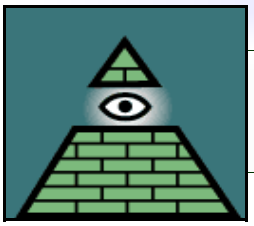
MONTANA TELECOMMUNICATIONS

SEPTEMBER 2002

mits Montana Independent Telecommunications Systems

Providing Professional Services to the Telecommunications Industry since 1994



Eyes are Turning to Telecom Players

Big Players - Big Problems

World Com, Global Crossing and Qwest. Eyes are turning to telecom players as Americans continue to scrutinize the financial transactions of major corporations. A bankruptcy filing by a telecom giant such as World Com may seem irrelevant and far-removed from Montanans served by top-notch financially sound rural telephone companies. What does it really matter to us?

> *"The combined revenue impact on MITS' members in Montana from the World Com and Global Crossing bankruptcies is in excess of $1.2 million and counting,"*
> *Mike Strand, Executive Vice President, MITS*

The answer lies in the complexities of how telephone companies get the money needed to serve customers. Telecommunications is a capital-intensive industry. Simply put, it takes a lot of money to provide quality telephone service. Revenues generated from local telephone customers may not cover the costs of the local phone companies serving those customers, especially in rural "high cost" areas. Additionally, local phone networks are not used just for local calling. Components such as cables, wires, switches, etc. are used to deliver long distance calls as well. Therefore, a portion of the revenue from long distance telephone companies flows back to the local phone companies whose networks are used to originate and terminate calls. The local telecom companies, in turn, use the funds to maintain the quality networks required for both local and long distance use.

Long distance companies pay local companies "access charges" – fees assessed on each long distance call that begins or ends on a local telephone network. Long distance companies are also the primary contributors to the federal universal service fund, used in part to assist local phone companies serving high-cost areas.

If companies like World Com fail to meet their financial commitments, including paying access charges due to local telephone companies and required universal service contributions, impacts will be far-reaching. Ripples of their financial turmoil will surely be felt by other more responsible telecom players and, in turn, by end user customers, who may be left picking up the tab. "The combined revenue impact on MITS' members in Montana from the World Com and Global Crossing bankruptcies is in excess of $1.2 million and counting," according to Mike Strand, MITS' Executive Vice President. "The numbers could go much higher if the bankruptcy trustees are unable to keep accounts current following the bankruptcy declarations," he added.

The financial stability of the telecom industry does matter -- even if we've never been a customer of those big companies scrambling to explain what the heck they were doing with their money.

On September 17, the Montana PSC assured current Montana ETCs, or "eligible telecommunications carriers", that they are being certified to the FCC as eligible to receive federal universal service funds for the year 2003. State Commissioners must annually certify that "high cost" carriers are using universal service funds only for the provision, maintenance and upgrading of facilities and services.

Telcos Don Thinking Caps -

MITS staff joined managers and personnel from Triangle, Central, Nemont, Valley, Project and Northern telephone companies at Triangle's offices in Havre, August 30th for the latest in a series of technology-regulatory strategic planning sessions. The group has met regularly for the past six months to examine state and federal telecom issues and policies, as well as innovations and applications of technology. The strategic planning activity emphasizes the companies' continued commitment to provide customers with quality service at competitive rates.

Strategic Planning Session @ Triangle's Headquarters

Central Montana Communications, Inc. Nemont Telephone Cooperative Northern Telephone Cooperative Inc.
Project Telephone Company Triangle Telephone Cooperative Association Valley Telecommunications

Legislative Recap

Special Session Brief But Frenzied

The special session of the Montana Legislature lasted only six days, but those days were long and debate was spirited. MITS was concerned with four bills in the special session. The first was a bill to remove software from the tax-exempt category of intangible property. Since MITS' members and many of their best customers use a significant amount of sophisticated and expensive software, MITS opposed this action. After a good deal of contact with the members of the committee, the majority was persuaded to table the bill.

The second bill to capture our attention was one that would have created a sliding scale for the taxation of business equipment. MITS opposed the bill because of the dramatic tax increases that would have resulted for our wireless operations. Again, the majority of the committee was persuaded to table the bill.

Another bill proposed to raid the contents of the Montana Universal Access Program (MUAP) fund, totaling approximately $640,000. Part of the money was to be used to make up for cuts at the Dept of Public Health & Human Services and the remainder was to go to the general fund. The original purpose of the MUAP was to support the costs of ensuring that all communities in Montana had broadband access. Unfortunately, very few applications had been made for the funds. While MITS indicated its preference that the fund be used for telecommunications purposes, the legislature had other ideas. The bill passed with nearly unanimous votes.

