

**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
)	
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)	

**REPLY COMMENTS OF
THE NATIONAL EXCHANGE CARRIER ASSOCIATION, Inc.**

June 2, 2008

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I. INTRODUCTION & SUMMARY

In these Reply Comments, the National Exchange Carrier Association, Inc. (NECA) focuses on positive “next steps” identified by commenters that, if taken, will advance universal service reform in a manner consistent with the goals of section 254 of the Telecommunications Act. NECA also responds to proposals that are at best premature and that in some cases would seriously damage universal service. Based on the record, the Commission should promptly:

- **Adopt the Joint Board’s proposal to separately-target funding for “providers of last resort” (POLRs).**

Contrary to claims by some commenters, separate funding mechanisms for POLRs and other types of eligible telecommunications carriers (ETCs) would not be unlawful, discriminatory or anti-competitive, but would instead simply recognize that different classes of ETCs bear different regulatory obligations and occupy different places in the telecommunications marketplace.

- **Adopt the Joint Board’s recommendation to leave existing funding mechanisms in place for incumbent local exchange carriers (ILECs) for the time being.**

There is extensive evidence ILEC high cost mechanisms are currently stable and successful in promoting broadband deployment in rural areas. The Commission should accordingly resist calls for piecemeal reform of ILEC high cost mechanisms and instead examine comprehensively how ILEC/POLR funding can be redesigned for the broadband age. This review should specifically include, for example, issues associated with how rural carriers can recover the costs of transporting traffic to and from the Internet backbone.

- **Refrain from adopting additional caps for ILEC high cost support mechanisms.**

Comments in this proceeding show that additional caps on ILEC support are unnecessary to control growth in the high cost fund and would likely deter further investment in modern, broadband-capable rural networks. Further, as explained by NECA and other commenters, such caps would require fundamental changes to existing accounting, separations and access charge rules that are well beyond the scope of this proceeding.

- **Eliminate the identical support rule.**

The *CETC Cap Order* makes plain that neither the Act nor principals of “competitive neutrality” require payment of identical support to CETCs. Having established this key principle, the Commission should now work to define specific goals for support programs for CETCs and develop reasonable means to determine how to distribute available CETC support dollars in a manner that serves the Act’s goals. Many commenters supported requiring CETCs to submit cost data to qualify for universal

service funding. The Commission should consider carefully a Panhandle Telecommunications-type proposal for cost-based CETC support, as this approach also incorporates incentives for wireless CETCs to use other carriers' networks and thereby avoid uneconomic duplication of support.

- **Affirm it will not use reverse auctions to determine support for rural ILECs.**

Throughout this proceeding numerous commenters have expressed significant concerns about the workability of reverse auctions and the adverse effects these methods would have on universal service. Comments supporting reverse auctions fail to address these concerns and instead focus exclusively on the goal of reducing universal service support levels. In the meantime, continued debate about applying reverse auctions to rural ILECs creates uncertainty for small carriers and dries up investment funding. After nearly ten years of unfruitful debate, the Commission should declare firmly that it finds reverse auctions unsuitable for rural ILEC or POLR support mechanisms.

- **Broaden the Contribution Base to Include Broadband.**

Many commenters in addition to NECA suggest that as the Commission moves forward with various "basis of support" issues the Commission also consider revisions to the USF contribution mechanism. As services migrate to broadband platforms, they nevertheless continue to depend on the public telephone network for transport and termination. To help assure the continued viability of the rural networks on which they depend, broadband services should be required to contribute on an equitable basis to the Commission's universal service programs.

II. THE RECORD SUPPORTS THE JOINT BOARD'S RECOMMENDATION TO TREAT "PROVIDERS OF LAST RESORT" SEPARATELY FROM WIRELESS MOBILITY PROVIDERS.

