

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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Federal Communications Commission
Office of the Secretary

In the Matter of)
)
Federal-State Joint Board on Universal) WC Docket No. 05-337
Service Seeks Comment On the Merits of)
Using Auctions to Determine High-Cost)
Universal Service Support)
)

COMMENTS of COBANK

CoBank hereby submits these comments in response to the Federal-State Joint Board on Universal Service's (Joint Board) Public Notice, released August 11, 2006.¹

CoBank² is a cooperative bank with over \$2.9 billion in loan commitments to over 200 rural communication companies nationwide. These commitments by sector are comprised of local exchange carrier (72%), wireless (19%), cable television (6%) and competitive local exchange carrier (3%). In addition, CoBank has led syndications of over \$4.24 billion of communications loans to the Farm Credit System. The Farm Credit System is a unique cooperative network of borrower-owned lending institutions that is exclusively dedicated to improving life in rural America.

¹ *Federal-State Joint Board on Universal Service Seeks Comment on the Merits of Using Auctions to Determine High-Cost Universal Service Support*, CC Docket No. 96-45, Public Notice, FCC 06J-1 (rel. Aug. 11, 2006) (Public Notice).

² CoBank is a financially strong, dependable, cooperative bank that provides capital and financial solutions to businesses that operate in and serve rural America. We are responsive, knowledgeable and committed to enhancing our capacity to deliver superior customer service and competitively priced products in innovative and efficient ways. We consistently demonstrate our focus on rural America, repeatedly strive to be the trusted advisor for our customer-owners, and provide a consistent return on their investment and ownership in CoBank.

CoBank cautions the FCC on the use of auctions to determine high-cost universal service support funding (USF) to eligible telecommunications companies (ETCs) pursuant to section 254 of the Communications Act of 1934. Reverse auctions do not provide clarity in regard to federal cost recovery mechanisms to empower the best providers of basic and advanced telecommunications services in rural areas. Reverse auctions present more uncertainty because they are a risky approach to high cost support, which will cause the cost of debt to increase. CoBank respectfully urges the FCC to pursue a path of determining high-cost universal service support without undermining the viability of the incumbent.

Our customer-owners have been successfully investing in broadband systems under the current system, which allows the rural incumbent local exchange carriers (rural ILECs) to be reimbursed for their infrastructure investments based on the recovery of their actual costs. The reimbursement structure for rural ILECs has built the rural landline infrastructure that exists today. This rural infrastructure supports the connectivity of competing technologies, such as wireless, voice over Internet protocol (VoIP) and satellite networks. The current rural landlines would not exist without the assistance of USF and the emerging competing technologies could not function without the rural landlines.

The solution to the problem of increasing USF costs should focus on the sources of the problem, which is the support mechanism for competitive eligible telecommunications companies (CETCs) and the identical support rule. The sole cause of growth in the USF high-cost program funding has been for CETCs, which are not reimbursed based on actual costs. CETC per line support is based on the actual costs for

the rural ILEC in the service area. This is not an efficient method of support because the infrastructure costs for rural ILECs are not equal to the CETCs. Unlike CETCs, the rural ILECs have carrier of last resort obligations, higher quality service and they have built out ubiquitously. The growth rate for rural ILEC high-cost funding has been relatively flat.

CoBank has helped finance our rural communication customer-owners to evolve from a circuit-switched, voice oriented network to a packet-routed data oriented network on which voice, data, and video converge. In rural areas, only a limited number of competing broadband platforms are possible due to geography, technological hurdles, and population densities. These networks must be ubiquitous, reliable and have sufficient capacity to respond as advanced services evolve over time. The rural ILEC is often the best positioned to provide these broadband services.

It has been CoBank's experience that debt is the tool of choice to fund rural business plans. Equity and equity-like funding vehicles are limited in rural areas because revenue projections will often not match the return requirements of pure equity holders. Because broadband and other non-regulated business plans are often unproven, access to debt capital to develop these plans is often obtained only by leveraging the rural ILEC's more stable and predictable regulated cash flows. The rural ILEC's cost recovery and support systems are precisely what allow advanced services to be provided to rural subscribers, not only in their own service area, but in rural areas presently underserved by the RBOCs.

The introduction of future uncertainty and instability to the existence of these mechanisms during the past few years has significantly affected the extent to which

investors and lenders commit their funds to rural telecommunications. The funding for advanced services depends on the continuation and stability of cost recovery mechanisms associated with the core provision of basic universal services. CoBank's rural ILEC loan portfolio is risk rated based on our customer's access to federal cost recovery mechanisms.

The rural telecommunications environment is changing. Rural ILECs are facing loss of revenues from traditional switched access service revenues to wireless, internet, cable, satellite, and VoIP. In response to market forces, they are evolving to adapt to a new environment based on competition and regulatory change by investing a significant portion of their earnings for reinvestment in new infrastructure. Regulatory change, if not carefully designed and implemented, could accelerate the decline of these cash flows too quickly, before they can be supplanted by non-regulated cash flows.

The result could be a failure for the rural ILEC to invest in advanced networks. Access to capital for these projects could disappear. This would threaten the 1996 Act's expanded definition of universal service if it removes the provider that is best positioned to develop these advanced services. This would be devastating for rural customers and businesses because their access to advanced information would be severely delayed if not impaired indefinitely. New FCC policies should spur the growth of broadband deployment, not inadvertently impede it.

Respectfully submitted,

CoBank

By: /s/ Rob West

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CERTIFICATE OF SERVICE

I, Candace Roper, hereby certify that a copy of the comments of CoBank was sent by electronic mail on this, the 10th day of October, 2006, to those listed on the attached list.

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