Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337

TO: The Commission

COMMENTS OF THE WESTERN TELECOMMUNICATIONS ALLIANCE

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Summary

The Western Telecommunications Alliance ("WTA") believes that this proceeding relates solely and entirely to the federal high-cost mechanisms for the Regional Bell Operating Companies ("RBOCs") and other non-rural carriers. These non-rural mechanisms differ significantly in purpose, structure, characteristics and recipients from the federal high-cost mechanisms relied upon by WTA members and other rural carriers.

WTA requests clarification that the definitions of "sufficient" and "reasonably comparable" adopted in this proceeding will be limited exclusively to the non-rural carriers and mechanisms, and will not be directly or indirectly applied to the wholly different high-cost support mechanisms for rural carriers. It also believes that the revised mechanism for non-rural carriers should remain wholly separate and distinct from the existing mechanisms for rural carriers, and in particular that the non-rural and rural mechanisms should not be subject to a common cap.

At such time as the Commission might later define "sufficient" and "reasonably comparable" with respect to rural carriers and support mechanisms, it should focus upon entirely different considerations than those for non-rural carriers. Specifically, with respect to rural carriers, the term "sufficient" should concentrate upon cost recovery necessary to maintain existing rural infrastructure and encourage investment in rural network

upgrades. Likewise, the term "reasonably comparable" should focus upon investment in and provision of telecommunications facilities and services in rural areas that are reasonably comparable to those in urban areas.

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COMMENTS OF THE WESTERN TELECOMMUNICATIONS ALLIANCE

The Western Telecommunications Alliance ("WTA") submits its comments regarding the definition of the terms "sufficient" and "reasonably comparable" in Sections 254(b) and (e) of the Communications Act of 1934, as amended, 47 U.S.C. §§254(b) and (e). These comments are filed in response to the Commission's Notice of Proposed Rulemaking (Federal-State Joint Board on Universal Service), FCC 05-205, released December 9, 2005.

WTA notes that the *Qwest II* decision[1] dealt solely and entirely with the non-rural high-cost support mechanism, and that this remand proceeding is concerned exclusively with the revision of that non-rural mechanism and with the Puerto Rico Telephone Company, Inc.'s proposal for a new high-cost support mechanism for non-rural insular areas. Hence, the definitions and mechanisms adopted in this proceeding should not have any direct or indirect

[1] *Qwest Corp. v. FCC*, 398 F.3d 1222 (10th Cir. 2005).

application to, or impact upon, the rural high-cost support mechanisms relied upon by WTA members and other rural telephone companies.

WTA emphasizes that the high-cost mechanisms for rural carriers differ significantly in purpose, structure, characteristics and recipients from the non-rural mechanisms at issue herein. In The Rural Difference, *Rural Task Force White Paper 2* (January 2000), the Rural Task Force found that there were critical and substantial distinctions in the operational scope and markets of rural carriers vis-à-vis their large, urban-oriented non-rural counterparts. These distinctions remain true today, and are becoming even more pronounced as mergers continue to shrink the number (and increase the size) of the Regional Bell Operating Companies ("RBOCs") and other non-rural carriers.

WTA believes that the terms "sufficient" and "reasonably comparable" can and should be defined separately and differently for rural and non-rural carriers, and for rural and non-rural high-cost mechanisms. However, WTA is concerned that the definitions of the terms "sufficient" and "reasonably comparable" that may be adopted in this proceeding for non-rural carriers and mechanisms may later be applied directly or indirectly, in whole or in part, to the existing and future high-cost support mechanisms for rural carriers. Therefore, WTA requests clarification that the terms "sufficient" and "reasonably comparable" will be defined herein solely and exclusively with respect to the non-rural high-cost support mechanism, and that such non-rural definitions will not be applied now or in the future to rural carriers or rural high-cost mechanisms.

Also, WTA believes that the existing high-cost mechanisms for rural carriers should remain wholly separate from the revised or new non-rural mechanisms to be considered and adopted in this proceeding. In particular, if caps are employed, the rural and non-rural mechanisms should be capped separately, so that any present or future increases in support to non-rural carriers do not come at the expense of smaller rural carriers.

At such future time as the Commission may define "sufficient" and "reasonably comparable" with respect to high-cost support mechanisms for rural carriers, it should focus predominantly upon the cost recovery necessary to sustain existing operations and to encourage further investment in rural telecommunications infrastructure. "Sufficient" should mean sufficient cost recovery to create sufficient and appropriate investment incentives, while "reasonably comparable" should mean that the resulting rural infrastructure investment gives customers of rural carriers access to state-of-the-art telecommunications services and facilities "reasonably comparable" to those available in urban areas. WTA reserves the right to modify and/or expand these considerations at such future time as the Commission or the Joint Board conducts a proceeding with respect to the high-cost support mechanisms for rural carriers.