Commenters from a variety of industry segments supported the Joint Board's proposal¹ to treat POLRs in a different manner than wireless ETCs.² NECA explained in its comments how the Joint Board's recommended approach recognizes special carrier-of-last-resort (COLR) obligations placed on most incumbent wireline local exchange carriers (ILECs) and the different financial and marketplace realities faced by these carriers.³ As the Alaska Telephone Association stated,

It is the providers or carriers of last resort that supply the backbone network of the country's public switched telephone system, on which competitive carriers typically rely for backhaul and interconnection. Indeed, the POLRs fundamentally represent the essence of universal service as it is their obligation to deploy and maintain service to subscribers in all communities located within the boundaries of their certificated service areas, no matter how remote or difficult to access.⁴

Commenters opposing the Joint Board's recommended approach variously argue it would be unlawful, discriminatory or anti-competitive to distinguish between wireline POLRs and other ETCs.⁵ These arguments fail, however, in light of the Commission's

¹ *Federal-State Joint Board on Universal Service*, WC Docket No. 05-337, CC Docket No. 96-45, Recommended Decision, 22 FCC Rcd 20477 (2007) (*Recommended Decision*).

² Parties supporting the Joint Board's recommendation for separate funds include: Alaska Telephone Assoc. at 7, 16, Utah Rural Telecom Group at 6, Missouri Small Telephone Co. at 3-4, ITTA at 12, 21, 47, GVNW at 30, Texas Statewide Telephone Coop at 11-12, NASUCA at 10, Colorado Telecom Assoc. at 16-21, TDS at 2-4, Qwest at 2-5, Frontier at 9-11, RICA at 11-13, National Consumer Law Center at 1-3, NJ Division of Rate Counsel at 36, 51, Oklahoma Corp Comm. at 17-18, WTA at 10, 19, 22.

³ NECA Comments at 4-5.

⁴ ATA at 7-8. *See also* TCA at 8-9, ITTA at 9, TDS at 4, Frontier at 9, Embarq at 19, Utah Rural Telecom Assoc. at 3, GVNW at 30, Missouri Small Telephone Companies at 4, NASUCA at 23, Colorado Telecom Assoc at 20, RICA at 11-12, Conn. Dept. of Public Utility at 5.

⁵ *See, e.g.*, CTIA at 12-16, NTCH at 22, SouthernLINC Wireless at 13, Centennial at 3.

findings in its recent *CETC Cap Order*.⁶ There, the Commission firmly rejected arguments that the Act (and more specifically, the 5th Circuit’s 2000 *Alenco Communications, Inc.* decision⁷) somehow requires the promotion of competition in high-cost areas through the provision of equal per-line support amounts to all ETCs. If the Act does not require payment of equal support amounts to different ETC classes, it cannot be read to prevent the Commission from distinguishing between ETCs in other rational ways, such as by adopting the Joint Board’s recommendation to apply separate funding mechanisms for POLRs.

There is also no basis for claims that separate funding approaches would be “discriminatory” since, by definition, POLRs are subject to different regulatory requirements than competitive ETCs. Finally, given the Commission’s findings that wireline and wireless services are seen in the marketplace as complementary rather than as directly competitive,⁸ separate funding approaches cannot be considered anti-competitive.

Opponents of a separate funding approach for POLRs argue this approach would improperly favor “outmoded” wireline services over services using supposedly more modern technologies.⁹ In proposing that POLR funding initially be made available to wireline ILECs, however, the Joint Board recognized that incumbent local exchange

⁶ *High-Cost Universal Service Support*, WC Docket No. 05-337, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Alltel Communications, Inc., et al., Petitions for Designation as Eligible Telecommunications Carriers RCC Minnesota, Inc. and RCC Atlantic, Inc. New Hampshire ETC Designation Amendment*, Order, FCC 08-122 (rel. May 1, 2008) (*CETC Cap Order*).

⁷ *Alenco Communications, Inc., et. al. v. FCC and USA*, 201 F.3d 608 (5th Cir., 2000).

⁸ *CETC Cap Order* at ¶¶ 12-18.

⁹ CTIA at 12-16, Cellular South at 12, Sprint Nextel at 4, Verizon and Verizon Wireless at 22, GCI at 4.

carriers currently bear “carrier of last resort” responsibilities and are therefore logically entitled to payments, at least initially, under the proposed POLR funding mechanism.

