

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

<p>In the Matter of:</p> <p>Federal-State Joint Board on Universal Service</p> <p>Long Term, High Cost Universal Service Reform</p>	<p>WC Docket No. 05-337</p>
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**COMMENTS OF THE RURAL IOWA INDEPENDENT  
TELEPHONE ASSOCIATION**

On May 1, the Commission issued an order seeking comment on various potential reforms to Universal Service made by the Federal-State Joint Board on Universal Service. One of those issues, capping the amount of high-cost support that competitive Eligible Telecommunications Carriers can receive is the subject of a different comment proceeding in which the Rural Iowa Independent Telephone Association (RIITA) intends to participate. The present order seeks comments on other specific issues; RIITA has filed comments on these issues in past comment dockets.

RIITA is a non-profit association of rural independent telephone companies, representing approximately one hundred and thirty Iowa incumbent local exchange carriers. RIITA's membership is restricted to mutual telephone companies in which at least fifty percent of the users are owners, co-operative telephone corporations or associations, and telephone companies having less than fifteen thousand customers and less than fifteen thousand access lines that serve rural Iowa and are incumbent local exchange carriers as defined in the 1996 Telecommunications Act. Approximately one-half of our

member companies serve communities with fewer than 1000 access lines. Only an extremely small percentage of those communities have wireline local exchange competitors.

### 1. Reverse Auctions

Though the request for comments in this order seek specific input on specific auction plans, RIITA is opposed to reverse auctions in concept and has already filed comments opposing such plans. Our prior comments have emphasized that practical problems arise from auctions.

Community-based rural service providers have historically used Universal Service Fund distributions for their intended purpose: the provision of rural telecommunications service. In Iowa, RIITA members have directly invested those funds into high-quality technology and service, providing those services throughout their communities regardless of whether their customers are in rural areas or in town. The communities served by RIITA members were not served by the Bell System and would not likely be served by other carriers.

Our member companies' commitment to service has resulted in substantial investment in the equipment and plant necessary to provide that service. These long-term investments create a regulatory contract with substantial investment-backed expectations of returns. Even those returns have not been high: the vast majority of Iowa's rural carriers are average schedule companies that see returns on their investments below the rate of return allowed by the Commission and substantially below the returns of large urban carriers. Our companies built the networks that are in place:

The facilities of the regulated network industries did not fall like manna from heaven, but rather were established by incumbent utilities through the expenditures of their investors. Utilities made past expenditures to perform obligations to serve in expectation of the reasonable opportunity to recover the costs of investment plus a competitive rate of return.

J. Sidak & D. Spulber, *Deregulatory Takings and the Regulatory Contract* 538 (1998).

In moving toward competitive markets, a certain amount of caution is justified. Mistakes in implementing partial market solutions can lead to less-efficient markets: "Partial adoption may be politically expedient, but a course that undertakes to institute only a subset of the requirements prescribed by the competitive-market model for regulation cannot be expected to improve matters, much less to constitute a maximal contribution to the public welfare." W. Baumol and J Sidak, *Toward Competition in Local Telephony* 140-141 (1994).

Considering the importance of caution, auctioning fund distributions creates a number of practical problems. Auction design must address:

- How to avoid rewarding carriers that would submit low bids by providing lower quality services.
- How to provide continued incentive to invest and modernize networks after a bid has been won.
- How to deal with different technologies that may satisfy needs of some parts of communities better than others. For example, cellular service may be an adequate substitute for wireline service for some households in a community, but not others. Must a bidding carrier address the requirements for every household in a serving territory? If not, how many would be enough to qualify a bid?
- Bidders would have asymmetric information: the ILEC's costs are public knowledge, but other potential bidders' costs are not. This makes it hard to design an auction that would reveal the true costs for these other bidders.
- Would competition be permitted after an auction?

Lehman, "Ten Myths That Could Destroy Universal Service," at 15, available at <http://www.keepamericaconnected.org/data/TenMythsUSF.pdf>. Dr. Lehman further noted, "the use of simple auctions may deliver the wrong market structure or the wrong subsidy level in simple environments," quoting Laffont and Tirole, "Competition in Telecommunications," the MIT Press at 260 (2000). Dr. Lehman concludes, "Auctions are not ready for prime time." Lehman at 16.

Economic issues run even deeper than the practical concerns raised by Dr. Lehman. While working toward free-market competition, it is important not to create inadvertent misallocations of resources. Economic benefits of competition arise from the variety of services and innovations in the market, not from forcing short-term cost savings:

Achieving the benefits of market allocation, however, does not mean that regulators should transfer income from regulated utility investors to consumers. Regulators should not confuse such income transfers with efficiency gains. Instead, regulators should establish basic rules for an orderly transition to competition that rely on competitive innovation and cost cutting as the sources of consumer benefits.