I

The Western Telecommunications Alliance

The Western Telecommunications Alliance is a trade association that was formed by the merger of the Western Rural Telephone Association and the Rocky Mountain Telecommunications Association. It represents approximately 250 rural telephone companies operating west of the Mississippi River.

WTA members are generally small independent local exchange carriers ("ILECs") serving sparsely populated rural areas. Most members serve less than 3,000 access lines overall, and less than 500 access lines per exchange. Most members also generate revenues much smaller than the national telephone industry average, and presently rely upon Federal high cost dollars for the recovery of approximately 25-to-50 percent of their costs.

WTA members serve remote and rugged areas where loop, transport and switching costs per customer are much higher than in urban and suburban America. Their primary service areas are comprised of sparsely populated farming and ranching regions, isolated mountain and desert communities, and Native American reservations. In many of these areas, the WTA member not only is the carrier of last resort, but also is the sole telecommunications provider ever to show a sustained commitment to invest in and serve the area.

WTA members are highly diverse. They did not develop along a common Bell System model, but rather employ a variety of network designs, equipment types and organizational structures. They must construct, operate and maintain their networks under conditions of climate and terrain ranging from the deserts of Arizona to the rain forests of Hawaii to the frozen tundra of Alaska, and from the valleys of Oregon to the plains of Kansas to the mountains of Wyoming.

Predictable and sufficient cost recovery is essential to WTA members if they are to continue investing in and operating telecommunications facilities in high-cost rural areas, while providing their rural communities and customers with quality and affordable services reasonably comparable to those available in urban areas. Therefore, WTA has found it necessary to participate in this and other proceedings that may affect federal high cost support and the economic development of rural areas.

II

Definition of "Sufficient"

Section 254(b)(5) of the Act declares that there should be "specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service." 47 U.S.C. §254(b)(5). Section 254(e) states that such support "should be explicit and sufficient to achieve the purposes of this section." 47 U.S.C. §254(e).

For rural telephone companies, the key aspect of "sufficiency" is "sufficient" cost recovery, particularly as it impacts the ability of small rural carriers to invest in essential rural telecommunications infrastructure. Without sufficient and predictable assurances that they will be able to recover their investment and operating costs, many rural telephone companies will not be able to obtain the financing necessary to maintain and improve their networks in sparsely populated and high-cost rural areas.

The Rural Task Force found that: (a) the operations of rural carriers tend to be focused in the more geographically remote areas of the nation with widely dispersed populations; (b) the average population density is only 13 persons per square mile for areas served by rural carriers compared with 105 persons per square mile in areas served by non-rural carriers; (c) rural carriers have relatively high loop costs because of their lack of economies or scale and density; (d) rural carriers experience difficulty and high costs in moving personnel, equipment and supplies to remote communities; (e) the customer bases of rural carriers generally include fewer high-volume users (*e.g.*, multi-line business customers and special access customers) than those of non-rural carriers, thereby depriving rural carriers of economies of scale; (f) customers of rural carriers tend to have a relatively smaller calling scope and make proportionately more toll calls than customers of non-rural carriers; (g) rural carriers frequently have substantially fewer lines per switch (an average of 1,245 customers per switch) than non-rural carriers (an average of over 7,000 customers per switch), providing fewer customers to support switch costs and other high fixed network costs; (h) total investment in plant per loop is substantially higher for rural carriers (average of over $5,000 per loop) than for non-rural carriers (average of less than $3,000 per loop); (i) plant specific and operations expenses for rural carriers (average of $180 per loop) tend to be substantially higher than for non-rural carriers (average of $97 per loop); and (j) average annual household income for customers in rural carriers service areas ($31,211) was substantially lower than that for customers in non-rural carrier service areas ($38,983). *The Rural Difference*, at pp. 8-13. These general conditions and comparisons remain substantially true six years later. Among other things, the "rural difference" means that rural carriers face much different investment conditions and financing alternatives than non-rural carriers. WTA members and other rural telephone companies are generally small companies with limited revenues and cash reserves, as well as limited access to capital markets. Most are not in the position to sell their stock or bonds on national or regional exchanges or to obtain loans from the major national and international banks. Rather, many rural carriers are limited to the Rural Utilities Service ("RUS"), the Rural Telecommunications Finance Cooperative ("RTFC"), the Cooperative Bank ("CoBank") and local banks for investment capital beyond their own cash reserves.