The Joint Board’s proposal also recognizes, however, that other types of “providers” might eventually assume last-resort responsibilities in particular situations, and entities currently designated as “incumbents” or “carriers of last resort” will not necessarily retain that status indefinitely. Just as section 251(h) of the Act contemplates that individual ILECs could lose their incumbent status as consumers migrate to other providers or technologies, eligibility for POLR funding might change as well. Thus, the Joint Board’s proposal for separate funding mechanisms does not unfairly favor ILECs over other ETCs or wireline over wireless, but instead correctly recognizes the different regulatory obligations placed on POLRs regardless of technology used.¹⁰

III. EXISTING HIGH COST MECHANISMS FOR RURAL ILECS SHOULD BE LEFT IN PLACE PENDING MORE COMPREHENSIVE REVIEW OF 21ST CENTURY TELECOMMUNICATIONS NEEDS.

Numerous commenters also supported the Joint Board’s recommendation to leave existing cost-based ILEC support mechanisms in place pending more comprehensive review proceedings.¹¹ These commenters correctly note existing ROR ILEC mechanisms – unlike CETC funding under the equal support rule – are stable and are helping to promote broadband deployment in rural areas.

¹⁰ NECA suggested in its comments that, to the extent a state PUC imposes significant carrier of last resort obligations on competitive wireline providers, the Commission may wish to specify rules permitting such providers to have POLR status for universal service funding purposes. NECA at 13. Any such POLR mechanism should, however, be conditioned strictly on full compliance with defined POLR obligations, as well as reasonably comparable cost and audit standards.

¹¹ *E.g.*, JSI at 6, NTCA at 18, OPASTCO at 6, GVNW at 26, CenturyTel at 18.

Other commenters insist that if the Commission makes changes to out-of-control CETC funding mechanisms, it must make tit-for-tat revisions to ILEC programs as well. Some argue, for example, that the Commission should immediately require ILECs above certain size limits to convert to non-rural programs or at least consolidate existing study areas.¹² Others suggest the Commission immediately adopt some or all of the “possible” revisions to legacy programs suggested for long-term study by the Joint Board.¹³ Others advocate more radical approaches including, for example, total abandonment of legacy ILEC support mechanisms in favor of wireless or broadband services.¹⁴

The Commission should refuse to consider any such “reforms” of existing rural ILEC mechanisms at this stage, as they are beyond the scope of the Joint Board’s recommendation and represent unsound public policy. The Joint Board recommended the Commission leave existing ILEC mechanisms in place for now and conduct further proceedings to determine how these programs can be reshaped in light of advances in technology and competitive market conditions.¹⁵ NECA and many other commenters agree with this approach.¹⁶

Such proceedings, however, should not focus on short-term “fixes” to existing mechanisms, but instead deal comprehensively with ways to reform POLR mechanisms to meet the needs of rural consumers in the broadband age. It makes little sense, for example, to expend resources looking at whether existing loop and switching support

¹² See e.g. Verizon and Verizon Wireless as 23-24, CTIA at 26, Alltel at 21.

¹³ E.g., applying rates tests, combining loop and switching programs, examinations of unregulated costs, consolidation of loop and switching programs, forced combinations of study areas, etc. See, e.g., Alltel at 21.

¹⁴ E.g., Alltel at 19.

¹⁵ *Recommended Decision* at ¶ 19-20.

¹⁶ JSI at 6, NTCA at 18, OPASTCO at 6, GVNW at 26, CenturyTel at 18, ITTA at 6, Missouri Small Telephone Group at 9.

mechanisms should be combined when the main issue faced by rural carriers (and the Commission) is how to deploy broadband networks that use far different technology.

Moreover, as NECA and other commenters pointed out,¹⁷ support for the installation and maintenance of broadband-capable local routing and distribution facilities is only part of the answer to the broadband challenge facing rural America. Rural providers also need to obtain high-capacity transport to the Internet backbone if their customers are to have true broadband services. According to NTCA,

Many rural Internet service providers are located a significant distance from the Internet backbone, and consequently face higher costs to transport traffic to and from the backbone. At the same time, industry mergers have resulted in fewer choices for special access transport, removing the downward pressure on prices that typically exists in a more competitive marketplace.¹⁸

These and other forward-looking issues should be at the heart of any further proceeding to reform legacy ILEC mechanisms. It bears repeating, however, that the Commission currently faces significant near-term regulatory reform challenges, including the need to develop alternative CETC support mechanisms and rationalization of existing intercarrier compensation mechanisms. The Joint Board's recommendation to leave workable ILEC mechanisms in place for the time being permits the Commission to focus on more pressing issues without risking harm to universal service gains in areas served by rural ILECs.