Sidak and Spulber at 496.

An auction of distribution funds is designed solely to transfer income from investors to customers and risks denying companies return on their investment. Ultimately, that will lead to less investment in rural communities and lower service.

If companies have an incentive to bid down Universal Service, low bidders may fail to deliver service. By then, the former ILEC rural provider may have lost the ability to provide adequate service either by leaving the market or by not having the capital necessary to continue to invest. Consumers lose if that happens. This issue was illustrated in the Commission's original order seeking comment on reverse auctions. That order would

have required a bidder to have a network capable of serving 90% of households, *though that could be phased in*. An attachment would have required the service of remaining households by purchase and resale, *whenever possible*. In rural areas served by an ILEC providing 100% service, with purported competitors providing partial area service, like wireless or cable, this auction creates the potential for less customer service and lower quality service.

Fund issues should be fixed by addressing the underlying problems of awarding distributions to companies that do not provide universal service, rather than by economically disabling the companies that already provide universal service and have a history of providing universal service.

The goal of universal service is to provide service to all customers across the United States. That goal will not be served by auction proposals.

## 2. Disaggregation of Support.

As noted by the Commission, an overwhelming number of rural carriers have opted not to disaggregate under the different paths allowed by the Commission. It is the view of RIITA that this demonstrates a lack of need or benefit to these rural carriers. Re-opening the opportunity to disaggregate will not likely change this. The Commission should not force carriers to disaggregate by eliminating Path One. Generally, the communities served by RIITA members are too small to justify the cost and effort. In addition, certified competitive carriers in Iowa are wireless carriers that serve overlapping areas and would not be particularly affected by disaggregation, cable providers that do not provide rural service, or our own members serving as competitive carriers. In virtually all of the

communities served by our member companies, operating as competitive carriers, the company serves the entire exchange and is motivated primarily by the community as a whole seeking telecommunications services. Furthermore, the incumbent is either not a rural carrier or is generally a much larger carrier.

We believe that most companies do not take advantage of disaggregation because it is not needed or beneficial. Reopening disaggregation is acceptable, however forcing companies to disaggregate is a waste of resources that are better used to provide telecommunications services.

### 3. Identical Support.

RIITA has repeatedly filed comments opposing the identical support rule. Competitive local exchange carriers should receive support based on their own costs of service. Indeed, there have been two primary reasons for the growth of the fund. One, the granting of Eligible Telecommunications Carrier status by state public utility commissions that should not have been granted. Two, the identical support rule. We ask the Commission not to use reform of Universal Service as a mechanism to eliminate support in high cost communities in which rural carriers have been using support to provide telecommunications service as anticipated by the Telecommunications Act.

In September 2002, docket number RM-10522, RIITA commented to the Commission:

The rules providing for "identical support" to competitors were based on the theory that they would promote "competitive neutrality," an additional universal service principle adopted by the Commission in 1997 but not listed in the 1996 Telecommunications Act. The rules, however, have had the opposite effect. They have created unfair competitive advantages for CETCs and imposed an undue burden on the public in the process. Competitive neutrality is a fiction because CETCs do not have the carrier of last resort

obligations that are imposed on incumbent local exchange carriers (ILECs). Moreover, wireless CETCs getting the same support as ILECs are often held to a different service quality standard than that of ILECs and they do not have equal access obligations like the ILECs. In the long run, the consumer will not benefit from rules which view high cost and access support as opportunities to create competition instead of sustaining affordable and comparable service in rural, high-cost and insular areas. The escalating support to CETCs demonstrates that an expedited proceeding is needed to address the distortions that are created by the gaps in the Commission's rules.

RIITA's views have not changed: the identical support rule should be eliminated.

#### 4. Broadband.

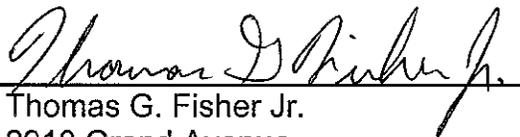
The Commission also seeks comments on broadband services. RIITA has also commented on broadband issues in the past. RIITA notes that in virtually every community served by its member companies, the company provides access to broadband services throughout the entire exchange. With that investment in place, RIITA opposes reverse auction procedures targeted at broadband services for the same reason it opposes reverse auctions in general.

### **SUMMARY**

Consistent with positions filed by RIITA for a number of years opposes reverse auctions for distribution of Universal Service funds, believes that disaggregation of support should not be revived, and that the identical support rule should be eliminated. The Commission should adopt rules that support rural incumbent exchange carriers when they provide quality telecommunications to small rural communities. Competition has not been a successful model in these communities because they are small, high cost and have only been served by community-based carriers. We ask the Commission to recognize the

service provided, rather than continue down the path that has lead to the growth of the Universal Service Fund.

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