup> The Rural LECs submit that even if the costs were as limited as the results of Mr.
Conwell's equations, the result is at least \$ 15,200 of undue economic burden that is simply
unnecessary.

In some instances, Petitioners have also offered additional evidence of the undue burden, setting forth the direct costs already expended in participation in the TELRIC rate setting phase of Docket No. 03-00585. Several of the Petitioners, with the internal resources to do so, have additionally expended resources to demonstrate further the burdensome impact of proceeding with the TELRIC rate setting process by calculating the relationship between anticipated annual

companies – Crockett Telephone Company, Inc., Peoples Telephone Company, Inc., and West Tennessee Telephone Company, Inc. (collectively referenced as "JSI Coalition Members")

<sup>&</sup>lt;sup>22</sup> See, Proprietary Exhibits to Testimony of Jeffrey W. Reynolds on behalf of BledsoeTelephone Cooperative, DTC Communications, CenturyTel of Adamsville, Inc., CenturyTel of Claiborne, Inc., CenturyTel of Ooletewah-Collegedale Inc., Concord Telephone Exchange, Inc., Humphreys County Telephone Company, Tellico Telephone Company and Tennessee Telephone Company.

<sup>&</sup>lt;sup>23</sup> Testimony of W. Craig Conwell, p.20. In fact, Mr. Conwell on behalf of the CMRS providers essentially acknowledges that the costs of a TELRIC cost study are not necessary; he offers his own alternative. *Id* at pp. 22-23.

reciprocal compensation revenue and the costs of preparing a TELRIC study and participating in a TELRIC proceeding.<sup>24</sup>

In many instances, the information compiled by individual Petitioners and their expert advisers does not include the additional costs of defending the studies at hearings and recasting studies in accordance with any subsequent determinations. The Petitioners have varying levels of internal resources and company-specific experience in the preparation of cost studies and in rate-setting hearings. Accordingly, some Petitioners are able to make reasonable estimates of the internal cost burden that the TELRIC proceeding would entail, while others do not have the resources or experience upon which to make such estimates. Moreover, as the Authority is aware, several of the Petitioners are "average schedule" companies. Accordingly, those Petitioners have not been required to perform any cost studies in the past. Prior to the performance of a TELRIC cost study, these Petitioners would, accordingly, incur additional internal and external costs to compile data necessary for their respective TELRIC studies.

B. The determination of "undue economic burden" is a matter determined by the Authority's discretion in its consideration of the totality of circumstances surrounding the request for suspension under Section 251(f)(2) of the Communications Act.

The Petitioners respectfully submit that there is no black and white line established to determine whether a requirement is "unduly economically burdensome." In its consideration of a similar suspension request, the North Carolina Commission stated, "Notably, Section 251(f)(2) commands no specific methodology to prove that a requirement is unduly burdensome.

<sup>&</sup>lt;sup>24</sup> See, "Supplemental Statement" of the Petitioners filed in this proceeding on October 2, 2006, pp. 9-14.

<sup>&</sup>lt;sup>25</sup> *Id* at para. 12.

<sup>&</sup>lt;sup>26</sup> Even the CMRS Providers acknowledge that there are no "authoritative guidelines." Testimony of Randy G. Farrar, p. 7, lines 24-25.

Therefore, the Commission has used its best judgment based on the evidence and the totality of the circumstances to arrive at its decision."<sup>27</sup>

The North Carolina Commission granted a similar rural telephone company request for suspension form the TELRIC requirement based on "evidence and the totality of the circumstances" very similar to the evidence and totality of circumstances in this proceeding. <sup>28</sup> One striking difference exists, however, between this proceeding and the North Carolina proceeding. In the North Carolina proceeding, the Commission did not have before it the actual hard evidence of the undue burden associated with TELRIC studies that the Authority has witnessed first-hand. In this proceeding, the Authority has far more than the expert testimony and additional information provided by each Petitioner that demonstrates the undue burden of a TELRIC proceeding.

The Authority has witnessed the TELRIC rate setting process undertaken in Docket No. 03-00585 which demonstrates that the continued imposition of the TELRIC requirement results in an unduly economically burdensome requirement. The CMRS providers incorrectly assert that the Rural LECs have "refused to provide TRA-ordered forward-looking cost studies." Each Petitioner, if fact, presented a model for conducting a TELRIC study. The intent was to obtain agreement on the model prior to incurring otherwise unnecessary investment of time and money that would inevitably lead to further litigation. The CMRS providers, however, rejected each and every model offered by the petitioners, including a model previously utilized by the Authority.

