Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
ETC Annual Reports and Certifications	)	WC Docket No. 14-259
	)	

COMMENTS OF THE
UNITED STATES TELECOM ASSOCIATION

The United States Telecom Association (USTelecom)[1] submits its comments in response to the Wireline Competition Bureau request for comment more generally on Letter of Credit (LOC) proposals raised by several petitions for waiver in the Rural Broadband Experiments (RBE) context, and the potential applicability of an LOC requirement in the Connect America Fund (CAF) Phase II competitive bidding process.[2] We recommend that the Commission tailor LOC requirements for CAF Phase II to more appropriately reflect the amount of funding perceived to be "at risk" because it has yet to be invested in telecommunications plant.

[1] USTelecom is the premier trade association representing service providers and suppliers for the telecom industry. Its diverse member base ranges from large publicly traded communications corporations to small companies and cooperatives – all providing advanced communications service to both urban and rural markets. USTelecom members provide a full array of services, including broadband, voice, data and video over wireline and wireless networks.
[2] *Wireline Competition Bureau Seeks Comment More Generally on Letter of Credit Proposals for Connect America Phase II Competitive Bidding Process*, WC Dockets Nos. 10-90, 14-259, FCC 14-259, Public Notice (Wireline Comp. Bur. Rel. Feb. 27, 2015).

Within the context of the RBE proceeding, auction participants that have been awarded funding are required to obtain an LOC equal to the award funds previously disbursed and the funds scheduled to be disbursed over the coming year.[3] The LOC must remain open for 120 days after the completion of the 10-year program, and failure by the recipient to renew (and increase) the LOC would result in default under the terms of the program, enabling the Commission to draw on the LOC and recover all the funds disbursed over the course of a decade.

USTelecom asserts that these terms are onerous in the context of CAF Phase II, and that for that program the terms should be tailored to the amount of money "at risk" annually or at most within a one to two year range. For example, an LOC could be required for the first two years, with no more than one to two years of CAF II disbursements protected by an LOC. After the first report at the end of 2017, the need for an LOC would then be suspended unless a reporting company misses its required number of locations for that time. Similarly, we agree in principle with CoBank's "rolling one-year coverage" approach which reduces the amount of the LOC to cover only the funds that the Commission will disburse over the coming year.[4]

As we have noted in a previous filing in this docket, the Commission determined that "LOCs are an effective means of securing our financial commitment to provide Connect America support. LOCs permit the Commission to protect the integrity of universal service funds that have been disbursed.' The Commission considers the processes it has established for LOCs to be one piece of the "paramount objective" to establish strong safeguards to protect against misuse of the Connect America Fund."[5] We agree that LOCs are a useful tool to ensure that the funds issued are utilized for the purpose for which they were intended, however, once

[3] *See Connect America Fund; ETC Annual Reports and Certifications*, WC Docket Nos. 10-90 and 14-58, Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd 8769 (2014) (*RBE Order*).
[4] *See Comments of CoBank, ACB* at 3.
[5] *See RBE Order* at ¶¶56,65.

that goal has been met there is no longer a need to have an LOC on that amount; a more tailored approach accomplishes the same goal without imposing overly onerous costs on a support recipient.

To establish an LOC, it appears that issuing banks usually charge from 1 percent to 5 percent of the amount of the LOC each year. If half of the annual CAF funding ($900 million) is available in the auction and the winning bidders have average creditworthiness, the industry will have to commit $22.5 million in the first year alone to pay for this enforcement mechanism, rather than using that money for plant investment. Under the approach used for the RBE, the industry-wide cost of the LOC mechanism would escalate to $225 million in the tenth year, and the total cost over the ten year program would be $1.2375 billion (or 69% of the annual funding amount). If the Commission were to apply such a burdensome enforcement mechanism to CAF II, it would materially reduce the deployment of broadband and undermine the purpose of the program. Instead, the Commission should substantially reduce the overall amount of funding that needs to be backed by an LOC to a one to two year range will significantly decrease the cost of LOCs and permit that additional funding to be used for investment instead of banking fees.

The RBE program was designed so that the Commission to "explore how to structure the Connect America Fund Phase II competitive bidding process."[6] We applaud the Commission for stepping back to look at how the use of LOCs has worked thus far and how they can be better utilized to serve the program prior to the upcoming CAF Phase II competitive bidding process, in which the stakes are much higher for customers in rural and high-cost areas.

[6] *See Id.* at ¶1.

The Commission should adjust LOC requirements as described herein, so as to more narrowly tailor them to the amount of funding at risk.

Respectfully submitted,

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