Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20544

In the Matter of	
July 2008 Annual Access Charge Tariff Filings	WCB/File No. Pricing
Iowa Network Services, Inc. Tariff FCC No. 1	Transmittal No. 26
South Dakota Network, LLC Tariff FCC No. 1	Transmittal No. 5

PETITION OF VERIZON TO SUSPEND AND INVESTIGATE IOWA NETWORK SERVICES, INC. F.C.C. TARIFF FCC NO. 1, TRANSMITTAL NO. 26 AND SOUTH DAKOTA NETWORK, LLC F.C.C. TARIFF FCC NO. 1, TRANSMITTAL NO. 5

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Pursuant to Section 1.773 of the Commission's rules, 47 C.F.R. § 1.773, and Section 204 of the Communications Act, Verizon respectfully requests that the Commission suspend for one day and investigate the annual interstate access services tariffs filed by South Dakota Network, LLC ("SDN") and Iowa Network Access Division ("INAD") on June 24, 2008. As explained below, the Commission should investigate both of these tariff filings because SDN and INAD have failed to acknowledge the effect that proliferating illegal traffic pumping schemes have had on the demand for their services. Despite the dramatic increases in demand attributable to traffic pumping, neither SDN nor INAD have made meaningful reductions in their centralized equal access rates. SDN would leave its rate virtually unchanged, reducing it from $0.0060 per minute

[1] The Verizon companies participating in this filing ("Verizon") are the regulated, wholly owned subsidiaries of Verizon Communications Inc.

to $0.005975 per minute. INAD's proposed reduction from $0.00855 per minute to $0.00819 per minute, while larger than SDN's, is still insufficient in light of the explosion in traffic pumping and related schemes among INAD's members. The Commission should not allow either of these tariffs to take effect until it has investigated these issues.

I. SDN'S RATE INCREASES ARE BASED ON PROJECTIONS OF DECLINING DEMAND THAT ARE INCONSISTENT WITH SDN'S OWN DATA

SDN's proposal to leave its rates virtually unchanged in its tariff filing ignores the effect that the widespread proliferation of illegal "traffic pumping" schemes in South Dakota have had on SDN's own demand data. Under these schemes, a local exchange carrier ("LEC") typically pays (in cash or in kind) one or more "free" chat-line providers or conference service providers to be its "customer." The LEC assigns telephone numbers to the chat or conference service provider, and the provider uses those telephone numbers in marketing its "free" service. The LEC thereby exploits the predictably large consumer demand for a "free" chat or conference service to drive up the number of minutes of interexchange traffic that it can claim to terminate. The LEC then pays a kickback to the chat or conference provider that far exceeds any amount the provider may pay to the LEC to be its local customer. These payments are directly or indirectly funded by the high rural access charges paid by Verizon and other carriers. Traffic pumping schemes are thus dependent on a carrier's access rates being high enough to be "shared" with the chat or conference provider – and have thus proliferated among rural carriers with high access rates. The Commission should put an end to these improper practices expeditiously, before there is further harm to the interests of consumers and legitimate businesses.

At the same time, the Commission should not allow SDN to ignore the effects that these illegal traffic pumping schemes have had on its business when filing its tariffs. Since 2005, there has been an explosion of traffic pumping schemes in South Dakota – which has led to dramatic increases in demand for SDN's tandem switching services. As South Dakota's "centralized equal access provider," SDN provides equal access functionality to its member rural LECs throughout the state. SDN operates a tandem switch in Sioux Falls that serves as a single location for carriers such as Verizon to pick up and deliver LECs' interexchange traffic. Interexchange traffic originating from, or terminating to, SDN's member rural LECs must transit SDN's tandem in Sioux Falls.