<sup>&</sup>lt;sup>27</sup> "Order Granting Modification Under Section 251(f)(2)," North Carolina Suspension Proceeding, p.13.

<sup>&</sup>lt;sup>28</sup> Id. See, also, Attachment A.

<sup>&</sup>lt;sup>29</sup> Testimony of Randy G. Farrar, pp. 22-23.

It was, in fact, the awareness of the burden imposed by the CMRS providers in the Tennessee arbitration proceeding that led the North Carolina rural companies to seek suspension. The facts related to the Tennessee arbitration proceeding were part of the "totality of the circumstances" noted in support of the suspension request:

By seeking to have the Rural ICOs perform TELRIC studies, it appears that the CMRS providers are attempting to use economic leverage to demand TELRIC studies so as to force the rural companies to accept lower reciprocal compensation rates rather than incur the cost of the studies. Indeed, experience before the Tennessee Regulatory Authority (TRA) in Petition of Cellco Partnership d/b/a Verizon Wireless for Arbitration under the Telecommunications Act of 1996, TRA Consolidated Docket No. 03-00585 illustrates the extravagant detail with which the CMRS desire to have TELRIC studies conducted.<sup>30</sup>

The Petitioners respectfully submit that the costs of the TELRIC studies alone demonstrate that the TELRIC requirement is "unduly economically burdensome." The expense of preparing and defending the TELRIC study for each company, as described in both the October 2, 2006 "Supplemental Statement" and the testimony of Witnesses Reynolds and Staurulakis, is an undue and unnecessary burden. Requiring each Petitioner to incur this expense is clearly wasteful and contrary to the public interest given the totality of the circumstances. It bears repeating once again: TELRIC is not required by the Communications Act or even mentioned in the Act; the FCC has refrained from imposing TELRIC cost methodology on rural carriers repeatedly because of concern for the potential adverse impact on telecommunications users; and the statutory requirement of establishing transport and termination rates on the basis of "a reasonable approximation of the additional costs of terminating" traffic subject to reciprocal compensation can easily be met without any burden by establishing a rate similar to the rates in

<sup>&</sup>lt;sup>30</sup> "Order Granting Modification Under Section 251(f)(2)," North Carolina Suspension Proceeding, pp. 4-5 (emphasis added).

the many agreements that have been executed in Tennessee and throughout the nation between the Rural LECs and the CMRS providers.<sup>31</sup>

The CMRS providers, as expected, simply shrug off the undue and unnecessary burden of the TELRIC cost study methodology. Their argument can be summarized as simply arguing that the costs of the TELRIC cost study requirement alone will not result in the financial ruin of each rural LEC. Witnesses Reynolds and Staurulakis anticipated the shallow argument:

The CMRS providers will undoubtedly argue that the rural companies identified in this testimony can "afford" to conduct a TELRIC study, presumably funding such a study out of its earnings. Not only is this line of reasoning self-serving it is also flawed. The economic burden is not measured by whether a company can or cannot afford to pay for a TELRIC study but goes to the burden of imposing unnecessary, unwarranted and inefficient costs on a company. As discussed earlier in my testimony, the production of a TELRIC study and the related costs is completely unnecessary when the Telecommunications Act only requires that a reciprocal compensation rate simply be "a reasonable approximation of the additional costs of terminating such calls." 32

The suggestion by the CMRS providers that affordability or Rural LEC earnings, dividends or rate of return on equity has relevance to this proceeding or the establishment of reciprocal compensation rates is totally off the mark. In fact, the provisions of the Act specifically provide that the authority delegated to state regulatory bodies to establish the rates for reciprocal compensation does not authorize state regulatory bodies to require "any rate regulation proceeding to establish with particularity the additional costs of transporting or terminating calls, or to require carriers to maintain records with respect to the additional costs of such calls."

See Footnote 6.

Testimony of Jeffrey W. Reynolds, p. 11; see also, Testimony of Emmanuel Staurulakis, p. 12.

