July 29, 2011

Chairman Julius Genachowski Federal Communications Commission 445 12th Street, S.W. Washington, D.C. 20554	Commissioner Michael J. Copps Federal Communications Commission 445 12th Street, S.W. Washington, D.C. 20554
Commissioner Robert M. McDowell Federal Communications Commission 445 12th Street, S.W. Washington, D.C. 20554	Commissioner Mignon Clyburn Federal Communications Commission 445 12th Street, S.W. Washington, D.C. 20554

Dear Chairman Genachowski, Commissioner Copps,
Commissioner McDowell, and Commissioner Clyburn:

The undersigned parties, which include individual companies as well as carrier associations, collectively serve the vast majority of rural America. Since the Commission began its most recent proceeding on universal service and intercarrier compensation reform, these parties have worked tirelessly to develop proposals to achieve the goals outlined by the Commission while adhering to the fundamental statutory objectives of universal service. In the spirit of compromise, these parties came together to try forge a consensus framework for such reform. Our efforts succeeded and this letter outlines the consensus that emerged from our discussions.

At the outset, it is important to note that all parties made difficult compromises in order to find consensus. Outside of this framework, these parties have divergent interests and would not necessarily agree to these compromises. For example, the rate-of-return associations would be unlikely to support in other contexts any reductions to their authorized interstate rate-of-return or the intercarrier compensation reforms included in this framework. Similarly, the price cap carriers would be unlikely to support certain constraints on the use of the forward-looking cost model described in their proposal outside of this consensus framework. Accordingly, to the extent that the Commission considers material changes to individual components of this framework, it should recognize that individual parties will likely withdraw their support for – and indeed may very well oppose actively – other components of these proposals and/or the then-negated consensus framework as a whole. The parties to this consensus made substantial concessions in the interest of obtaining an industry consensus that would enable regulatory certainty and the unimpeded business of building broadband. These concessions were made carefully and in concert with the movements of other parties. Accordingly, the parties to this proposal urge specific and particular sensitivity to the fact that what may appear to be an immaterial change to policy makers or another party may in fact disrupt a delicate balance of interests and collapse a breakthrough compromise.

It is also important to note that this framework makes reference to both the Joint Rural Association Filing and the America's Broadband Connectivity proposal. Since the Joint Rural Association Filing predates development of this consensus framework, the framework incorporates certain modifications to the proposal made in that filing. The ABC proposal has also been modified before filing to be consistent with this consensus framework.

The framework establishes a budget period for the high-cost universal service fund. That period would begin in 2012 and end in 2017. The parties have attempted to design their respective proposals to constrain the size of the total high cost fund within a $4.5 billion per year budget. The framework does not envision any automatic extension of that budget beyond the budget period. Instead upon expiration of the budget period, the Commission would simply need to ensure, as it is charged to do by statute, that sufficient, predictable, and specific funding – irrespective of any estimated or desired budget number – is in fact available to satisfy fully the statutory mandate of universal service thereafter. Moreover, to the extent that the Commission were to believe that any budget target limitations are necessary going forward thereafter and that such budget targets can in fact be adopted and implemented consistent with the requirements of Section 254 of the Communications Act, as amended, the Commission would as part of developing any such budget target be required prior to the end of the current budget period to make an affirmative determination of the level of high cost funding needed to satisfy in all respects the objectives and requirements of universal service after 2017.

The framework proposes that, for the budget period, the Commission establish an annual funding target for its mobility objectives of $300 million. This amount could be phased in to help stay within the budget.

The framework proposes that the Commission establish an annual funding target for areas served by rate-of-return carriers that begins at $2 billion and, to the extent necessary to help ensure sufficient funding, increases by $50 million per year (i.e., increasing to $300 million, or a total annual budget target of $2.3 billion, in the sixth year) to enable access restructuring, promote further broadband build-out (but only to the extent supported by increases in universal service/CAF funding above current levels), and provide a reasonable opportunity to recover the costs associated with existing investments in broadband-capable plant. This potential incremental funding for rate-of-return carriers would not be available to other providers. The CAF calculation for areas served by rate-of-return companies would be made using an interstate rate-of-return of 10%. Other details regarding the Joint Rural Association Proposal may be found in their filing.

