Rate of Return Regulation: A Broadband Success Story

Rate-of-return (RoR) regulation represents a significant broadband deployment success story. This regulatory framework has enabled carriers operating in hard-to-serve high-cost areas to install and maintain critical high-speed connections between rural communities and the world. The economic and civic livelihood of rural communities will depend on affordable access to broadband services and the continued deployment and operation of advanced networks – regulators and policy-makers should replicate this broadband success story rather than replace it.

NTCA, OPASTCO, and WTA ("Rural Associations") have been working together to ensure recognition of the essential role that RoR regulation plays in the deployment and provisioning of broadband in rural areas. At a time when broadband deployment has been identified as a priority national objective, the Rural Associations are actively urging decision makers to preserve this proven framework.

The Case for RoR Regulation – an Effective Model for Broadband Deployment:

- RoR regulation offers carriers in high-cost rural areas a degree of stability and predictability in the cost recovery they need to invest in networks.
- RoR regulation keeps rates fair and affordable by providing limited returns on investment at levels set by regulators. It also ensures that carriers have sufficient revenues to meet quality-of-service obligations and customer demands.
- RoR regulation does *not guarantee* a specified level of return on investment – it only provides carriers with *an opportunity* to recover their expenses and taxes and to earn an authorized return on capital investments.
- There are procedural and structural safeguards under RoR regulation to constrain waste and preclude excessive earnings. Where a carrier exceeds the authorized rate of return, it may be required to refund the excess and/or lower its rates. Other constraints include quality-of-service commitments and extensive financial reporting requirements under governmental oversight, as well as review and audit by lenders and other entities.
- RoR promotes investment throughout areas where it might likely otherwise be uneconomical to do so. RoR regulation has helped carriers to deliver on the promise of broadband for rural America – those areas that rely most heavily upon broadband to access essential economic, civic, educational, and medical resources.
- As of 2009, RoR-regulated carriers had deployed DSL to over 92% of their subscribers (up from 79% in 2005), and many are investing in innovative broadband technologies. Such forward-looking installations represent prudent investment; for example, deploying scalable technologies such as fiber will reduce the ongoing cost of operating plant while also increasing speeds for consumers.
- Price cap regulation on the other hand tends to drive investment where risk is least and the likelihood of recovery is greatest and quickest. It often provides little, if any, incentive to invest in many parts of rural America where the costs to deploy are highest and the potential customer base is small.

Rate-of-return regulation has enabled small, community-based communications providers in rural America to build and maintain the networks necessary to bring essential broadband services to rural communities. Preserving this proven effective cost-recovery framework is critical to continued broadband deployment.