The CMRS providers expend extensive effort and words to support their red herring argument. <sup>34</sup> The mass of words and tables offered on behalf of the CMRS providers to support their contention that the Rural LECs can afford TELRIC cost studies, however, does not comport with the facts: the TELRIC cost studies are unnecessary and result in excessive costs in the context of the total amount of money at issue during the term of a reciprocal compensation agreement. Irrespective of whether a Rural LEC can afford to conduct a TELRIC study without experiencing financial ruin, the imposition of the TELRIC requirement on the Rural LECs imposes "a requirement that is unduly economically burdensome."

The common definition of "unduly" is "in an undue manner; excessively."<sup>36</sup> The cost of the TELRIC study by itself is excessive, representing an enormous portion of the net revenues that each Petitioner anticipates it would receive from the assessment of a reciprocal compensation rate if the rate was established in the range of rates commonly used throughout the nation. In the Petitioners' October 2, 2006 Supplemental Statement, the Petitioners set forth the following:

For example, if the rate of 1.5 cents per minute is applied, Crockett estimates that the cost of performing studies represents 71% of its anticipated reciprocal compensation revenue; using the same 1.5 rate, Peoples estimates 26% and West Tennessee estimates 97%. The resulting inverse relationship between the cost of the TELRIC requirement and the anticipated reciprocal compensation rates is more dramatic when rates in the range of those demanded by the CMRS providers are used in lieu of using a rate more in line with those used throughout the nation.<sup>37</sup>

Testimony of Randy G. Farrar, pp. 10-14 and Attachments RGF-1-5. *See also*, Testimony of Dr. Christopher C. Klein, pp. 10-11; Testimony of W. Craig Conwell, pp. 20-21 and Exhibit WCC -3.

<sup>35 47</sup> U.S.C. Sec. 251(f)(2)(A)(ii).

<sup>&</sup>lt;sup>36</sup> See, e.g., Webster's Ninth New Collegiate Dictionary and Webster's New World Dictionary of the American Language.

<sup>&</sup>quot;Supplemental Statement" of the Petitioners, October 2, 2006, p. 16.

Additional factors further demonstrate that the TELRIC requirement is excessively or unduly economically burdensome on each Petitioner. For example, there is no foreseeable amortization of the cost of the effort over time. When the initial term of an interconnection agreement concludes, the CMRS providers could again demand that each Petitioner perform a new TELRIC study and engage in a new TELRIC rate setting process in the absence of the requested suspension. CMRS Witness Farrar ignores this reality.<sup>38</sup>

Moreover, the costs of the TELRIC requirement are by no means limited to the initial costs of preparing the TELRIC study. The cost of the initial study is only the first step which will undoubtedly be followed by "conflicting cost models, and hundreds of inputs to those models, all supported by the testimony of expert witnesses. . ." <sup>39</sup>

CMRS Witness Klein glosses over fact and detail when he suggests that the process for utilizing TELRIC cost methodology to establish transport and termination rates in Docket No. 03-00585 will be "far less complex and time-consuming" than the TELRIC process he was "intimately involved with" when he was an employee of the Authority. 40 Dr. Klein's suggestion is misleading. His general statements and unsupported conclusion do not stand against fact and detail. Dr. Klein totally ignores the fact that the costs of producing TELRIC studies are significant regardless of the size of the company. His experience was with a BellSouth study,

<sup>&</sup>lt;sup>38</sup> Testimony of Randy G. Farrar, pp. 9-10. Mr. Farrar carefully words his assertion, stating "Once forward-looking rates have been established, they <u>could be</u> used for many years. (<u>Emphasis added.</u>) Mr. Farrar's conjecture that the rates "could be used for many years" is belied by the fact that when the term of the agreement ends, the rural LEC would again face the undue burden of a conducting a new study unless it acceded to the negotiation demands of the connecting carrier.

<sup>&</sup>lt;sup>39</sup> TELRIC NPRM, para. 6.

