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RURAL TELECOM ASSOCIATIONS RESPOND TO COMMENTS ON FURTHER UNIVERSAL SERVICE FUND REFORM

Urge FCC to adopt sufficient and predictable Connect America Fund mechanism for rural carriers and reject inflexible and unfunded broadband mandates, arbitrary regression models and baseless re prescription of authorized rate of return

WASHINGTON (February 17, 2012) – The National Exchange Carrier Association (NECA), the National Telecommunications Cooperative Association (NTCA), the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) and the Western Telecommunications Alliance (WTA) today filed reply comments with the Federal Communications Commission (FCC) in response to the agency’s Further Notice of Proposed Rulemaking (FNPRM) regarding Universal Service Fund (USF) and intercarrier compensation (ICC) reform.

The associations urged the FCC to adopt the RLEC Plan, which is a sufficient and predictable Connect America Fund (CAF) mechanism for rural rate-of-return regulated rural local exchange carriers (RLECs). The RLEC Plan would enable these carriers to make available, throughout their territories, broadband services that are reasonably comparable in quality and price to those available in urban areas, consistent with the mandates of the Telecommunications Act and the FCC’s own objectives.

The associations noted the success of the existing USF program, which has enabled most RLECs to deploy at least basic levels of broadband service to a substantial majority of the consumers living in their territories. They also highlighted, however, that only new, sufficient and predictable CAF support can enable the significant additional investment needed to meet the performance requirements for broadband adopted in last year’s FCC Order, including the 4Mbps downstream and 1Mbps upstream speed benchmark. Instead of further cutting and capping existing support, as the FCC has proposed, or abandoning rate-of-return regulation, as suggested by some commenters, the associations urged the FCC to

build on the success of existing USF mechanisms and adopt a CAF for rate-of-return carriers that is sufficient, predictable and up to the task of making available robust and reasonably comparable broadband services for all rural consumers.

In their joint comments, the associations also noted the FCC's reliance on a flawed and hastily developed methodology for represeting the current rate of return for RLECs and provided clear evidence that the existing rate of return continues to reasonably represent the cost of capital. Particularly in light of the dozens of new rules and further proposed changes to high-cost USF and ICC mechanisms, the associations suggest a more sensible and procedurally proper two-step process in which the FCC would first identify any perceived shortcomings in its existing substantive rules and then conduct a hearing based on the modified rules that would satisfy the requirements of the Administrative Procedure Act.

"We urge the FCC to rethink its proposal for represetion," said Kelly Worthington, WTA's executive vice president. "We've provided extensive analyses and factual information demonstrating the opposite of what the FCC and a small handful of parties simply assume to be true. Indeed, most parties favoring a reduction in the authorized rate of return provide no evidence whatsoever in support of their claims."

The rural associations also underscored and further explained their problems with the FCC's proposed regression models for distributing high-cost support. They noted that the models drew an "avalanche of criticism" from other parties detailing similar objections, and none of the comments provide detailed arguments in support of the proposed models.

"It is quite clear from the record in the proceeding that the Commission's regression proposal is fatally flawed," said Stuart Polikoff, OPASTCO's vice president of regulatory policy and business development. "Rather than using its regression models to constrain high-cost support for RLEC capital and operating costs, the Commission should rely instead on more reasonable and rational approaches, such as the methods proposed in the RLEC Plan."

The rural associations further argued that the FCC should dismiss the notion of reducing or eliminating support in study areas with purported unsubsidized "competitive overlap" until it has sorted through a number of sufficient issues. These include: (1) the precise means of identifying truly "unsubsidized competition"; (2) the process by which support might be reduced in these areas; and (3) the consequences for rural consumers and the implications for "carrier of last resort" obligations on which many rural customers depend.

"The record in this proceeding shows that the FCC should allow the impacts of its recent order to be implemented and understood before making even more cuts to universal service support," stated NTCA CEO Shirley Bloomfield. "On issues from lowering rates of return to extending untested models, there is little support and even less evidence to justify moving forward. The FCC should turn its attention instead to creating a truly sufficient and predictable Connect America Fund for all rural consumers."

"This proceeding is ultimately about consumers, particularly rural consumers," said Jeff Dupree, NECA vice president of Government Relations. "We have suggested in numerous filings in this proceeding, including these reply comments, ways in which FCC policy can help achieve the common goal of providing the best possible broadband service for customers in RLEC service areas. We will continue to work with the FCC to that end."

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The National Exchange Carrier Association (NECA) is a membership association of U.S. local telephone companies, dedicated to keeping customers connected on state-of-the-art communications networks. Our services help more than 1,000 members across rural America deliver high-speed multi-use broadband services. Visit us at www.neca.org.

The National Telecommunications Cooperative Association (NTCA) is the premier association representing more than 570 locally owned and controlled telecommunications cooperatives and commercial companies throughout rural and small-town America. NTCA provides its members with legislative, regulatory and industry representation; meetings; publications; and educational programs; and an array of employee benefit programs. Visit us at www.ntca.org.

The Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) is the leading voice for rural telecommunications, representing approximately 460 small incumbent local exchange carriers serving rural areas of the United States. Its members include both commercial companies and cooperatives, which collectively serve more than 3 million customers. OPASTCO represents rural telecommunications interests before federal regulatory bodies and Congress, provides publications, and holds two conventions annually in January and July of each year, addressing the needs of the small telecommunications industry. The association has an affiliate 501(c)(3) nonprofit, the Foundation for Rural Education and Development (FRED). Visit us at www.opastco.org.

Western Telecommunications Alliance (WTA) is a trade association whose membership is comprised of approximately 250 rural telecommunications carriers providing high-quality voice, video and data services throughout rural areas in the 24 states west of the Mississippi River. On average, WTA member companies serve fewer than 3,000 access lines with fewer than 500 customers in each exchange. WTA's members serve some of the most rural and hard-to-serve communities in the country and are on the forefront of bringing 21st Century telecommunications services to rural America. Visit us at www.w-t-a.org.