These limited financing alternatives are exacerbated by the difficult combination of: (1) high rural infrastructure construction and operating costs, and (2) limited rural revenue potential. Rural loops and inter-office transmission lines are generally long, and often traverse rugged mountain, desert and other terrain that substantially increases construction and maintenance costs. The switches of rural carriers often serve relatively few customers, thereby limit economies of scale and increasing per-subscriber costs. Meanwhile, sparse rural populations, relatively few large rural business customers, and lower rural household incomes minimize the service revenues and cash flow able to be generated by rural infrastructure.

With investment and operating costs high and revenue potential limited, predictable and sufficient federal high-cost support is an essential element of the investment calculus for rural carriers and their lenders. Purely and simply, many infrastructure construction and improvement projects of rural carriers would not receive approval or financing if they had to depend upon local service revenues solely or predominately for recovery of the investment costs. There are not enough rural residential customers, and far too few large rural business customers, to generate the local service revenues necessary to recover the costs of substantial infrastructure investments by rural carriers unless local service rates are increased to levels (e.g., up to $70-to-$100 or more per month) that could drive many low-income and middle-income rural residents off the public switched telephone network. In addition, the interstate and intrastate access revenue streams that have long provided a significant portion of cost recovery for rural carriers are under substantial downward pressure from: (a) technological and market changes (*e.g.*, wireless calling plans and certain Internet Protocol calling services); (b) avoidance and evasion tactics (*e.g.*, phantom traffic); and (c) regulatory reduction and abolition proposals (*e.g.*, bill and keep plans). Hence, federal high-cost support is THE critical revenue stream necessary to enable rural carriers to recover the costs of investing in the upgrade and improvement of their networks, and to obtain funds for future investments. Since the federal Universal Service Fund was implemented in the mid-1980s, it has enabled the substantial majority of rural telephone companies to invest in the facilities necessary to provide their rural customers with quality and affordable telecommunications services reasonably comparable to those available in urban areas.

In stark contrast, the investment calculus is much different for the remaining RBOCs and other non-rural carriers. These non-rural carriers are generally large companies that serve large study areas containing substantial urban areas. Whereas non-rural carriers do serve some rural areas, their rural service areas are normally dwarfed by the urban areas and populations within the same study area, and generally comprise only a small and immaterial portion of the non-rural carrier's total operations.

Many non-rural carriers have been reluctant to invest in their rural exchanges. There may be a variety of reasons for this, such as more attractive investment options elsewhere and pressures on management to maintain high profit levels or stock prices. However, in most instances, the lack of substantial investment by non-rural carriers in their rural exchanges is not due to a lack of financial resources or a lack of access to capital markets. Put simply, most non-rural carriers do not need federal high-cost support in order to obtain the financing necessary to invest in their rural exchanges. The problem is generally one of motivation rather than money. To date, state service quality requirements appear to have been a far more effective tool than high-cost support for "encouraging" non-rural carriers to invest in their rural exchanges. And even there, many non-rural carriers have shown far greater interest in selling their rural exchanges to rural carriers than in making substantial investments to upgrade them.

Hence, "sufficient" high-cost support has a very different meaning and scope for rural carriers than for non-rural carriers. Regardless of how the Commission ultimately defines "sufficient" for non-rural carriers, it needs to remember that "sufficient" high-cost support for rural carriers must focus upon the cost recovery necessary to preserve investment incentives and capabilities.

Notwithstanding the propaganda of some wireless and Internet Protocol ("IP") interests, the landline public switched telephone network remains essential for government, business and personal communications, and will continue to be so for the foreseeable future. In fact, substantial portions of wireless and IP traffic currently ride over portions of the landline network, and will remain dependant upon it for years or decades to come.

In rural areas, these essential landline facilities are expensive to acquire, construct and operate, and will remain so. The existing embedded cost mechanism for rural carriers has been "sufficient" to enable recovery of the above-average investment and operating costs of rural carriers, and has been very successful in encouraging investment by rural telephone companies in good quality rural infrastructure. During recent years, uncertainty regarding the future of rural high-cost support and interstate access revenues has slowed investment somewhat. The Commission must keep in mind that sufficient, stable and predictable cost recovery over the long term is necessary to encourage investment in telecommunications infrastructure that may subject to loan amortization periods and depreciation periods of ten or twenty years or longer.