Finally, a bill was introduced to take approximately $56,000 from the MTAP program, which provides telecommunications access for the disabled and persons with difficulty hearing. While legislators were informed that taking these funds would likely mean that the current 10 cents per line charge that funds the program would have to be increased in the 2005 session, they nonetheless passed the bill with unanimous votes.

Qwest Steps Back in its Long Distance Quest

Just when it seemed like they were inching towards the goal line, Qwest downed its own ball by withdrawing its applications before the FCC to provide long distance service in nine states: Montana, Utah, Washington, Wyoming, Colorado, Idaho, Iowa, Nebraska and North Dakota. In an extremely brief order issued one day after Qwest's ex-parte communication asking to withdraw their applications, the FCC closed the dockets.

FCC Chairman Michael Powel then issued a statement, "The FCC cannot approve such applications by the Bell Companies unless they satisfy the requirements of sections 271 and 272 of the Communications Act. In my view, Qwest's applications were razor-close to approval. Ultimately, the outstanding issues were very narrow, but nonetheless important. I am confident that Qwest, in consultation with the states, Department of Justice, and this Commission, will expeditiously resolve the outstanding issues that prevented approval."

Section 271 outlines the requirements to assure that local markets are irreversibly opened to competition prior to a Bell telephone company (such as Qwest) offering interLATA long distance service. Section 272 imposes substantial safeguards to discourage and detect improper cross-subsidization between a Bell company's local and long distance affiliates and to assure there is no discrimination in favor of the affiliated companies. Qwest has indicated it will refile the application.

*i*Connect Implements New Security System at Helena Facility

An advanced access control system has recently been installed at *i*Connect Montana's Helena fiber hotel and Vision Net's video conferencing facility, which is adjacent to the fiber hotel. The new system, which relies on a combination of a digital keypad and a "radio" card reader, provides a high level of security along with the ability to remotely monitor and control who can enter the facilities.

The fiber hotel can only be accessed by those who have been provided with a specialized radio key that has been programmed to electronically open the door lock when swiped in the proximity of the card reader. The credit card-sized cards, which cannot be copied like traditional keys, have been pre-programmed with information about the card's bearer so that access to the room can be monitored and recorded.

Access to Vision Net's video conferencing facility is also controlled electronically, but uses a digital keypad instead of a card reader. When users schedule use of the video conferencing facility, they will be assigned a 5-digit number code which, when entered into the keypad, unlocks the door into the conference room.

The access system can be controlled remotely via a password-protected Internet connection. Codes and cards can be remotely enabled or disabled and reports can be generated that indicate who accessed the facilities and what time the access occurred.

MITS BITS - Annual Co-op Business Meetings

Nemont Telephone: @ Glasgow Civic Center
October 5, 2002, Registration @ 8:00 am
Meeting @ 10:00 am - Lunch @ Noon

Triangle Telephone: @ MSU Northern Student Union Bldg.
October 12,2002 Registration @ 10:00 am
Lunch @ 11:30 am - Meeting @ 1:00 pm

. . .Examines Telemarketing Rules

Responding to increased public concern on the impacts of telemarketing techniques on consumer privacy, the FCC is seeking comments on whether it should change its rules that restrict telemarketing calls and, if so, how. The FCC is asking for suggestions on how it might improve its telemarketing rules, specifically:

>How to balance telemarketing practices with individuals' privacy rights, public safety interests, freedom of speech and trade;
>How to address auto-dialers, prerecorded messages and unsolicited facsimiles;
>How effective are company-specific do-not-call lists; and
>Whether to establish a national do-not-call list and how to coordinate with the Federal Trade Commission's recent proposal to adopt a national do-not-call list as well as various state do-not-call lists. See http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-226183A1.doc for details on Docket No. 02-278.

. . .Extends Comments re: "Captured" and "New" Lines

In an unusual move, the FCC issued a notice from its Consumer and Governmental Affairs Bureau dealing with a universal service issue. The National Telecommunications Cooperative Association (NTCA)'s Petition for Expedited Rulemaking asking the FCC to set definitions for "captured" and "new" subscriber lines for purposes of determining universal service support was noticed Aug 8. Routinely the Wireless Competition Bureau (formerly the Common Carrier Bureau) would have issued a universal service notice. Since several parties were unaware of the FCC notice, the Commission extended the response date to Sept 23 and the reply date to Oct 7, 2002. (Reference RM No. 10522, DA 02-2214)

. . .Revisits Western Wireless' Basic Universal Service Kansas Offering

The FCC is seeking comments on the Petition for Reconsideration filed by the State Independent Alliance and the Independent Telecommunications Group asking for reconsideration and clarification of the recent FCC order concluding that Western Wireless' Basic Universal Service (BUS) offering in Kansas is a Commercial Mobile Radio Service. The ruling also held that Kansas may not regulate BUS entry or rates, may not require equal access for telephone toll services, and that Western Wireless is not subject to Federal regulation as a local exchange carrier with respect to the BUS offering. The Petitioners also seek clarification of the BUS Order regarding whether Kansas is prohibited from establishing equal access as a condition of the receipt of universal service funds. Comments are due October 16, 2002. Reply comments are due October 31, 002. (Reference WT Docket No. 00-239, DA 02-2266)