<sup>&</sup>lt;sup>40</sup> Testimony of Dr. Christopher C. Klein, pp. 7-8.

and he indicates no awareness of the impact of conducting similar studies for rural companies serving widespread geographic areas with a low number of loops per wire center.<sup>41</sup>

Witness Reynolds explains with specificity the extensive burdensome nature of the TELRIC cost proceeding and the anticipated costs in addition to the estimates of charges for each of his clients to conduct an initial TELRIC cost study:

The estimates vary by the availability of data, the detail of the underlying records and a variety of other factors. Since rural companies do not routinely (if ever) perform forward-looking, economic-type cost studies, basic information required in a TELRIC cost study must be painstakingly developed. The estimates do not include the costs associated with the internal or other external resources to produce basic underlying data. These types of costs cannot even be estimated until the TELRIC cost study process has begun. Regardless, the cost of developing a full-blown TELRIC cost study is significant regardless of company size. The cost of performing TELRIC cost study is a data intensive exercise. Company size plays only a small part in determining the work necessary to complete the study. As such the TELRIC cost study process is not scaleable to any degree with small rural companies expending time and financial resources equivalent to companies hundreds of times larger.

The estimates provided are for a "bare-bones" study. While some cost has been estimated for the defense of the study before the Authority it is my experience that a "straightforward, non-protracted" legal proceeding is virtually unheard of. The costs of acquiring the data, producing the study, defending the study and all of the related legal, internal and external costs are a completely inefficient use of the company's resources and an unnecessary burden. 42

In addition to these excessive costs, the development of studies will require the consideration of forward-looking cost of capital for each Petitioner. The Coalition respectfully submits that this additional cost will add a minimum of \$25,000 to the expense of each Petitioner in addition to the network TELRIC cost study estimates that each Petitioner has provided.<sup>43</sup>

See, Testimony of Emmanuel Staurulakis, Table 1, p. 5.

Testimony of Jeffrey W. Reynolds, pp. 9-10; see also Testimony of Emmanuel Staurulakis, p. 10.

<sup>&</sup>lt;sup>43</sup> See, "Supplemental Statement" of the Petitioners, October 2, 2006, Attachment B, Letter of September 28, 2006 from Dr. Jeff D. Makholm, Senior Vice President of National Economic Research Associates, Inc. In addition to the minimum \$ 25,000 fee, Dr. Makholm identifies additional fees and expenses that may be applicable.

No doubt exists that the TELRIC requirement does result in an unduly economically burdensome requirement on each Petitioner. The evidence already on the record in Docket No. 03-00585, as reflected by the wholesale rejection by the CMRS providers of the TELRIC cost models offered by each Petitioner, affirms the very concern that the FCC has observed with respect to TELRIC cost study proceedings:

### The drain on resources for the state commissions and interested parties can be tremendous.<sup>44</sup>

The Coalition estimates that, in total, the costs of proceeding with the TELRIC rate setting process will far exceed \$ 1,000,000. The Coalition respectfully submits that the dollars that would be expended on a TELRIC cost methodology proceeding can be put to far better use to serve rural Tennessee customers:

Rural telephone companies should not be required to undertake a TELRIC cost study to accommodate the individual interests of the CMRS providers. As indicated by the Telecommunications Act, a company specific study is not necessary to arrive at a rate that reasonably approximates the cost of the transport and termination of traffic. Every dollar spent on the TELRIC study could be better utilized by the JSI Coalition Members. Obviously, every dollar not wasted performing a TELRIC study is available for other purposes including but not limited to the maintenance of existing services, and network upgrades to foster the provision of broadband and advanced services in the rural areas of Tennessee served by the JSI Coalition Members. 45

The evidence before the Authority clearly demonstrates that each of the Petitioners is a small local exchange carrier that qualifies for the Sec. 251(f)(2) suspension; each Petitioner has a limited subscriber base and limited financial and staff resources to address the TELRIC interconnection requirement. The specific evidence and information provided by each Petitioner together with the general and technical facts within the Authority's specialized knowledge

<sup>44</sup> TELRIC NPRM, para. 6.

Testimony of Emmanuel Staurulakis, pp. 11-12; see also, Testimony of Jeffrey W. Reynolds, p. 11-12.

demonstrate that suspension of the TELRIC requirement is warranted to avoid an unduly economically burdensome requirement. The costs of going forward with a TELRIC cost methodology proceeding are excessive, especially when those costs are considered in the context of the amount of money involved in the proceeding to establish reciprocal compensation rates. Rational alternatives exist to establish transport and termination rates without imposing the undue economic burden on the Rural LECs. The grant of the requested suspension is necessary to avoid an unduly economically burdensome requirement on the Rural LECs, and the suspension will serve the public interest.

# C. Grant of the requested suspension is also warranted "to avoid a significant adverse economic impact on users of telecommunications services generally."