As a result of this arrangement, the immense volume of access traffic generated by traffic pumping schemes in South Dakota must pass through SDN's tandem. SDN's data shows that 539 million minutes of access traffic passed through its tandem in 2005. By 2006, that number had grown to 663 million. By 2007, that number had nearly doubled, rising to *1.327 billion* minutes. And SDN's billing to Verizon suggests that SDN's demand has continued to grow during the first half of 2008.[2] Despite this trend and the continuing growth of traffic pumping schemes, SDN's tariff filing projects that demand for SDN's tandem switching services will actually *decrease* by 33 percent in 2008 – down from 1.327 billion minutes in 2007 to 855 million in the 2008-2009 tariff year.[3] SDN's tariff filing provides no explanation for its prediction of such an abrupt reversal in demand.

In this respect, SDN's tariff filing thus stands in stark contrast to INAD's tariff. As Iowa's centralized equal access provider, INAD is similarly situated to SDN – providing similar tandem switching services in a state where traffic pumping has flourished. Although INAD's tariff filing suffers other flaws, as discussed below, INAD at least admits that it has experienced

[2] The total amount billed by SDN to Verizon in the first five months of 2008 was 129 percent higher than (or more than double) the amount billed by SDN to Verizon in the first five months of 2007.

[3] SDN Tariff Review Plan, Form DMD-1.

a substantial increase demand for its tandem-switching services attributable to the explosion in traffic pumping – or what INS refers to as "call aggregator" traffic.[4] INAD's switched access minutes increased from 954 million in 2005 to 1.570 billion in 2006, and then increased again to 1.844 billion in 2007.[5] In sharp contrast to SDN's tariff, INAD's Transmittal No. 26 projects a continuation of this growth trend: a 26.86 percent growth in demand, to 2.346 billion minutes in the 2008-2009 tariff year.[6] Indeed, even INAD's projections may not adequately account for the explosion in demand due to traffic pumping – but SDN's projections most certainly do not.

SDN's tariff filing proposes centralized equal access rates based on projections of declining demand that are contrary to what SDN's historical data would seem to suggest. Yet SDN offers no explanation for this departure from its own data. SDN's reliance on these declining demand projections raise substantial questions regarding the lawfulness of SDN's centralized equal access rates. The Commission should suspend SDN's tariff and investigate SDN's demand projections.

II. INAD HAS FAILED TO SUPPORT ITS PROJECTED REVENUE REQUIREMENT

INAD's proposed rates in Transmittal No. 26 are based in part on INAD's projected revenue requirement of $19.25 million – up 28 percent from its 2007 revenue requirement of $15.02 million.[7] INAD has proffered no reason for such an increase. INAD's projection of such a steep increase in its revenue requirement alone – with no explanation – raises substantial questions of lawfulness, and the Commission should suspend and investigate INAD's tariff.

[4] Iowa Network Services ("INS") Transmittal No. 26, Description and Justification at 1-2.

[5] *Id.* at 1.

[6] *Id.*

[7] INS Transmittal No. 26, Tariff Review Plan, Form COS-2.

Moreover, INAD's increase in its revenue requirement appears to ignore the effect of a growing transport scheme by many rural LECs that is often a part of, or a companion to, traffic pumping. Over half of INAD's projected revenue requirement – $11.35 million – is attributable to a "Cable & Wire Facilities Expense."[8] Although it is less than clear from INAD's filing, it appears that this expense category represents INAD's payments to an affiliate to lease transport facilities in order to provide centralized equal access service.[9] INAD's centralized equal access service originally included both the tandem switching function in Des Moines and transport between Des Moines and "interconnection points" throughout Iowa.[10]

As Verizon and others have noted, however, over the past couple of years many – if not most – of INAD's member rural LECs have engaged in unreasonable practices by changing their interconnection points with INAD for no other purpose other than to inflate their own switched access revenues by increasing the mileage for which they can charge transport. Now it is the rural LECs – not INAD – that generally bill carriers for the transport of interexchange traffic. By moving their interconnection points with INAD further away from their own end offices, typically to Des Moines, these LECs are able to charge other carriers exorbitant mileage-

[8] INS Transmittal No. 26, Tariff Review Plan, Form COS-1(P), col. T, row 178.