In the future, whether high-cost support remains "sufficient" to encourage necessary and appropriate investment by rural carriers will depend primarily upon the nature and amount of the rural costs that must be recovered by it. For example, if the current access revenue stream of rural carriers is further reduced substantially or eliminated, high-cost support will need to increase significantly to prevent operating losses and the drying up of investment funds and incentives. Likewise, if universal service is defined to require the availability of ubiquitous broadband service throughout rural study areas, high-cost support will need to be increased to recover the substantial additional costs of the broadband construction and investment required.

In this rural carrier calculus, customer rates are not as significant to rural investors and lenders as cost recovery and investment incentives. Rural investors and lenders are well aware that local service rates cannot recover the substantial portion of the high investment and operating costs of rural carriers unless such rates are increased to levels that will not be affordable for many rural residents. Rural investors and lenders are also aware that many rural residents have relatively small toll-free calling areas, and must make many toll calls that render their total monthly telephone bills relatively comparable to those of many urban residents (who may have higher monthly service charges but much larger local toll-free calling areas). In contrast to investors and lenders for non-rural carriers that serve millions of customers and have relatively stable and predictable customer revenue streams, investors and lenders for the much smaller rural carriers serving hundreds or thousands of customers cannot place the same reliance upon customer revenue streams, particularly if the rural carriers may be required to impose substantial rate increases. Rather, the critical focus of rural carriers and their investors and lenders must be cost recovery, and such cost recovery has become increasingly reliant upon sufficient high-cost support in a world of increasing capacity and quality requirements and disappearing access revenues.

III

Definition of "Reasonably Comparable"

Section 254(b)(3) of the Communications Act states that "[c]onsumers 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 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." 47 U.S.C. §254(b)(3).

For rural telephone companies and their customers, the most important element of this principle is the availability of **reasonably comparable services** in rural areas. It is absolutely essential for the continuing existence and future economic development of rural communities that their residents and businesses have access to telecommunications and information services reasonably comparable to those available in rural areas. Rural businesses need reasonably comparable telecommunications services to compete and survive in increasingly interconnected local, regional, national and global markets. Rural communities need reasonably comparable telecommunications services to keep their current businesses and residents (especially their young people), and to attract new businesses and residents.

For rural telephone companies and their communities, "reasonable comparability" is closely intertwined with "sufficiency." Without sufficient and predictable high-cost support, the investors and lenders of rural telephone companies will not approve and fund the investments necessary to maintain and upgrade rural telecommunications infrastructure. And without this investment, reasonably comparable services will not be available in many rural communities at any price.

With respect to the "reasonable comparability" of rural rates vis-à-vis urban rates, any comparison must be based upon typical total monthly bills for local and long distance toll services. As recognized by the Rural Task Force, customers of rural carriers tend to have relatively smaller local calling scopes (with many able to reach less than 5,000 other customers with a local call), and make proportionately more toll calls. *The Rural Difference* at p. 11. Hence, the urban myth that rural residents have low telephone service rates needs to be corrected to reflect the fact that many urban residents must make toll calls to reach their work places, government agencies, schools and friends, and the fact that many rural residents incur substantial monthly toll charges to reach "local" places similar to those that their urban counterparts routinely call toll free. In addition, any comparison of "reasonably comparable" rates should also take into consideration the recent trends toward the offering of bundled service packages, as well as the complexities of allocating the package prices among various services.

In the end, whereas reasonably comparable rural and urban rates is a worthy policy goal, the development of models and mechanisms to reach this goal with respect to rural carriers is a difficult and complex task that could take the Commission's attention and effort away from the more important task of providing sufficient cost recovery to enable and encourage rural infrastructure investment and to make available services that are reasonably comparable to those in urban areas.

IV

Conclusion

WTA reiterates that this proceeding relates solely and entirely to the revision of the high-cost support mechanism for non-rural carriers, as well as a proposal for a new high-cost support mechanism for non-rural insular areas. Hence, the definitions of "sufficient" and "reasonably comparable" adopted in this proceeding should be limited exclusively to the non-rural carriers and mechanisms, and should not have any direct or indirect application to (or impact upon) the wholly different high-cost support mechanisms relied upon by WTA members and other rural carriers.

At such time as the Commission might later examine the definitions of "sufficient" and "reasonably comparable" with respect to rural carriers and support mechanisms, it must focus upon entirely different considerations than those for non-rural carriers. Specifically, with respect to rural carriers, the term "sufficient" must concentrate upon the sufficiency of the cost recovery necessary to maintain existing rural infrastructure and encourage investment in rural network upgrades. Likewise, the term "reasonably comparable" must focus upon investment in, and availability of, telecommunications facilities and services in rural areas that are reasonably comparable to those in urban areas.

Respectfully submitted,
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