

**BEFORE THE FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of

Connect America Fund

WC Docket No. 10-90

COMMENTS

of the

Oregon Telecommunications Association

and the

Washington Independent Telecommunications Association

July 10, 2017

The Commission has issued a Notice of Proposed Rulemaking and Order, released May 19, 2017, seeking comment on the urban rate floor, sometimes referred to as just the "rate floor." The Oregon Telecommunications Association (OTA) and Washington Independent Telecommunications Association (WITA) welcome the opportunity to comment on this very important subject. OTA and WITA are trade associations representing primarily incumbent local exchange carriers in their respective states.¹ A list of OTA's members is attached as Exhibit 1. A list of WITA's members is attached as Exhibit 2.

WITA's members serve primarily rural portions of the state of Washington. Not surprisingly, OTA's members serve primarily rural portions of the state of Oregon. As such, OTA and WITA's members have been heavily impacted by the urban rate floor concept and the Commission's rules related thereto.

OTA and WITA recommend that the Commission repeal the urban rate floor rules and the reporting requirements related to the urban rate floor. The basis for this recommendation rests on three items. First, the urban rate floor has achieved its purpose. Second, the urban rate floor increases have caused customers to drop land line service. Third, at current levels, there is very little difference between the urban rate floor and the residential rate ceiling. With little difference between the floor and the ceiling, it raises questions of rate affordability.

¹ OTA does have several competitive local exchange companies as members.

1. The rate floor rule has accomplished its goal.

Under 47 U.S.C. 254(b), Congress established a set of universal service principles. The first three principles deal with the goal of establishing affordable rates for telecommunications service. Those principles are stated as follows:

- (1) Quality and rates. - Quality services should be available at just, reasonable, and affordable rates.
- (2) Access to advanced services. - Access to advance telecommunications and information services should be provided in all regions of the Nation.
- (3) Access in rural and high cost areas. - Consumers in all regions of the Nation, including low income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.

In 2011, focusing on this last principle, and only on the comparability portion, the Commission adopted a rule that required rates to increase in many rural areas.² As stated in the Notice, the Commission determined in 2011 that it would be inappropriate to provide federal high-cost support that subsidized local rates beyond what is necessary to ensure reasonable comparability between rates in rural areas and rates in urban areas.³

² See, Connect America Fund et al., WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663, 17749-56, paras. 234-47 (2011), aff'd sub nom In re FCC 11-161, 753 F.3d 1015 (10th Cir. 2014).

³ In the Matter of connect America Fund, FCC 17-16, Notice of Proposed Rulemaking and Order (Released May 19, 2017) at ¶3.

It was the case that, in some areas, there were very low rates for basic telephone service. It is often cited that there were rates in the \$7.00 to \$10.00 per month range. The Commission felt that this meant that urban customers were subsidizing rural customers beyond what would be reasonably comparable. As a result, rates have risen in many rural areas to where the monthly recurring rates are now up to the \$18.00 urban rate floor.

There can be a great deal of debate about what constitutes reasonable comparability. For example, rural customers often look at the calling scope (how many other numbers can be called for the basic service rate). Customers also look at the extent to which business services can be reached for the basic service rate. In many urban areas, for the basic service rate customers can often reach hundreds of thousands of numbers and a complete range of business services. In rural areas, the payment of the basic service rate can entitle a customer to reach perhaps a few hundred or a few thousand other numbers and often not a complete range of business, healthcare and other needed services.

It can also be argued that there are flaws in how the urban rate floor surveys work. There are some competitive providers that offer a stand alone basic rate that is extremely high because they want to steer customers to bundled services. Under a bundled rate for cable TV, Internet access and local telephone service, the telephone service is often free or included at a very low price. Under those circumstances it is very difficult to determine what is truly the comparable urban rate.

In any case, it is clear that at \$18.00 per month, there is very little, if any, subsidy occurring from the high-cost fund. The rate floor at \$18.00 a month for basic service in rural areas has removed any meaningful subsidy of local rates from the high-cost fund.

2. Increases in the basic rate have lead to customers dropping service.

Since 2011, as the basic rate has risen under the urban rate floor concept, customers in rural areas have dropped service. To determine exactly why this has happened is difficult. However, it is clear that, as a general rule, incomes in rural areas are lower than they are in urban areas. Therefore, what is affordable as a rate in rural areas may differ from that in urban areas. The customer's perception of what is affordable is certainly driven by their income status. It has been the experience of OTA and WITA's members that as they raise their rates to meet the rate floor, they lose customers. This calls into question as to whether or not the principles of universal service as set forth in Section 254(b) are truly being met by the urban rate floor concept. As customers drop service because they do not view the service as being affordable as rates continue to rise, the urban rate floor concept is doing a disservice to the goals of universal service.

Not only is telecommunications affected, but also access to broadband is affected. Without the customers subscribing to basic telecommunications service, it is often difficult to get them to subscribe to broadband service, even if broadband stand alone service is available. Thus, additional goals of universal service are threatened as customers discontinue basic service because of the perception that it is no longer affordable.

3. The urban rate floor threatens to exceed the Commission's concept of affordability.

Under the urban rate floor, the elements that are used to calculate the rate include the basic rate for service, mandatory extended area service (EAS), any state USF contributions and any state subscriber line charge (SLC). 47 C.F.R. 54.318(e). In contrast, the Commission has established a base line for affordability under its residential rate ceiling in dealing with what can be assessed under the Access Recovery Charge (ARC). In establishing this mile post for affordability, the Commission took in account the basic rate, mandatory EAS, the state SLC, state USF contributions, the federal SLC and the ARC, as well as state 911 and state TRS charges. 47 C.F.R. 51.915(b)(11) and (12). The Commission established a \$30.00 monthly recurring rate of the listed components as a limitation on the ability to assess the ARC on residential customers. 47 C.F.R. 51.917(e)(6)(iii).