In accordance with Section 251(f)(2) of the Communications Act, it is appropriate for the Authority to grant the requested suspension because, as set forth in Sections II A and B above, the suspension is in the public interest and is necessary "to avoid imposing a requirement that is unduly economically burdensome." The "unduly economically burdensome" standard is one of three alternative set of circumstances that warrant grant of a suspension request consistent with the public interest, convenience and necessity. In addition to meeting the "unduly economically burdensome" standard, the circumstances in this proceeding also meet an alternative standard: grant of the requested suspension is necessary "to avoid a significant adverse economic impact on users of telecommunications services generally."

The Petitioners anticipated that the CMRS providers would suggest that the potential for economic harm to telecommunications users that arises from the imposition of TELRIC cost methodology would be limited to the costs of the TELRIC proceeding. They did just that, and

<sup>&</sup>lt;sup>46</sup> 47 U.S.C. Sec. 251(f)(2).

then cavalierly dismiss the resulting costs that would be passed on to ratepayers.<sup>47</sup> The CMRS providers ignore the greater issues of harm to telecommunications users in general. They fail to address the fact that the FCC has repeatedly hesitated to impose TELRIC cost methodology on rural telephone companies because of concern for the likelihood of resulting "significant adverse economic impact on users of telecommunications services generally."

The rates and charges of the telecommunications services provided by the Rural LECs are not established on the basis of TELRIC. As Witness Watkins points out, "Any requirement to apply TELRIC methods would result in transport and termination rates that, if applied here, would limit the RLECs in their recovery from CMRS providers of the network costs incurred in transporting and terminating CMRS providers' wireless service calls. The application of the TELRIC theory would result in minimizing the compensation from CMRS providers for use of the RLECs' networks. This will, in turn, shift the RLECs' total network cost recovery unfairly and inequitably to other service rates and to other service providers' compensation obligations. The users of these other services will bear a disproportionate and unfair burden of cost recovery through higher prices than would otherwise be the case. In other words, non-CMRS services will bear a greater relative burden of that overall cost recovery through higher rates." 48

The CMRS providers attempt to rebut this with circular reasoning. In essence, they claim that because the Rural LECs have not done TELRIC cost studies, it is not possible for the Authority to conclude that economic harm will result to telecommunications users because the Authority does not have before it "Tennessee-specific facts or data – and on company-specific facts or data." This is, of course, nonsense. In order to develop the company-specific data, the

Testimony of Dr. Christopher C. Klein, pp.9-11. See also, Testimony of W. Craig Conwell, p. 13. Testimony of Steven E. Watkins, p. 8.

<sup>&</sup>lt;sup>49</sup> Testimony of Dr. Christopher C. Klein, p. 11. *See also*, Testimony of W. Craig Conwell, p. 4, 9.

Rural LECs would have to perform the TELRIC studies, the very undue burden they seek to avoid through grant of the requested suspension.

The CMRS providers ignore the fact that the FCC did not need "company-specific facts or data" to conclude that TELRIC should not be applied to rural telephone companies. The FCC has continually and consistently refrained from imposing TELRIC costing methodology on the rural companies for any purpose because of its concern for the potential impacts on the users of rural telephone services.

The FCC's most recent remarks on this matter reiterate the existing policy not to impose TELRIC on rural companies. In August of 2004, the Federal-State Joint Board issued a notice to consider whether any form of forward looking cost methodology should be imposed on rural companies. The Joint Board explained the FCC's reasoning for refraining from imposing TELRIC or any form of forward-looking costs on rural companies:

The Commission explained that rural carriers generally have higher operating and equipment costs, which are attributable to lower subscriber density, small exchanges and a lack of economies of scale. [Footnote omitted] Therefore, the Commission stated that it would not implement a forward-looking support mechanism for rural carriers before January 1, 2001 and it encouraged the Joint Board to establish a task force representing a broad range of rural interests to assist in developing a forward-looking mechanism appropriate for these carriers. (Federal-State Joint Board on Universal Service Seeks Comment on Certain of the Commission's Rules Relating to High-Cost Universal Service Support, Public Notice, CC Docket No. 96-45, 19 FCC Rcd 16083 (2004) (August 2004 Public Notice) para. 3.)

