

December 12, 2017

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street S.W.
Washington, D.C. 20554

RE: Connect America Fund, WC Docket No. 10-90

Dear Ms. Dortch,

The undersigned rural telecommunications providers submit this letter to urge the Federal Communications Commission (the “Commission”) to take immediate steps to remedy shortfalls in the high-cost universal service fund (“USF”) that are resulting in reduced network investments, lower broadband speeds and higher consumer prices in rural America. Currently the budget cuts fall squarely, and entirely, on the shoulders of rural rate-of-return telecommunications providers.

As background, we are small telecommunications providers that have remained on “rate-of-return” (“Cost-Based”) USF programs and exclusively serve rural areas of South Dakota. Our companies have demonstrated a strong commitment to rural South Dakota by investing in broadband-capable networks for many years in some of the most challenging and high cost terrain. Collectively, our companies serve more than 66,581 broadband subscribers across 53,179 square miles of rural South Dakota.

Our companies’ prior investments in broadband-capable networks were accomplished using a combination of company funds, RUS loans and/or commercially funded debt. Cost-Based USF high-cost funding was critical to the decisions of both providers and lenders to make such investments — without USF support the business case would have been difficult, if not impossible, to justify. Moreover, the availability of sufficient and predictable Cost-Based USF support remains essential to the sustainability of those networks and the affordability of the services they provide. While there is certainly more work to be done and consumers to be reached in the areas we serve, Cost-Based USF programs have a long-term track record of success in deploying and advancing broadband services in rural and remote areas.

Recent USF reforms make significantly more (standalone) loop costs reliant on High Cost support for recovery. However, no corresponding incremental budget was established, exacerbating High Cost shortfalls. Due to the shortfalls, South Dakota Cost-Based providers have a diminished ability to satisfy recent investment funding obligations, and face significant uncertainty regarding future investments to reach rural consumers still in need of broadband access.

Of particular concern for rural consumers:

>Cost-Based providers like the undersigned must now scale back plans for future broadband infrastructure investment in the face of cuts in support. As Cost-Based USF support that justified and would have helped to pay for earlier investments disappears, we must cut future broadband investments in order to cover the costs of those prior investments including

loans taken out to build those networks. This translates to fewer locations in rural areas that will be served by broadband, and lower speeds at locations that are served today.

>Cuts in Cost-Based USF support that have risen rapidly from 4.5% to more than 9% and now to greater than 12% frustrate reasonable attempts to plan for future investment. Cuts that continue to rise and are unpredictable in scope (beyond the fact that they keep growing) undermine plans for investment. Such unpredictability is particularly troubling in a capital-intensive industry like rural infrastructure where returns are measured in decades.

>Insufficient USF support defeats the purpose of providing standalone broadband support, and contradicts the goals and mandates of universal service. Federal law indicates that universal service policy is intended to ensure the availability of reasonably comparable services at reasonably comparable rates. Insufficient Cost-Based USF support and the “budget control mechanism,” however, push increasing amounts of cost recovery onto the backs of rural consumers, translating into prices that are materially higher than any urban consumer would pay for the same broadband service.

Support for Cost-Based and ACAM participants alike are critical to the advancement of rural broadband and the goals of universal service. Commitments in rural broadband and telecommunications networks have been made by providers based on past and current USF systems. These commitments require suitable support for all in order to build upon and maintain long term, high speed broadband networks.

The Commission has an opportunity to address these problems and ensure small rural provider USF programs generally, and the Cost-Based USF programs (i.e., High-Cost Loop Support and Connect America Fund-Broadband Loop Support) more specifically, operate as intended and consistent with the federal mandate for universal service. In particular, the Commission can and should take the following steps:

1. In the wake of previously providing: (a) \$2 billion of CAF reserves to enable a voluntary cost model election and the pre-funding of future broadband locations; and (b) \$66 million of CAF reserves for disaster recovery relief, immediately use the remaining Connect America Fund (“CAF”) reserves (which would appear to be \$129 million) to help fill the shortfall in the Cost-Based USF programs. Notably, this step alone would only address 75% of the existing Cost-Based shortfall.
2. As many in Congress have previously urged, continue to collect now *at least* \$4.5 billion consistent with the current overall High-Cost USF budget, and use any amounts that may be in excess of that total to assist in funding the shortfall in the Cost-Based USF mechanism.
3. Provide supplemental USF support to fill as promptly as possible any remaining shortfall after the first 2 steps noted above.
4. Seek comment on ways to address the budget shortfalls going forward for both Cost-Based USF mechanisms and the model-based support mechanism.

As noted earlier, the Cost-Based USF mechanisms have a demonstrated track record of promoting the advancement of broadband in rural America unlike any other program to date. The undersigned rural telecommunications providers are committed to that mission, and have taken significant risks in the form of using their own capital or taking out loans to build networks that

deliver on that mission. We are eager to continue our work toward this shared goal of universal service, but the insufficiency of the Cost-Based USF programs is not only undermining that goal but is also putting at serious risk the good work done to date. We hope the Commission will work with us to put the universal service mechanisms back on track and sufficient as a whole, so that we can get back to the business of investing in rural networks and delivering quality and affordable services to rural consumers and businesses in our communities.

Sincerely,

South Dakota Cost-Cased Companies

Alliance Communications Cooperative, Inc.
Golden West Telecommunications Cooperative, Inc.
Interstate Telecommunications Cooperative, Inc.
Kennebec Telephone Company, Inc.
Midstate Communications, Inc.
RC Technologies
Santel Communications Cooperative, Inc.
TrioTel Communications, Inc.
Valley Telecommunications Cooperative Association, Inc.
Venture Communications Cooperative
West River Cooperative Telephone Company

cc: Chairman Ajit Pai
Commissioner Mignon Clyburn
Commissioner Michael O’Rielly
Commissioner Brendan Carr
Commissioner Jessica Rosenworcel