The framework proposes that the Commission establish an annual funding target of $2.2 billion for areas served by price cap carriers.

Because the undersigned parties understand that it is important to make every effort to remain within the budget, the framework further proposes that the Commission manage the phase-in of model-based support to ensure that there is sufficient funding for all other purposes, including the access restructuring mechanisms. In addition, the Commission could defer funding of the CAF for the study areas of AT&T and Verizon for up to two years. The deferred amounts would be redirected to other funding needs within the budget. To the extent, however, that sufficient funding is not expected for any reason to be available to provide the necessary levels of high-cost support and/or intercarrier compensation restructuring for carriers in any given year, any and all reductions in intercarrier compensation rates shall be deferred until such sufficient funding is confirmed to be available.

The framework proposes to reduce certain terminating switched access and reciprocal compensation rates to $0.0007 per minute.[1] These reductions would be phased in over six years for areas served by price cap companies and over eight years (subject to the preceding paragraph) for areas served by rate-of-return companies; provided, however, that rate-of-return carriers would remain entitled to charge and be paid by all carriers and providers rates that are equal to current interstate levels (without any further automatic reductions) for terminating transport and tandem switching for all interstate and intrastate access traffic, in addition to the reformed per-minute rates that would apply to terminating local switching. During the fifth year the Commission would evaluate the transition for rate-of-return companies and determine then whether to modify in any way the transition for areas served by rate-of-return companies, including whether to reduce transport and tandem switching rates for individual rate-of-return companies that in fact own and operate their own tandem in the final year of the transition.

The parties further agree to and support Commission action on the appropriate compensation for VoIP traffic that originates or terminates on the PSTN, traffic pumping, and phantom traffic. Achievement of the budget targets described herein is premised on positive action by the Commission in these three areas as well as all other aspects of the consensus framework. In particular, with respect to VoIP, the parties support a determination by the Commission that, upon the effective date of an order in this proceeding, traffic exchanged over PSTN facilities that originates and/or terminates in IP format will be subject to access charges at interstate rates if interexchange, or reciprocal compensation if local. This determination will be based on the origination and termination points of a call as determined by true, unaltered call detail information.

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[1] The intercarrier compensation rate reductions for rate-of-return companies shall be as follows:

- Interstate originating and terminating switched access rates will be capped at the start of the first year, with any shortfall between revenue requirements and revenues collected through such capped rates recovered through an intercarrier compensation restructure mechanism.
- Terminating intrastate access reduced to interstate access rates and structured in two equal steps (each step = 1 year).
- Terminating end office rates to $0.005 per minute over three additional steps (Steps 3 to 5).
- Transport and tandem switching rates remain unchanged from previous step (i.e., they remain at interstate levels for access traffic).
- At Step 5, FCC proceeding determines if continued transition should be slower or faster.
- Unless otherwise determined by the FCC, terminating end office rates to $0.0007 in three additional steps (Steps 6 to 8). Unless otherwise determined by the FCC, transport and tandem switching rates remain unchanged from previous step (i.e., they remain at interstate levels for access traffic).

As part of the transition, the FCC will be expected to provide for an intercarrier compensation restructure mechanism for rate-of-return carriers. The residential rate benchmark level for the restructure mechanism for rate-of-return carriers should be $25. SLC caps would increase by $0.75 per line, per year for six years with no further increases in later years.

The framework allows for access recovery mechanisms as described in the individual reform proposals. The rate-of-return proposal further incorporates an earnings review for reductions in intrastate access.

This carefully constructed framework reflects the collective efforts and compromises of a wide variety of industry participants, and represents a reasonable path forward toward the long-standing objectives of universal service and intercarrier compensation reform. The undersigned parties urge the Commission to move expeditiously to adopt the proposed reforms.

Sincerely,

/s/
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United States Telecom Association

/s/
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/s/
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