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. 14-58
	)	
Developing a Unified Intercarrier Compensation Regime	)	CC Docket No. 01-92
	)	

REPLY COMMENTS OF
SMALL COMPANY COALITION

The Small Company Coalition ("SCC") is encouraged by several of the reforms contained in the Federal Communications Commission's ("FCC" or "Commission") March 30, 2016, Further Notice of Proposed Rulemaking ("FNPRM") issued and adopted in the above-captioned proceedings.[1] In particular, the SCC applauds the Commission's decisions to implement standalone broadband support; eliminate requirements for companies to issue 5-year build-out plans; and refine requirements for determining the presence of competitive overlap in areas receiving subsidized support.

One area of primary concern for the SCC pertains to the arbitrary $2 billion cap placed on the High-Cost portion of the Universal Service Fund ("USF"). While the SCC understands and supports the need for prudent use of USF resources, there is considerable doubt that the current size of the fund will suffice to not only expand the national broadband network, but to also maintain and upgrade those territories which are currently served as technology continues to progress. In

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[1] *Connect America Fund* et al., WC Docket No. 10-90 et al., Further Notice of Proposed Rulemaking, et al., FCC 16-33 (rel. March 30, 2016) *(FNPRM).* SCC will also refer to this release at the *RoR USF Reform Order* in areas not related to the *FNPRM*.

recognition of the necessity for a larger fund, the SCC supports such comments filed on record with the Commission by the NTCA—the Rural Broadband Association[2] and CoBank[3], which advocate for an expansion of the Universal Service Fund contributions base. As long as the proposed $2 billion cap remains in place, the potential for broadband deployment to unserved or underserved areas will be crippled. Accordingly, a closer examination of this cap is necessary and the FCC is urged to work closely with the rural industry to ensure that sufficient and predictable funding mechanisms are put in place. This is imperative in order for rural communications providers to keep pace with ever-changing technologies and thus ensure that their rural customers receive affordable, high-quality broadband services. To do otherwise will only serve to widen the "digital divide." For the above reasons, the SCC supports an examination by the Commission of contributions to the USF program.

Where applicable, the SCC would also like to pursue consolidating various certifications and regulatory filings due to the strain they enact on the limited financial and human resources of small companies. Such possibilities for streamlining requirements, and thereby reducing federal regulatory reporting, may be found where the same information is filed with multiple agencies; where semi-annual filings are conducted when an annual filing may be adequate (for example, Form 477); and where numerous compliance certifications are filed throughout the year when one annual compliance "checklist" filing would be more efficient. Along these same lines, the SCC urges the FCC to conduct an internal review of its various regulatory filings and certifications to determine their efficacy and consider eliminating or streamlining any filing and/or certification that may no longer be relevant or necessary in light of the ever-growing competitive marketplace.

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[2] May 25, 2016, NTCA Petition for Reconsideration and/or Clarification
[3] February 29, 2016, CoBank Ex Parte Notice

While the SCC recognizes that transparency and oversight of USF usage is necessary, ultimately the time and resources spent on achieving regulatory compliance should be minimized in order to directly utilize funding toward deploying broadband to the rural communities served by the small companies. The SCC is on record with the Commission regarding specific suggestions toward streamlining the federal compliance calendar and has been encouraged by the FCC's receptiveness toward this concept, as well as the aforementioned elimination of the 5-year plan requirement in the most recent Order. However, as a note of caution, the SCC implores the Commission to consider the impact—both in terms of annual staff-hours and financial cost associated therefrom—of any additional reporting requirements that may stem from this most recent round of reforms.

Additionally, the SCC would like to reiterate our support for the Commission's effort to increase national connectivity via broadband-only support mechanisms; to more clearly define areas of competitive overlap; and to reduce unnecessary regulatory filings where possible, thus allowing small carriers to better target their resources directly toward broadband deployment. The SCC looks forward to continuing this dialogue with the Commission as more details regarding the USF transformation process become apparent.

