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April 14, 2008

By Certified Mail

Mr. Tom Morley
Capital Telephone Company, Inc.
3195 Dowlen Road
Suite 101-411
Beaumont, TX 77706

Dear Mr. Morley:

In October 2007, Verizon Business advised your company, Capital Telephone Company, Inc. ("Capital"), that Verizon Business was disputing Capital's interstate and intrastate switched access charges for the period from July 2007 to October 2007. The dispute was based, in part, on Verizon Business's concern that Capital's bills submitted to Verizon Business suggested the existence of an unlawful traffic pumping scheme to inflate Capital's switched access revenues at the expense of Verizon Business and its customers. Since that time, Capital has not provided a substantive response to Verizon Business's dispute other than to provide call detail records in November 2007. Instead, Capital has persevered in its unlawful traffic pumping scheme. In addition, further information obtained by Verizon Business has reinforced its belief that Capital is engaged in practices that are unjust and unreasonable under Section 201(b) of the Communications Act of 1934. Accordingly, this letter gives notice pursuant to 47 C.F.R. § 1.721(a)(8) that, if Capital does not provide a satisfactory response within a reasonable time to Verizon Business's continuing efforts to resolve this dispute, Verizon Business intends to exercise its right to file a formal complaint with the Federal Communications Commission ("FCC") under 47 U.S.C. § 208 to redress Capital's multiple violations of 47 U.S.C. § 201(b).

The evidence available to Verizon Business strongly suggests that Capital is making net payments — in a word, kickbacks — to its purported end users in order to generate switched access traffic for which it can bill Verizon Business and other interexchange carriers ("IXCs"). Capital obtained regulatory permission to operate as a competitive local exchange carrier ("CLEC") in South Dakota only in January 2007, filed an interstate switched access tariff in February 2007, and terminated no switched access traffic before July 2007. Then, in July, Capital's terminating switched access charges to Verizon Business jumped to $5,761; in August, they more than doubled to $14,913.50; and by November, they had more than doubled again to $31,420.65. In Verizon Business's experience, such rapid increases are not consistent with normal, legitimate activity on the part of a startup CLEC.

Prompted by the sharp upward trend in Capital's charges, Verizon Business has conducted an audit of the traffic for which Capital had sent bills. For example, Verizon Business personnel identified all 33 numbers associated with the traffic terminated by Capital on March 19, 2008, and called each of those numbers. Each call was answered with the same recorded announcement: "You're rockin' the chatline with rockin', talkin' guys and gals 24/7." The recorded announcement also informed callers: "There is no charge for this call but your normal telephone toll charges do apply." Verizon Business has undertaken similar reviews of Capital's traffic for other days, and has obtained similar results. It therefore appears that Capital terminates interexchange traffic exclusively to chat lines that do not obtain any revenue from the individuals who use their services.

Because these chat lines have no other apparent source of revenue, Verizon Business must infer that Capital is supporting their operation through net payments funded by the terminating access revenues it receives from IXCs. Accordingly, the chat lines are not "free," but in fact are being paid for by IXCs and ultimately their customers. The practice by certain carriers of making net payments to their purported end users as part of a scheme to inflate their access revenues has been common knowledge in the industry for years, and is well documented by recent press reports. This practice is unreasonable and violates federal law. Capital should cease this practice immediately and agree to pursue no further the bills it has already submitted.

Capital's scheme is made even more unreasonable by Capital's accompanying abuse of the "rural CLEC exemption," 47 U.S.C. § 61.26(e), to the FCC's caps on interstate switched access charges. This exemption is intended to promote competition that benefits rural consumers, not to increase the windfall profits that CLECs earn from traffic pumping schemes. Capital's attempt to claim the exemption at the same time that it is paying kickbacks to its purported end users as part of a scheme to increase the access charges that it bills is a second unreasonable practice that it should cease immediately.

Finally, Capital is routing the traffic for which it is charging Verizon Business in an unreasonable way. Verizon Business passes the traffic off at a switch owned by SDN Communications in Sioux Falls, South Dakota. Capital charges Verizon Business first for transport from Sioux Falls to Frederick, South Dakota (180 miles); and then for transport from Frederick to Redfield, South Dakota (66 miles), for a total of 246 miles. In its bills submitted to Verizon Business, Capital describes the Frederick switch as a "host" and the Redfield switch as a "remote."

This is unreasonable for at least two reasons. First, SDN's network runs directly through Redfield. There is no apparent reason why SDN could not interconnect with Capital in Redfield, rather than 125 miles away in Sioux Falls. SDN would then carry the traffic at a non-distance-sensitive per-minute rate as part of its centralized equal access service, for which Verizon Business is already paying. Capital's decision instead to receive traffic from SDN in Sioux Falls and to bill for transport from Sioux Falls to Redfield itself is therefore a third unreasonable practice intended to inflate its access charges, a practice Capital should cease immediately.

Second, after inflating transport charges by picking up Verizon Business's traffic in Sioux Falls, Capital *again* increases its transport charges by billing for transport in two separate segments, one from Sioux Falls to Frederick *and* the other from Frederick to Redfield. If the transport distance were measured directly from Sioux Falls to Redfield, the distance would be 125 miles — about half the mileage actually billed by Capital . Although Capital appears to be justifying its arrangement as consistent with a "host-remote" relationship between the Frederick and Redfield switches, the Frederick switch does not appear to be a true host. Verizon Business has never been billed for a call terminated in Frederick, and Capital's application to provide service in South Dakota mentions the Redfield switch but not the Frederick one. Accordingly, Capital's attempt to charge for the additional miles needed to transport the traffic via Frederick is a fourth unreasonable practice that it should cease immediately.

Verizon Business is prepared to engage in good faith settlement discussions with Capital about this dispute. In order for these discussions to be productive, however, Capital will need to provide significant information to support any claims that its business activities are legitimate. Specifically, Verizon Business requests that Capital provide (1) complete support for all of the bills it has sent Verizon Business, including industry standard EMI-format call records, since Capital last provided such information in November 2007; (2) a detailed explanation for the increase in traffic during the second half of 2007 and early 2008; (3) as part of that explanation, information about any agreements between Capital and the providers of the chat line services described above, including any kickbacks or other payments from Capital to the chat line providers; (4) information, if any exists, that would support the reasonableness of Capital's transport of Verizon Business's traffic from Sioux Falls to Redfield over its own network, rather than over SDN's; and (5) information, if any exists, that would support the reasonableness of Capital's routing traffic to Redfield by way of Frederick, and billing for the extra distance.

Verizon Business requests a response to this letter by April 28, 2008. If Capital does not resolve these issues to Verizon Business's satisfaction, Verizon Business intends to take further action to protect its rights, including filing a complaint with the FCC.

Very truly yours,

Curtis L. Groves