What happens in Oregon and Washington is illustrative. In Washington, with the rate floor being comprised of the base rate for residential service and mandatory EAS, the basic service rates are usually at \$18.00.⁴ There is no state USF contribution and there is no state SLC. In Oregon, there is state USF contribution of 8.5% of intrastate revenues. Several companies have a basic rate, plus mandatory EAS and state USF surcharge higher than \$18.00 per month. The point is that in comparing the urban rate floor to the residential rate ceiling, when the other charges that are included in the residential rate ceiling are examined with the rate floor, it quickly becomes apparent there is very little difference between the urban rate floor and the residential rate ceiling.

⁴ In some cases the basic service rates are higher. One company has chosen to keep rates slightly lower because it was losing customers at a pace that made any penalty the lessor of two evils.

In Oregon and Washington, most companies charge the SLC at \$6.50. As of 2017, the ARC can be up to \$3.00.⁵ The state 911 charge in Washington is \$0.95.⁶ Recently, the state TRS charge in Washington has been eliminated and TRS service is funded through the general state fund. With the basic rate at \$18.00, a SLC at \$6.50, and ARC at \$3.00, and state 911 at \$0.95, the overall rate is then \$28.45. This is less than \$2.00 from the residential rate ceiling. In Oregon, there is a state 911 charge of \$0.75 per month and a state TRS charge of eleven cents per month.⁷ This provides an overall monthly rate of \$28.36. Again, less than \$2.00 from the residential rate ceiling. That small a differentiation means that with a urban rate floor at \$18.00, customers are bumping up against the affordability mile post established by the Commission under the residential rate ceiling. In fact, moving to a \$20.00 urban rate floor would mean that the rate floor exceeds the residential rate ceiling when all components are provided on a like to like basis.

The impact of this situation is to really threaten the affordability of basic service. It also has the affect of ratcheting down what can be recovered through the ARC and putting increasing pressure on the high-cost fund. That consequence seems to be contrary to the goals that the Commission has established. What this logically means is that any increase in the urban rate floor is contrary to what the Commission itself has said should occur.

⁵ While it is recognized that not all companies charge the full \$3.00 ARC, the basic point remains the same.

⁶ This is comprised of a \$.70 county 911 charge and a \$.25 state 911 charge.

⁷ The state TRS charge is referred to in Oregon as the RSPF.

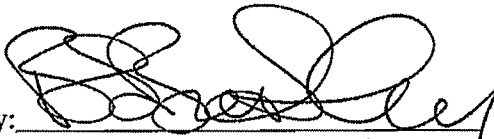
CONCLUSION

For the reasons set forth above, OTA and WITA strongly urge that the Commission repeal its rules on the urban rate floor. OTA and WITA are not seeking to allow companies serving rural portions of the Nation to decrease their rates so they can draw more from the high-cost fund. However, there should not be any more mandated local rate increases through the urban rate floor concept.

Thank you for the opportunity to address this very important issue.

Respectfully submitted,

WASHINGTON INDEPENDENT
TELECOMMUNICATIONS ASSOCIATION

By: 
Betty S. Buckley, Executive Director

OREGON TELECOMMUNICATIONS
ASSOCIATION

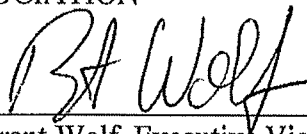
By: 
Brant Wolf, Executive Vice President

EXHIBIT 1

Beaver Creek Cooperative Telephone Company
Canby Telephone Association d/b/a DirectLink
Cascade Utilities, Inc., d/b/a Reliance Connects
CenturyLink
Clear Creek Communications
Colton Telephone Company, d/b/a ColtonTel
Eagle Telephone System, Inc.
Frontier Communications Northwest, Inc.
Gervais Telephone Company
Helix Telephone Company
Home Telephone Company
Hunter Communications, Inc.
MINET
Molalla Telephone Company d/b/a Molalla Communications Company
Monitor Cooperative Telephone Company
Monroe Telephone Company
Mt. Angel Telephone Company
Nehalem Telecommunications, Inc., d/b/a RTI Nehalem Telecom
North-State Telephone Co.
Oregon-Idaho Utilities, Inc.
Oregon Telephone Corporation
Oregon Telephone Corporation - MTE
Pacific Wave Communications
People's Telephone Co.
Pine Telephone System, Inc.
Pioneer Telephone Cooperative
Roome Telecommunications, Inc.
St. Paul Cooperative Telephone Association
Scio Mutual Telephone Association
Stayton Cooperative Telephone Company
Trans-Cascades Telephone Company, d/b/a Reliance Connects
Warm Springs Telecom

EXHIBIT 2

Asotin Telephone Company d/b/a TDS Telecom
Ellensburg Telephone Company d/b/a FairPoint Communications
Hat Island Telephone Company
Hood Canal Telephone Co., Inc. d/b/a Hood Canal Communications
Inland Telephone Company
Kalama Telephone Company
Lewis River Telephone Company, Inc. d/b/a TDS Telecom
Mashell Telecom, Inc. d/b/a Rainier Connect
McDaniel Telephone Co. d/b/a TDS Telecom
Pioneer Telephone Company
RTI – Pend Oreille Telephone Company, d/b/a RTI
St. John Telephone, Inc.
Skyline Telephone, Inc.
Tenino Telephone Company
The Toledo Telephone Company, Inc. d/b/a ToledoTel
Western Wahkiakum County Telephone Company d/b/a Wahkiakum West Telephone
Whidbey Telephone Company d/b/a Whidbey Telecom
YCOM Networks, Inc. d/b/a FairPoint Communications.