The SCC is also concerned by other unclear, unintended, or purposed impediments within the FCC's USF Reform Order of the following items:

$250 per Line per Month Total USF Cap

As the Order reads, the SCC believes there is a mismatch of allowed current funding levels and what the Commission intends to accomplish with these reforms. The current "total USF receipts cap" is limited to $250/line/month, and this cap is based on the current definition of access line counts. The SCC understands this definition to include voice or voice/data access lines;

however, the current definition does not include data-only broadband lines. As an example: if a given company today has 1,000 voice access lines, its total USF receipts cap would be $3,000,000 (1,000 x $250/mo/line x 12 months). If in the future those lines were all converted to data-only broadband lines, which are currently outside the definition of an “access line,” this same company’s total USF receipts cap would be $0 since it now has zero access lines. The SCC strongly recommends the Commission efficiently and expeditiously rectify this problematic mismatch between the Commission’s intended goals via the new reforms and current practice.

Continued Scrutiny When Current Limits and Focused Audits are Sufficient

In the FNPRM, the Commission requests comment for continuing oversight and ways to protect against fraud, waste, and abuse while reducing compliance burdens.[4] In this respect, the SCC believes it is counterproductive and burdensome to enlist new reporting procedures when the Commission’s goal can be accomplished by relying on procedures already in place. The SCC believes utilizing current audit programs performed by independent financial auditors, and expanding those programs and controls, is the most efficient and effective way to accommodate this objective. Current audits rely on integrity, independence, and expertise necessary to issue an opinion based on detailed and targeted audit procedures. Incorporating additional controls and testing to help meet the Commission’s objectives paves the way for an additional level of reliance that the SCC believes could assist the Commission in a very streamlined manner without assessing additional burdens on the industry. Others in this proceeding have also commented on using this option, and the SCC strongly agrees with this approach.[5]

[4] USF Order, pg. 199, para 88
[5] Alexicon comments, pg 5: “Alexicon cautions the Commission to proceed carefully before adopting any new rule relating to permitted expenses without the necessary evidence that there is an industry-wide problem in the first place, and also recommends the Commission streamline targeted oversight metrics and audit engagement tools to better detect the abusers of the federal programs”

In addition, while the Commission continues its quest to curtail fraud, waste, and abuse as this relates to permitted expenses, the SCC would like to remind the Commission of current rules in place that already and adequately provide reasonable protection measures. Accordingly, the SCC would like to take this opportunity to recap the various components, procedures, and compliance of current limits:

- ✓ Part 32 rules currently address, and support, many of the Commission's proposed limitations to prohibit certain expenses for cost-recovery purposes. Thus, the SCC believes there is no need to "dig further."
- ✓ Corporate expenses, which are the primary target that the Commission is focusing on, currently have the following capping/limiting metrics:
    - This cost is capped once for high-cost loop USF purposes;
    - It is capped again for ICLS purposes;
    - It is now capped yet again with the Commission's adoption of the double log regression operating expense caps; and
    - It is capped yet a fourth time with the overall USF budget.
- ✓ The Commission has currently instituted, with the USF Order, operating expense caps, which represent another level of limitations.
- ✓ The National Exchange Carrier Association (NECA) currently conducts Focused Cost Study Reviews (FCSRs) as well as Focused Benchmark Reviews (FBRs) in which they disallow given expenses based on pool averages, etc.
- ✓ The Universal Service Administrative Company (USAC) also conducts a number of reviews, ranging from Payment Quality Assurance (PQA) reviews; to audits from its

Internal Audit Division; to outsourcing attestation & compliance audits including extremely detailed and corroborative testing procedures performed.

Given the above, it is the SCC's contention that the Commission, at its own word[6], allow the current reforms to work before addressing this issue any further.

In conclusion, the SCC appreciates the opportunity to place these comments on the record and we look forward to continuing the dialog with the Commission as well as others in the industry in an effort to ensure that a viable and sound USF mechanism is established. By doing so, we hope to bring the much-needed certainty required to incentivize the small RoR carriers to continue to invest in the rural broadband network and thus ensure that their customers receive high-quality, state-of-the art communications services now and well into the future.

Respectfully Submitted,

Small Company Coalition
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[6] USF Order, pg 142, para 385, "We intend to monitor the impact of these reforms over time"