[9] Under the corporate structure described by INS to the Commission in its section 214 application, INS was to operate as two divisions. One division (Iowa Network Interexchange Carrier Division or INICD) would construct and operate a fiber optic network throughout Iowa while the other (INAD) would lease transport facilities from INICD in order to provide centralized equal access service. Memorandum Opinion and Order, *Application of Iowa Network Access Division For authority pursuant to Section 214 of the Communications Act of 1934 and Section 63.01 of the Commission's Rules and Regulations to lease transmission facilities to provide access service to interexchange carriers in the State of Iowa*, 3 FCC Rcd 1468, ¶ 2 (1988).

[10] *Id.*

based transport charges at high rural rates for a higher number of miles.[11] Readlyn Telephone Company in Readlyn, Iowa, provides one example. In 1989, Readlyn Telephone interconnected with INAD in Cedar Rapids, Iowa, which is 57 miles away from Readlyn. The centralized equal access service provided by INAD for calls to Readlyn Telephone included transport from Des Moines to the INAD interconnection point in Cedar Rapids; Readlyn Telephone and another LEC shared the remaining 57 miles of transport and billed distance-based transport fees for that mileage. Today, however, Readlyn Telephone interconnects with INAD at the INAD tandem in Des Moines and bills mileage-based charges for the entire 105 miles from Des Moines to Readlyn.[12] None of the transport from Des Moines to Readlyn is provided by INAD as part of its centralized equal access service.

In light of Iowa LECs' growing practice of relocating interconnection points to Des Moines in order to inflate their transport revenues, the transport expense component of INAD's revenue requirement should have declined significantly. Indeed, even the very LECs that have moved their interconnection points as part of this scheme assume that this is the case. In a recent ex parte filing discussing its transport charges, Readlyn Telephone contended that "INS' rate goes down as it provides less transport for Readlyn."[13] But, despite these changes in INAD's transport obligations, transport expenses – in the form of "Cable & Wire Facilities Expense" – account for over half of INAD's revenue requirement, or $11.35 million.

[11] Comments of AT&T, WC Docket No. 07-135, (Dec. 17, 2007) at 8 n. 12; 34-38; Ex Parte Letter from Donna Epps, Verizon, to Marlene Dortch, FCC, WC Docket 07-135 (Feb. 27, 2008) ("Verizon February Ex Parte").

[12] Verizon February Ex Parte at 4.

[13] Ex Parte Letter from Sharon Huck, Readlyn Telephone, to Marlene Dortch, FCC, WC Docket 07-135 (May 1, 2008) at 3.

Here again, a comparison of SDN's and INAD's tariff filings is instructive. In South Dakota, many rural LECs have designated the SDN tandem in Sioux Falls as their interconnection point with SDN, in order to maximize their transport billing. As this practice has spread in South Dakota, and the transport aspect of SDN's centralized equal access service has decreased, SDN's transport revenue requirement has declined to almost nothing.[14]

INAD's tariff filing proposes a 28 percent increase in its revenue requirement without providing adequate support for its claim. INAD's incorporation of large transport expenses in its growing revenue requirement is inconsistent with INAD's rapidly decreasing transport responsibilities. INAD's reliance on its projected revenue requirement in setting its rates raises substantial questions regarding the lawfulness of INAD's tariff. The Commission should suspend Transmittal No. 26 and investigate whether and how INAD's cable and wire facilities expense furthers its centralized equal access service, given changing transport arrangements.

[14] SDN Transmittal No. 5, Description and Justification at 3 (transport revenue requirement of $8,616).

CONCLUSION

For the foregoing reasons, the Commission should suspend and investigate SDN Transmittal No. 5 and INAD Transmittal No. 26.

Respectfully submitted,

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June 26, 2008

CERTIFICATE OF SERVICE

I hereby certify that, on June 26, 2008, a copy of the foregoing Petition of Verizon to Suspend Iowa Network Services, Inc. F.C.C. Tariff FCC No. 1, Transmittal No. 26 and South Dakota Network, LLC F.C.C. Tariff FCC No. 1, Transmittal No. 5 was sent to the parties listed below by electronic mail or by facsimile and U.S. first-class mail.

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