CMRS Witness Klein attempts to maneuver around these facts by suggesting that the FCC proceedings that refrain to apply TELRIC only apply to "Universal Service costs and unbundled elements." That simply is not the case. The FCC has also considered this issue in the context of access charges for the very same physical services of transport and termination that are the subject of

Testimony of Dr. Christopher C. Klein, p. 11. See also, Testimony of W. Craig Conwell, p. 5.

Docket No. 03-00585. In *The Matter of Developing A Unified Intercarrier Compensation Regime*, CC Docket No. 01-92 (hereinafter "Docket 01-92") the FCC is considering comprehensive clarification and change with respect to its interconnection rules and the pricing of interconnection including reciprocal compensation.

Within Docket 01-92, multiple and diverse parties, including among others BellSouth, AT&T, Cingular Wireless, and many members of the Rural Coalition, filed on July 24, 2006, a comprehensive proposal for interconnection rules and pricing known as the "Missoula Plan." This consensus and compromise effort was encouraged by the FCC and is the product of the efforts of the NARUC Intercarrier Compensation Task Force. With respect to pricing of reciprocal compensation, the parties to the "Missoula Plan" arrived at a compromise agreement that would permit rural carriers like the Coalition members to utilize their interstate access rates for the transport and termination of traffic as the rate for reciprocal compensation.

In reaching this compromise proposal, the parties recognized that TELRIC was not a useful methodology for the Commission, state regulators or any parties with respect to the establishment of reciprocal compensation rates:

To remove any potential statutory obstacles to voluntary State compliance with the rate provisions applicable to Track 3 carriers, the Commission can modify its rules implementing sections 251(b)(5) and 252(d)(2) to make clear that, in setting "cost"-based rates for a Track 3 carrier's transport and termination of traffic, a State opting into the Plan may choose to rely on the Track 3 carrier's interstate access rate. As the Supreme Court has observed, the term "cost," as it appears in section 252, "give[s] ratesetting commissions broad methodological leeway." Verizon Communications Inc. v. FCC, 535 U.S. 467, 500 (2002). Today's reformed interstate access rate-setting methodologies, while obviously different from TELRIC, are nonetheless "cost"-based. See generally Report and Order, Federal-State Joint Board on Universal Service, Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap ILECs and IXCs, 16 FCC Rcd 11244 (2001).<sup>51</sup>

<sup>&</sup>lt;sup>51</sup> "Missoula Plan – Legal Justification," fn. 4. The term "Track 3" refers to rural incumbent carriers such as the members of the Coalition.

The Coalition recognizes that not all parties to this arbitration proceeding are supporters of the compromise consensus "Missoula Plan." While at least one CMRS provider supports this proposal as part of a comprehensive resolution to Docket 01-92, there will undoubtedly be considerable continuing debate over these matters as the FCC grapples with both universal service issues and intercarrier compensation issues over the next few months. For purposes of this proceeding, it is significant to note that the deliberations within FCC Docket No. 01-92 reflect the understanding that TELRIC methodology has not been imposed on the rural telephone companies either by statute or by the FCC.

The Joint Board and the FCC continue to consider alternative costing methodologies for rural companies, but have reached no conclusions that overcome the expressed concerns regarding the impact of using forward looking cost methodologies on telecommunications users in general. The very same concerns recognized by the FCC and Joint Board warrant a determination that the Authority should grant the requested modification and suspension of the TELRIC costing methodology imposed in the Arbitration Order in Docket No. 03-00585 because the suspension is necessary "to avoid a significant adverse economic impact on users of telecommunications services generally." <sup>52</sup>

Testimony of Emmanuel Staurulakis, p. 9; Testimony of Jeffrey W. Reynolds, p. 8.

#### **CONCLUSION**

Given the evidence and the totality of the circumstances, the continuation of the TELRIC requirement will result in a waste of limited resources that will not serve the public interest. The FCC has recognized the wastefulness and futility of TELRIC proceedings.<sup>53</sup> Rational alternatives exist to the TELRIC requirement and the "drain on resources"<sup>54</sup> that will inevitably result from proceeding with the TELRIC rate setting process.<sup>55</sup> The public interest, convenience and necessity will be served by the grant of the requested suspensions and the avoidance of this otherwise needless use of resources.

Accordingly, Petitioners respectfully request that the Authority determine that the requested suspension is necessary both "to avoid imposing a requirement that is unduly economically burdensome" and "to avoid a significant adverse economic impact on users of telecommunications services generally;" and that the requested suspension is consistent with public interest, convenience and necessity.