The Commission should not, however, adopt the Joint Board's recommendation to impose additional caps on individual ILEC programs. As NECA and other

¹⁷ NECA at 18, NTCA at 15, ITTA at 12, OPASTCO at 8.

¹⁸ NTCA at 15. *See also* NECA's Middle Mile Broadband Cost Study (Nov. 2001), at 11.

commenters showed, additional caps on ILEC support mechanisms are unnecessary.¹⁹

Indeed, the Commission itself stated in its recent *CETC Cap Order*:

We do not find it necessary to adopt additional caps on support provided to incumbent LECs at this time because, as the Joint Board noted in its *Recommended Decision*, high-cost support to incumbent LECs has been flat and is therefore exerting less pressure on the universal service fund. Moreover, incumbent LEC high-cost loop support is already capped, and incumbent LEC interstate access support is subject to a targeted limit. Incumbent LEC disbursements from other support mechanisms, like local switching support and interstate common line support, have been stable in recent years. Further, although high-cost model support has no actual cap, it does have built-in restraints on growth, which derive from the fact that support is based on stable statewide average estimated costs.²⁰

Commenters also expressed concerns that additional caps on ILEC support mechanisms will adversely affect broadband deployment.²¹

Finally, as NECA and other commenters explained, imposition of additional caps on ILEC support mechanisms would require extensive changes to existing separations and access charge rules that are outside the scope of this proceeding.²² FCC rules currently require ILECs to recover interstate common line costs through a combination of interstate end user charges and (for rate of return carriers) the Interstate Common Line Support mechanism. Under existing separations and access charge rules, a cap on ICLS would necessitate increases in end user common line charges above current capped levels

¹⁹ Montana Tel. Assoc. at 22, TCA at 5, ITTA at 18, Telephone Assoc. of Maine at 4, USTelecom at 27, WTA at 27, OPASTCO at 23, Panhandle at 7, Frontier at 6, Kansas Rural Ind. Tel. Companies (KRITC) at 7.

²⁰ *CETC Cap Order* at ¶ 10. The Commission likewise rejected arguments that supposed “inefficiencies” in ILEC high cost mechanisms must be immediately addressed, finding instead that such issues should be addressed, if at all, in the context of comprehensive universal service reform. *Id.* at ¶ 11.

²¹ *E.g.*, TCA at 5. “While TCA supports adding broadband to the current definition of supported services, it is very concerned that capping federal high-cost support mechanisms will prevent this critical service from being deployed to all high-cost areas of the nation.” *See also* ITTA at 20.

²² NECA at 19, *See also* Montana Tel. Assoc. at 22.

or reinstatement of some form of carrier common line charge.²³ Neither the Joint Board’s Recommended Decision nor the Commission’s Notice of Proposed Rulemaking appear to contemplate these measures or other compensatory changes in underlying accounting, separations or access charge rules.

Predictably, CETC advocates argue it is “unfair” or “discriminatory” for the Commission to cap overall CETC support while leaving some ILEC mechanisms uncapped.²⁴ But the Commission has made clear its decision to impose an overall cap on CETC payments was a temporary measure, justified by unanticipated exponential growth in CETC support payments under the identical support rule.²⁵ No such justification exists for imposing additional caps on ILEC mechanisms. To the contrary, the record shows additional caps on ILEC support would likely deter further investment in modern, broadband-capable rural networks by ILECs, particularly rural rate of return carriers. This stands in stark contrast to uncapped payments under the identical support rule, which the Commission has found only incent CETCs to expand the number of subscribers, “particularly those located in the lower-cost parts of high-cost areas”, rather than expand the geographic scope of services.²⁶

²³ *Id.* See also MTA at 22, TCA at 5, ITTA at 18, USTelecom at 27, WTA at 27-29, OPASTCO at 23, Frontier at 6, KRITC at 7.

²⁴ *E.g.*, T-Mobile at 6, Chinook Wireless at 1.

²⁵ *CETC Cap Order* at ¶ 22.

²⁶ *Id.* at ¶ 21.