PSC Suspends Electronic Filing Rule

The Montana Public Service Commission (PSC) on September 5th voted to suspend indefinitely a recently-adopted rule requiring the filing of both paper and electronic copies of documents in agency proceedings. As PSC staff geared up for the October 1st implementation date of the new rule, they identified internal electronic case management improvements required before the new electronic filings would be "useful and manageable." While suspending the rule at this time, both Commissioners and staff expressed commitment at a September 5 work session to move forward with a Web-based docket management system available for internal PSC use as well as an external resource tool for PSC activities.

How Much is Too Much?

State Reps Propose Shifting Costs to Local Consumers

Customers would see another fee increase on their local telephone bill if the FCC agrees with an August 2002 recommendation from some state representatives of the Federal-State Universal Service Joint Board. In a letter to FCC Chairman Michael Powell, state members recommended that the universal service contribution mechanism be changed to collect contributions based on customer connections to telephone networks. The letter endorses a proposal that would increase contributions from local telephone companies from 23% to 53% and decrease contributions from long distance companies from 63% to 19%.

Under such a proposal, universal service fees on consumers' local bills would go up. Interestingly, the FCC currently does not require long distance carriers to pass along any savings from decreases in universal service contributions to their customers.

Montana PSC Commissioner Bob Rowe supports an alternative proposal that would assess all providers of interstate services. Presently, contributions are based on the interstate retail revenues of local and long distance telephone companies.

"Tail-Gating" Telecom -

High school sports are a big thing in co-op country and fans of the Huntley Red Devils, the Absarokee Huskies, the Lodge Grass Indians and the Belfry Bats are in for a special treat this year.

Project Telephone Company is hosting several pre-game tailgate parties featuring free chili and pop, served by Project employees, and free team banners at local high school football games. Nemont Telephone's annual *Customer Appreciation Days* will include free lunches and pre-paid calling card giveaways at Medicine Lake, Dagmar, Froid, Bainville, Fort Peck and Nashua.

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SEPTEMBER 2002

United We Stand

Cutting Edge -
The National Strategy to Secure Cyberspace

The Internet has arguably made the world a better place and has enabled communications capabilities that were unimaginable just a few short years ago. The control of essential processes in manufacturing, utilities, banking, communications and government operations has increasingly been shifted to networked computers. The Internet, which was originally designed to share unclassified research among scientists, has become a common target of "cyber attacks" by a variety of sources that range from simple hackers, whose primary intent is to show off their programming skills, to terrorists intent on inflicting damage such as disrupting critical operations, causing loss of revenue and productivity, and even causing loss of life. Tools used by cyber attackers include worms and viruses such as NIMDA and Code Red as well as sophisticated hacking techniques enabling attackers to engage in fraud, extortion and theft in cyberspace.

The terrorist attacks on 9/11/01 have heightened our nation's awareness of the need to protect ourselves from all types of potential threats to our national security. President Bush's "Critical Infrastructure Protection Board" has recently released for comment a draft report entitled *The National Strategy to Secure Cyberspace*. The report is intended to address all potential problems related to cybersecurity and provides a roadmap for Federal, State and local governments, private sectors of the economy, the education community, and the American Internet consumer.

The report details the nation's vulnerability to cyber attacks and formulates some strategies, policies and guiding principles to address these vulnerabilities. The 65 page report can be found on-line at http://www.whitehouse.gov/pcipb/cyberstrategy-draft.pdf. Comments and suggestions on the report can be sent (by 11/18/02) via a feedback link found at www.securecyberspace.gov.

Mark Your Calendar

√**Sept. 23-26** - NTCA Fall Conference, Las Vegas, NV
√**Sept. 29-Oct 2** - USTA Convention & Exhibition - Boca Raton Resort in Boca Raton, Fl
√**Oct. 7-8** - 2002 NTCA Wireless Symposium: Discover & Define Rural Telecom's Next Frontier, Nashville, TN
√**Oct. 14-15** - NTCA Regional Mtg, Billings, MT
√**Oct. 23-24** - NTCA Regional Meeting, Fargo, ND
√**Nov. 14-15** - NTCA TTelcoTV Conference & Expo, New Orleans, LA
√**Dec. 9 & 10** - MITS' 2002 Technology Symposium, Helena, MT

2002 Technology Symposium

MITS is again hosting a *Technology Symposium*.
West Coast Colonial Inn, Helena, December 9 & 10