Respectfully submitted,

On Behalf of The Tennessee Rural Independent Coalition and Each Individual Petitioner

By William T. Ramsey
William T. Ramsey
Neal & Harwell, PLC
2000 First Union Tower
150 Fourth Avenue North
Nashville, Tennessee 37219-2498

Stephen G. Kraskin 2154 Wisconsin Avenue N.W. Washington, D.C. 20007

June 8, 2007

<sup>53</sup> See, e.g. TELRIC NPRM, para. 6. and text at footnotes 5, 6, 17 and 19, supra.

<sup>54</sup> I.I

Alternative proposals regarding the establishment of a non-TELRIC based rate have been submitted by the Coalition and the Petitioners in Docket No. 03-00585.

### **CERTIFICATE OF SERVICE**

I, the undersigned, hereby certify tha 2007, a true and correct copy of the foregoin method indicated:	
<ul><li>[ ] Hand</li><li>[ ] Mail</li><li>[ ] Facsimile</li><li>[ ] Overnight</li><li>[ x ] Electronically</li></ul>	Stephen G. Kraskin, Esq. Communications Advisory Counsel 2154 Wisconsin Avenue N.W. Washington, D.C. 20007 skraskin@independent-tel.com
<ul><li>[ x ] Hand</li><li>[ ] Mail</li><li>[ ] Facsimile</li><li>[ ] Overnight</li><li>[ x ] Electronically</li></ul>	Melvin J. Malone Miller & Martin 1200 One Nashville Place 150 Fourth Avenue North Nashville, TN 37219 mmalone@millermartin.com
<ul><li>[ ] Hand</li><li>[ ] Mail</li><li>[ ] Facsimile</li><li>[ ] Overnight</li><li>[ x ] Electronically</li></ul>	Bill Atkinson Sprint 3065 Cumberland Cir., SE Mailstop GAATLD0602 Atlanta, GA 30339 Bill.Atkinson@sprint.com
<ul><li>[ ] Hand</li><li>[ ] Mail</li><li>[ ] Facsimile</li><li>[ ] Overnight</li><li>[ x ] Electronically</li></ul>	Elaine Critides, Esq. Verizon Wireless 1300 I Street N.W. Suite 400 West Washington, D.C. 20005 elaine.critides@verizonwireless.com
<ul><li>[ ] Hand</li><li>[ ] Mail</li><li>[ ] Facsimile</li><li>[ ] Overnight</li><li>[ x ] Electronically</li></ul>	Paul Walter, Jr. 15 E. First Street Edmond, OK 73034 pwalters@sbcglobal.net

<ul><li>[ ] Hand</li><li>[ ] Mail</li><li>[ ] Facsimile</li><li>[ ] Overnight</li><li>[ x ] Electronically</li></ul>	Mark J. Ashby Cingular Wireless 5565 Glennridge Connector Suite 1700 Atlanta, GA 30342 mark.ashby@cingular.com
<ul><li>[ ] Hand</li><li>[ ] Mail</li><li>[ ] Facsimile</li><li>[ ] Overnight</li><li>[ x ] Electronically</li></ul>	Dan Menser, Sr. Corp. Counsel Marin Fettman, Corp. Cousnel Reg. Affairs c/o T Mobile USA, Inc. 12920 SE 38 <sup>th</sup> St. Bellevue, WA 98006 dan.menser@t-mobile.com marin.fettman@t-mobile.com
<ul><li>[ ] Hand</li><li>[ ] Mail</li><li>[ ] Facsimile</li><li>[ ] Overnight</li><li>[ x ] Electronically</li></ul>	Leon M. Bloomfield Wilson & Bloomfield, LLP 1901 Harrison St., Suite 1620 Oakland, CA 94610 <a href="mailto:lmb@wblaw.net">lmb@wblaw.net</a>
<ul><li>[ ] Hand</li><li>[ ] Mail</li><li>[ ] Facsimile</li><li>[ ] Overnight</li><li>[ x ] Electronically</li></ul>	Joe Chiarelli Sprint 6450 Sprint Parkway Mailstop: KSOPHN0212-2A671 Overland Park, KS 66251 Joe.M.Chiarelli@sprint.com

William J. Ramsey