IV. THE IDENTICAL SUPPORT RULE SHOULD BE REPLACED.

Numerous commenters support the Commission's proposal to eliminate the identical support rule.²⁷ While some continue to argue for preservation of this approach,²⁸ these parties' arguments have been rejected by the Commission in its *CETC Cap Order*. For example, in response to claims the identical support rule is necessary to preserve "competitive neutrality", the Commission explained several reasons why its earlier approach is no longer valid. First, according to the Commission, its original findings

did not foresee that competitive ETCs might offer supported services that were not viewed by consumers as substitutes for the incumbent LEC's supported service. Second, wireless carriers, rather than wireline competitive LECs, have received a majority of competitive ETC designations, serve a majority of competitive ETC lines, and have received a majority of competitive ETC support. These wireless competitive ETCs do not capture lines from the incumbent LEC to become a customer's sole service provider, except in a small portion of households. Thus, rather than providing a complete substitute for traditional wireline service, these wireless competitive ETCs largely provide mobile wireless telephony service in addition to a customer's existing wireline service.²⁹

Because the identical support rule pays for multiple lines in a given area, it has in the Commission's words "created a number of serious problems for the high-cost fund" In particular, certification of multiple wireless CETCs in particular areas has "led to significant increases in the total number of supported lines", with many households

²⁷ NTCA at 20, ITTA at 27, KRITC at 3, and USTelecom at 16, OPASTCO at 11, CenturyTel at 22, Montana Telecom Assoc. at 11, Alaska Telephone Assoc. at 3, TCA at 13, Telephone Assoc. of Maine at 1, Iowa Telecom Assoc. at 2-3, Colorado Telecom Assoc. at 5, JSI at 3, Windstream at 21, Verizon at 4, Qwest at 6, Embarq at 6, AT&T at 37, CoBank at 2, North Dakota PSC at 3, Florida PSC at 2-3.

²⁸ Rural Cellular Assoc. at 3, CTIA at 19-20, Centennial at 3, Sprint Nextel at 7, US Cellular at 2, Information Technology Industry Council at 8, US Virgin Islands PSC at 11.

²⁹ *CETC Cap Order* at ¶ 20.

subscribing to both services and receiving support for multiple lines which in turn has led to rapid increases in the size of the fund.

As a replacement for the identical support rule, many commenters support the Commission's tentative proposal to require CETCs to submit actual costs in order to qualify for high cost funding.³⁰ Specific cost-based proposals submitted by commenters (such as those advanced by Panhandle Telecommunications Systems and Advocates for Regulatory Action) received favorable comments.³¹

Opponents of actual cost mechanisms continue to claim that CETCs should not be burdened by complex regulatory accounting requirements currently imposed on incumbent carriers.³² NECA has suggested that CETC costing rules need not be burdensome, but should nevertheless include review and auditing mechanisms reasonably necessary to assure compliance with section 254(e) of the Act. Some wireline CETCs indicate they, at least, would have no problem complying with the Commission's proposed costing rules.³³ Specific costing proposals for wireless carriers, such as the Panhandle mechanism or GVNW's WiCAC approach, appear reasonably intended to accommodate concerns about administrative burdens and should be considered seriously by the Commission.

³⁰ *E.g.*, NTCA at 19, MTA at 11, TCA at 14, DixieNet at 2, GVNW at 10, CenturyTel at 21, Embarq at 10.

³¹ *E.g.*, NTCA at 26, Range Telephone Cooperative at 13, OPASTCO at 13

³² *E.g.*, US Telecom at 18, Rural Cellular Association at 52, Sprint Nextel at 9-10.

³³ *E.g.*, RICA at 16.

