

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20544**

In the Matter of the Federal-State Joint Board)
on Universal Service) WC Docket No. 05-337
)
Recommended Decision to Modify the) CC Docket No. 96-45
Commission’s Rules Relating to High-Cost)
Universal Service Support.)
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COMMENTS OF THE ALASKA TELEPHONE ASSOCIATION

In response to the Federal-State Joint Board’s (“Joint Board”) Recommended Decision released May 1, 2007, the Alaska Telephone Association (“ATA”)¹ files these comments in support of the proposal to modify the Commission’s rules relating to high-cost universal service support. ATA notes that the recommendation focuses on a need for immediate action to curtail the spiraling demand on the universal service fund and that the interim cap resulting from that immediate action shall expire one year from the date of any Joint Board recommended decision on comprehensive universal service reform.

Each ATA member is a rural incumbent local exchange carrier (“ILEC”) and a recipient of high-cost universal service support. Among the communities served are

¹The Alaska Telephone Association is a trade association comprised of rural Alaska local exchange telephone companies. Its active members are Adak Telephone Utility; Alaska Power & Telephone Company; Arctic Slope Telephone Association Cooperative; Bristol Bay Telephone Cooperative, Inc.; Bush-Tell, Inc.; Copper Valley Telephone Cooperative, Inc.; Cordova Telephone Cooperative; KPU Telecommunications; Matanuska Telephone Association; Nushagak Cooperative, Inc.; OTZ Telephone Cooperative, Inc.; Summit Telephone Company, Inc.; TelAlaska, Inc.; United Utilities, Inc.; and Yukon Telephone Company, Inc.

some of the most remote and inaccessible in the nation. Due to the remote locations, terrain, weather and low population densities, rural Alaskans are dependent upon universal service policy to maintain affordable, high quality telecommunications access to the ubiquitous network.

Universal Service

Universal service, as guaranteed by the 1996 Act, provides that rural consumers have access to telecommunications services that are reasonably comparable to those in urban areas and at rates that are reasonably comparable to those charged for similar services in urban areas. In high-cost areas, universal service fund support has permitted investment in incumbent local exchange carrier (“ILEC”) wireline infrastructure that comprises the network backbone for basic voice, broadband, VoIP, and all wireless services. Additionally, as a condition of receiving universal service funds, the ILEC and only the ILEC has been designated with carrier of last resort responsibility (“COLR”) for providing high quality access within its service area; an area that without USF does not have a customer base capable of supporting one carrier.

Funding Problems

In the decade from 1996 to 2006, the universal service fund has grown from \$955 million to over \$7 billion. Much of the fund increase flows to carriers with no service obligations or true infrastructure commitments and certainly absent the regulatory oversight of a COLR. Under the guise of competitive neutrality, the identical support rule has created an unsustainable business opportunity for CETCs to reap exorbitant, but transitory, profits by receiving extraordinary and baseless support payments from the

fund. The typical CETC business plan is not to identify areas most in need of telecommunications services, but to identify areas where the identical support rule provides the greatest disparity between investment and return. Good business people seek that opportunity. It is failed public policy that makes it available. The Joint Board Recommendation takes a first step at rectifying that failure.

Proof of the attractiveness of the opportunity presented by the identical support rule is demonstrated by the number of study areas nationwide with multiple CETCs; some with as many as twenty drawing from the high cost fund. State regulators, with the authority to designate eligible telecommunications carriers (“ETCs”), have little reason to deny such a petition, which will bring an influx of new revenue to a rural area. The guidelines for ETC status are not oppressive and a promise of future investment is all that is really necessary to turn on the revenue spigot. Is it any wonder that USF going to CETCs has in recent years been experiencing nearly a 100 percent growth rate?

As noted in the Recommended Decision, ILEC high-cost loop support is already capped, ILECs have been receiving insufficient funding, in 2007 around 60% of actual cost. Additionally the cap on general and administrative expense further erodes the ability of the ILECs to recover their actual cost of providing universal service. While CETCs have been receiving disproportionately high amounts of support far exceeding their (unreported) costs, ILECs -- carriers of last resort -- with the infrastructure capable of delivering broadband, have received a less than sufficient amount to serve their rural customers.

Policy Goals

Under the heading, “Fundamental High-Cost Distribution Reform,” the Joint Board states that the interim cap is “only a temporary solution to the problems that plague the high-cost support distribution mechanisms.” Until a definition of universal service is determined, distribution problems will continue. Clearly, under the current scheme, high-cost support is flowing to carriers that are not providing universal service. In addition, the evolution of universal service to include broadband appears to be on the near horizon. And the adoption of mobile service by most Americans portends an expectation of ubiquitous wireless coverage. Specificity of the intent of universal service is necessary before the high-cost distribution problems can be addressed.

Reform

Today’s universal service fund is composed of multiple programs. There are the schools and libraries program (S&L”), the rural healthcare program (“RHC”), the Lifeline and Link-up program, and the high-cost program. S&L, RHC and the ILEC part of the high-cost program are already capped. Presently there is no limit on the amount the CETC segment of industry can demand from the fund. Neither is there any clear understanding of what aspect of universal service the CETC industry provides.

As wireless (mobile) service is far and away the segment of industry that has most jeopardized the high-cost fund with its exponential increase in demand, the Joint Board should consider the expectation of the public for having ubiquitous access to that service and how best to provide for it under universal service. Like the other specified programs supported by the universal service fund, a separate program directed to fund mobile

telecommunications should be adopted and a responsibility similar to the wireline carrier of last resort should be required of carriers receiving universal service funding.

Separate programs will allow the establishment and monitoring of specific performance goals such as service quality standards, the ability to remain functional in emergencies, COLR, and build out requirements. As wireline and mobile are really complimentary services, not competing services, having separate programs will facilitate the monitoring of the standards and the efficiency of the delivery of the anticipated service. Funding must be sufficient to provide incentive for network investment and service deployment. Recipients of universal service funds must demonstrate both need and accountability and high-cost support should be based on each carrier's actual, audited costs.

In exchange for carriers' commitments to provide and maintain ubiquitous broadband and mobile networks, policy makers must agree to long-term commitments to funding such networks. That commitment must have enough certainty and sufficiency to attract investors.

Conclusion

ATA commends the Joint Board for its Recommended Decision. It is readily apparent to Alaska carriers serving high-cost areas that the threat to the universal service fund is real and imminent. Certainly anticipating that the wireless CETCs would object strenuously to this proposal (as they have), the Joint Board is to be commended for its action, its courage, and its dedication to the public interest. We enthusiastically implore the Commission to adopt the Recommendation in its entirety and we look forward to

working with the Commission to maintain the viability of the universal service fund and perpetuate the ubiquitous communications network.

Dated this 31st day of May 2007.

ALASKA TELEPHONE ASSOCIATION

By: _____
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