

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

In the Matter of)	
)	
Federal State Joint Board on)	WC Docket No. 05-337
Universal Service)	

**COMMENTS
of the
RURAL TELEPHONE FINANCE COOPERATIVE**

By:

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The Rural Telephone Finance Cooperative (RTFC) submits these comments to provide a financial perspective on the proposal of the Federal-State Joint Board to use reverse auctions to determine high-cost universal service funding to eligible telecommunications carriers (ETCs). RTFC is a privately funded, member-owned cooperative financing organization that provides financing exclusively to rural America's rural telecommunications industry. RTFC offers loans and financial services to creditworthy telecommunications systems eligible to borrow from the Rural Utilities Service (RUS), as well as affiliates of these systems. RTFC presently has more than \$2 billion outstanding to rural telecommunications providers.

Reverse auctions (competitive bidding) to determine high cost universal service funding for incumbent rural local exchange carriers (RLECs) will discourage investment in the rural telecommunications infrastructure and result in lesser quality service to rural Americans. Such a high-cost support regime will cause lenders to reconsider lending into the rural telecom space.

Without the assurance of stable and sufficient high cost universal service funding, RLECs will find it difficult to prove their financing proposals to be feasible – the ultimate criteria demanded by any lender. The most rural of local exchange carriers depend on high cost universal service funding for a significant portion of their revenues. If high-cost funding were insufficient due to competitive bidding, the RLECs' revenue losses would likely

mean they would operate at a loss. Due to their small size RLECs cannot significantly cut operating costs and still maintain adequate levels of service to their customers.

Even if one assumes that locally owned commercial and cooperative RLECs would continue to operate for some period at a loss, money-losing enterprises cannot secure debt financing to modernize, improve or extend service. Competitive bidding for high-cost support on the part of incumbent RLECs would have dire consequences for infrastructure investment and ultimately service quality.

The staff discussion proposal to allow incumbents to opt out of the reverse auction for a ten-year term does nothing to allay lenders' concerns over competitive bidding. Loans for telecommunications infrastructure are generally for terms longer than ten years. In fact, the last years of a fully amortizing loan are when the majority of the principal balance is repaid. RTFC believes that finding most rural infrastructure loan proposals feasible will be impossible without predictable and sufficient high-cost universal service funding.

RLECs are able to identify with great accuracy what their costs are and the jurisdiction to which those costs are attributable. This makes them unique among ETCs. As locally owned and operated companies, they are incented to keep operating costs as low as possible and deliver quality service to their customers. The rationale for a competitive bidding regime disappears when applied to a RLEC. These companies have a long history of providing quality service to their customers. They follow FCC-prescribed

accounting practices. They are subject to both state and federal regulatory oversight. Given these considerations and safeguards, there is no compelling reason to subject RLECs to a reverse auction regime to determine high-cost universal service funding.

RTFC believes that a competitive bidding regime for high-cost universal service funding should not be applied to incumbent RLECs. Such a policy would call into question the stability and adequacy of RLECs' revenues. In such an environment lenders could not be assured of repayment and prudently would not commit long-term loan funds to projects to improve the rural telecommunications infrastructure. The obvious consequence of this is the long-term deterioration of service to millions of rural Americans. RTFC urges the Joint Board to reject application of reverse auctions to rural local exchange carriers.