V. THE COMMISSION SHOULD AFFIRM IT WILL NOT USE REVERSE AUCTIONS TO DETERMINE SUPPORT FOR RURAL ILECs.

Comments overwhelmingly oppose proposals to use reverse auctions to determine high cost support for rural rate of return ILECs. As the Kansas Rural Independent Telephone Companies state:

The imposition of a reverse auction process, at least applicable to investments already made and costs already incurred, would be difficult to distinguish from a regulatory version of “bait and switch,” in which the bait is the historic extension of the reasonable opportunity for recovery of those expenditures, and the switch is abrogation of that opportunity after the investment is made but before recovery can be accomplished. Adoption of a reverse auction methodology as to future investments and costs of all eligible telecommunications carriers would be a dubious proposition at best; as to resources already committed in good faith, a reverse auction would be nothing less than an unconscionable abrogation of public responsibility.³⁴

Commenters maintaining support for reverse auctions fail to address these concerns but instead focus almost exclusively on how reverse auctions would reduce universal service payments,³⁵ as if cost containment were the only goal for the Commission to consider. Section 254(b) of the Act, however, requires the Joint Board and the Commission to base universal service policies on specific public interest priorities including the availability of “quality services” at “just, reasonable and affordable rates”; “access to advanced services;” access for consumers in rural and high cost areas that is “reasonably comparable” to access in urban areas; and development of support mechanisms that are “specific, predictable and sufficient.”

³⁴ KRITC at 3. *See also* NTCA at 31, OPASTCO at 17, Texas Statewide at 3, Oklahoma Corporation Commission at 17, GVNW at 22, NECA at 28-29, NTCA at 37-38.

³⁵ *E.g.*, Comcast at 7, NCTA at 15, Verizon and Verizon Wireless at 21.

Section 254(b) also permits consideration of “such other principles” as the Joint Board and Commission might find necessary and appropriate for protection of the public interest. Cost containment is, obviously, a legitimate “other principle” for guiding the Commission’s reform efforts, but it cannot be the only consideration. Since reverse auction proponents offer little or no explanation as to how these mechanisms might advance the specific policy goals enumerated in section 254, and do not adequately respond to concerns raised by many commenters regarding potential adverse effects such methods may have on the specific public interest goals set forth in the Act, their comments provide no support for adoption of reverse auctions as a method for determining high cost support payments.³⁶

The various points made by commenters in response to the Commission’s most recent *Notice of Proposed Rulemaking* on reverse auctions are not unexpected. In fact, this is the 10th year the Commission has been considering the use of reverse auctions as a means of distributing high cost support. Parties to this proceeding have by now submitted multiple comments, studies and data demonstrating such mechanisms would be administratively unworkable and would actively harm universal service and consumers in high cost areas.³⁷

During this same period, however, rural ILECs have come to face increasingly difficult decisions about whether to continue deploying modern network technology in

³⁶ Similarly, the late-filed proposal submitted by Sprint Nextel on May 12, 2008 explains in elaborate mathematical detail how raising subscriber line charges, consolidating study areas, and capping support can reduce the size of the high cost fund, but ignores entirely potential adverse impacts on universal service. *See* Letter from Anthony M. Alessi, Sprint, to Marlene H. Dortch, FCC, CC Docket No. 96-45 and WC Docket No. 05-337 (May 12, 2008).

³⁷ *See, e.g.*, NTCA at 31, Kansas Rural Independent Telephone Companies at 3, OPASTCO at 17, Oklahoma Corporate Commission at 13, Utah Rural Telecom Association at 8, TCA at 15, GVNW at 21, GCI at 84, CoBank at 3 and JSI at 4.

remote and rural areas. The prospect of having to participate in questionable and potentially unfair reverse auctions in order to recover associated costs is bound to weigh heavily against making further investments in serving rural areas. Indeed, as CoBank suggests, reverse auctions may make it impossible for rural ILECs to obtain financing for new investments in the first place:

There is a direct correlation between the ability of a borrower to repay debt capital and the amount of capital a lender is willing to make available to a borrower. The greater the level of uncertainty about future cash flow, the lower the amount of debt capital available to a borrower. If a telecommunications provider is faced with the possibility of losing access to universal service support funding through a reverse auction system, lenders will restrict the amount of debt made available. This lack of access to capital could impair the ability of service providers of all types to meet the growing telecommunications needs of rural Americans.³⁸

Rural ILECs already face significant marketplace and technological uncertainty. Continued speculation about reverse auctions exacerbates this situation and is both unnecessary and counter-productive. It's time to "blow the whistle" on this concept and declare that reverse auctions will no longer be considered as a potential mechanism for determining universal service support, at least with respect to rural ILEC (or POLR) funding.

