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

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

Comments of Frontier Communications on Interim Emergency Cap on CETC High-Cost Support

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I. INTRODUCTION AND SUMMARY

Frontier Communications ("Frontier")[1] hereby submits its comments in the above captioned matter pursuant to the Commission's May 14, 2007 Notice of Proposed Rulemaking.[2] Frontier strongly supports the interim cap proposed by the Joint Board in its May 1, 2007 Recommend Decision.[3] As stated in Frontier's May 31, 2007 Comments to the Joint Board on long-term, comprehensive high-cost universal service reform,[4] Frontier not only supports the

[1] Frontier is a mid-size holding company with incumbent local exchange carrier (ILEC) operations in 23 states. As an ILEC, Frontier operates in one of the most competitive (both residential and business) urban markets in the country (Rochester, NY), but the balance of its ILEC operations are located in several small, high cost rural markets throughout the United States. In most of its ILEC markets, Frontier operates under federal price cap regulation, but operates under NECA Average Schedules in some of its smallest rural markets; on an intrastate basis, Frontier mostly operates under a mix of traditional rate-base, rate-of-return regulation and alternative forms of regulation. This somewhat unique mix of size, industry segment, geographic scope and business conditions allows Frontier special insights into the major issues confronting the Federal Communications Commission (the "Commission") and the industry in regard to intercarrier compensation and universal service.

[2] Notice of Proposed Rulemaking, FCC 07-88 (May 14, 2007).

[3] Recommended Decision, *Federal-State Joint Board on Universal Service*, WC Docket No. 05-337 and CC Docket No. 96-45, FCC 07J-1 (May 1, 2007) ("Recommended Decision").

[4] Comments of Frontier Communications on Long-Term, Comprehensive High-Cost Universal Service Reform, WC Docket No. 05-337 and CC Docket No. 96-45 (filed May 31, 2007).

proposed interim cap but also recommends that the cap be made a permanent part of high-cost universal service reform.

The proposed interim cap is urgently required for the simple reason that Competitive Eligible Telecommunications Carrier ("CETC") high-cost funding is spiraling out of control and is the primary source of growth to the high-cost fund, while Incumbent Local Exchange Carrier high-cost funding is flat or declining and already has its funding amounts capped.

II. THE EXISTING CETC SUPPORT MECHANISM IS BROKEN AND MUST BE REFORMED IMMEDIATELY.

Frontier is aware of no party or interest group that believes that the current regime of high-cost support should be left as it is. As the Joint Board noted in the Recommended Decision, CETC support grew from $15 million (½ of 1% of a total of $2.6 billion of support) in 2001 to almost $1 billion (25% of a total of $4 billion of support) in 2006, and could increase to $1.56 billion in 2007 and $2.5 billion in 2009 if the Commission were to approve all currently pending CETC petitions.[5] The costs would be considerably higher if additional CETC petitions were filed and approved, especially if Verizon Wireless were to file in all the rural areas in which it offers service. Compared to this massive increase in CETC support, high-cost support to ILECs has been flat or declining since 2003 due to the existing cap on ILEC high-cost loop support.[6] CETC support has become a runaway gravy train.

The existing mechanism should be viewed as a gravy train for many CETCs for a number of reasons. First, it is based on ILEC costs, which are generally higher than CETC costs. CETCs are mostly wireless carriers, and wireless carriers do not provide the same level of service as ILECs and therefore may be expected to have lower costs. Their coverage is not uniform, their voice quality is generally lower, and the amount of bandwidth per customer

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5 Recommended Decision, ¶4.

available for broadband service is much less. In addition, their prices are usually higher, and they do not offer generally available low-cost unlimited local calling options. There is no policy basis to compensate them as if they were offering the same level of service as the ILECs. Wireline CETCs similarly have lower costs than ILECs, benefiting by the ability to cherry-pick where they build their facilities and from decreases in the cost of technology.

Second, high-cost support has not been necessary for wireless or wireline CETCs to enter rural markets. Instead, they have applied for CETC status and high-cost funding after entering the markets, frequently long after entering. It may reasonably be concluded that high-cost funding is not what is motivating CETC entry, and as a result, this funding should properly be viewed as gravy.

Third, the Commission allows multiple wireless and wireline CETCs to receive high-cost support in a single study area. No case has been made that this policy is necessary to advance or preserve universal service. This policy therefore benefits the CETCs, not the public interest, and it causes the funding requirements to grow exponentially.

For all these reasons, CETC high-cost support reform is not only long overdue but is urgently needed on an interim as well as a permanent basis.[7]

III. CONCLUSION

The current regime of high-cost support is not bringing comparable service or prices to rural areas. Instead, the funding requirement is spiraling out of control, as CETCs cluster at the

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[6] *Id*.

[7] Frontier also wishes to reiterate its previously filed concerns that the Missoula Plan could put universal service funding into further jeopardy, with additional annual funding requirements of at least $1.5 billion. *See* Comments of Frontier Communications on Missoula Plan, filed October 25, 2006 in CC Docket No. 01-92. Even without something like the Missoula Plan, the sustainability of the current funding regime is questionable. This fact demonstrates that the Commission must reform universal service funding and disbursements before it considers the addition of new layers of support requirements as a part of access reform.

trough without proof that the level of funding that they are receiving is doing anything to improve universal service. The Commission must first stop the bleeding. Then the Joint Board should recommend a series of reforms, outlined in Frontier's May 31 Comments to the Joint Board, that will ensure the continued viability of the fund, compensate carriers in high-cost areas more equitably and motivate carriers to offer the services that are the keys to universal service – affordable flat rate local residential service and broadband Internet access.

Respectfully Submitted,

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CERTIFICATE OF SERVICE

I, Gregg C. Sayre, do certify that on June 6, 2007, the aforementioned ***Comments of Frontier Communications on Interim Emergency Cap on CETC High-Cost Support*** were electronically filed with the Federal Communications Commission through its Electronic Comment Filing System and were electronically mailed to the following:

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