VI. THE RECORD SUPPORTS THE NEED TO REFORM EXISTING CONTRIBUTION MECHANISMS.

Several commenters, including NECA, urged the Commission to broaden the base of contributions into the fund to include broadband services. Montana Independent Telecommunications Systems, for example, states:

It is appropriate that revisions to the universal service program include modifications on the contribution side of high-cost funding. The

³⁸ CoBank at 4.

contribution base should be broadened to include all telecommunications services and jurisdictions. All providers who touch the public switched telecommunications network in the delivery of services should be required to contribute to the universal service fund.³⁹

Other commenters emphasize the extent to which broadband services rely on the availability of the public switched telephone network (PSTN). OPASTCO explains how rural ILEC networks:

not only provide wireline communications services directly to end users, they also serve as the backbone for other platforms and services, including mobile wireless, Internet protocol (IP)-enabled services (such as voice over IP), and public safety systems. As a result, if rural ILECs were no longer able to continue investing in their networks or, even worse, if their existence was placed at risk, then the availability and/or reliability of these other platforms and services would be compromised.⁴⁰

While contribution methodology issues are not specifically raised in the Commission's January 2008 NPRMs, questions about how best to assure stability in fund collections have been pending for some time in other phases of this proceeding.⁴¹ NECA strongly urges the Commission not to lose sight of this aspect of USF reform as it considers other pressing issues related to support distributions.

³⁹ Montana Independent Telecommunications Systems at 19.

⁴⁰ OPASTCO at 8. *See also* NTCA at 52, ITTA at 12.

⁴¹ *USF Contribution Methodology*, WC Docket No. 06-122, *Federal State Joint Board on Universal Service*, CC Docket No. 96-45, *1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms*, CC Docket No. 98-171, *Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990*, CC Docket No. 90-571, *Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size*, CC Docket No. 92-237, NSD File No. L-00-72, *Number Resource Optimization*, CC Docket No. 99-200, *Telephone Number Portability*, CC Docket No. 95-116, *Truth-in-Billing and Billing Format*, CC Docket No. 98-170 and *IP-Enabled Services*, WC Docket No. 04-36, Report and Order and Notice of Proposed Rulemaking, 21 FCC Rcd 7518 (2006).

VII. CONCLUSION.

The comments filed in this proceeding offer many suggestions for reforming the Commission's high cost universal service programs. In this Reply, NECA has shown how the record supports several positive "next steps" for the Commission to advance universal service reform.

Specifically, the Commission should adopt the Joint Board's proposal to separately target funding for "providers of last resort," and leave existing funding mechanisms in place for incumbent local exchange carriers (ILECs) for the time being. The record shows existing ILEC programs are stable and successful in accomplishing the Commission's universal service goals. These programs need to be examined in a comprehensive manner, but immediate efforts should be devoted to developing rational cost-based CETC support mechanisms to replace the current identical support rule.

The Commission should not, however, impose additional caps on ILEC support mechanisms. The record shows such additional caps are unnecessary, would likely deter further investment in modern, broadband-capable rural networks, and would require fundamental changes to existing accounting, separations and access charge rules that are beyond the scope of this proceeding.

The Commission should also affirm it will not use reverse auctions to determine support for rural ILECs. After nearly ten years of debate, it is apparent such mechanisms are unworkable and would cause incalculable harm to universal service if applied to rural ILECs. It is time for the Commission to reduce regulatory uncertainty by taking reverse auctions "off the table", at least for these companies.

Finally, as the Commission moves forward with various “basis of support” issues, it should consider revisions to the USF contribution mechanism. NECA and several other commenters point out that services migrating to broadband platforms continue to depend on the public telephone network for transport and termination. To help assure the continued viability of the rural networks on which they depend, broadband services should be required to contribute on an equitable basis to the Commission’s universal service programs.

Respectfully submitted,

NATIONAL EXCHANGE CARRIER
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A handwritten signature in black ink, appearing to read "Richard A. Askoff", is centered below the "By:" text.

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June 2, 2008

CERTIFICATE OF SERVICE

I hereby certify that a copy of NECA's Reply Comments was served this 2nd day of June, 2008 by electronic filing and email to the persons listed below.

By: /s/ Elizabeth R. Newson
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