

**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	)	CC Docket No. 96-45
Universal Service	)	

**REPLY COMMENTS OF  
THE CONSOLIDATED COMPANIES  
AND  
GREAT PLAINS COMMUNICATIONS, INC.**

Date: June 2, 2008

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## SUMMARY

The Consolidated Companies and Great Plains Communications, Inc. (“Great Plains”) (jointly referred to as “the Companies”) appreciate the opportunity to reply to comments regarding the critical issue of long-term comprehensive high-cost universal service fund (“USF”) reform. The Companies serve vast, sparsely populated rural areas across Nebraska and have been active participants in universal service reform efforts on both the federal and state levels. The Companies believe that their experiences in providing broadband access to the Internet, as well their declining demand for access, are indicative of changes in the operating environment faced by many small companies serving rural areas that will jeopardize the ability of rural companies to have sufficient cost recovery. Therefore, the Companies submit that comprehensive long-term universal service reform should address not only current USF deficiencies, but must also ensure sufficient cost recovery from all sources. Sufficient cost recovery is essential for the provision of supported services such as voice, and for the continued provision and deployment of broadband access to the Internet.

The Companies support the recommendation of the Federal-State Joint Board on Universal Service (“Joint Board”) that the nation’s communications goals should include universal availability of broadband access to the Internet. The Companies believe that in high-cost rural areas, this goal cannot be achieved without sufficient, ongoing USF support.

The Companies urge the Federal Communications Commission (“FCC”) to make universal service funding to maintain and expand the availability of access to the Internet in high-cost rural areas the top priority of the nation’s core long-term universal service

policy. Recurring costs beyond a rural company's network to provide broadband access to the Internet are increasing dramatically, while prices and revenues are lagging behind. Rural carriers cannot raise retail rates enough to compensate for the costs of providing greater bandwidth that customers are demanding, as increases in rates lead to decreases in demand. Therefore, explicit support will likely be needed to provide broadband access to the Internet in high-cost rural areas.

Trends in access minutes indicate that access charges may not provide a sustainable long-term cost recovery mechanism needed to provide broadband access to the Internet in rural areas. Switched access demand has been declining for the majority of carriers in recent years, while the costs to provide switched access have been relatively stable. Forecasts suggest this situation leads to increases in access rates that may cause interexchange carriers to cease providing toll service in high-cost rural areas.

The loss of access revenue, coupled with decreased margins for providing broadband access to the Internet, may lead to an insufficient revenue stream to continue to provide and expand broadband infrastructure in areas served by rural carriers such as the Companies. The provisioning of broadband access to the Internet in rural areas will require additional changes in support beyond those proposed in the NPRMs and changes to intercarrier compensation policy. The Companies recommend that the Commission should begin to examine a mechanism that would provide support for ongoing provision of broadband access to the Internet in high-cost rural areas.

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GREAT PLAINS COMMUNICATIONS, INC.**

**I. Introduction**

The Consolidated Companies<sup>1</sup> and Great Plains Communications, Inc. (“Great Plains”)<sup>2</sup> (jointly referred to as “the Companies”) respectfully submit these reply comments in the above captioned proceeding. The Companies appreciate the opportunity to reply to comments in this matter filed in response to the Federal Communications Commission’s (“Commission”) three Notices of Proposed Rulemaking (“NPRM”)

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<sup>1</sup> Consolidated Companies is a family-owned holding company for four rural local exchange carriers: Consolidated Telephone Company, Consolidated Telco, Inc., Consolidated Telecom, Inc. and Curtis Telephone Company. Consolidated’s 8,900 square mile service area in western Nebraska is larger than the state of New Jersey. With a subscriber density of only 0.7 customers per square mile, Consolidated serves one of the most sparsely populated areas in the country.

<sup>2</sup> Great Plains Communications is a diversified telecommunications company providing services in 63 exchanges in Nebraska including local and nationwide long distance telephone service and broadband access to the Internet. Great Plains’ 14,099 square mile service area in Nebraska is larger than the state of Maryland. Great Plains’ subscriber density is approximately 2 customers per square mile.

released on January 29, 2008.<sup>3</sup> In these NPRMs, the Commission seeks comment on long-term comprehensive high-cost universal service fund (“USF”) reform.

The Federal-State Joint Board on Universal Service (“Joint Board”) has recognized that comprehensive long-term USF reform is necessary. The Joint Board recommended fundamental revisions in the structure of existing universal service mechanisms. One of the revisions recommended by the Joint Board is the elimination of the identical support rule. The Companies believe that many of the proposals, such as the elimination of the identical support rule, are a positive step toward USF reform. Nevertheless, the Companies submit that comprehensive long-term high-cost USF reform should address not only the current deficiencies in USF policy, but must also recognize other changes in the operating environment of rural companies which will jeopardize the ability of such companies to maintain sufficient cost recovery. While changes in the high-cost USF are needed and appropriate, ensuring sufficient cost recovery from all sources is necessary to ensure that rural carriers will remain solvent in order to provide currently supported services such as voice, and to deploy and continue to provide broadband access to the Internet.

**II. In Recognition of the Evolving Use of Networks, Broadband Access to the Internet Should be Targeted to Receive USF Support.**

The Joint Board recommends that the nation’s communications goals should include universal availability of broadband Internet services.<sup>4</sup> The Companies concur

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<sup>3</sup> See *High-Cost Universal Service Support*, WC Docket No. 05-337, and *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Notices of Proposed Rulemaking, FCC 08-4 (Identical Support Rule NPRM), FCC 08-5 (Reverse Auctions NPRM), and FCC 08-22 (Federal-State Joint Board Recommendation (rel. Jan. 29, 2008)).

with other commenters that supported this goal,<sup>5</sup> and offer the reasons below as to why support should be provided to rural telephone companies to enable the provisioning of broadband access to the Internet.

Broadband or high-speed access has become the predominant manner in which residential subscribers access the Internet, with over half of the households in the U.S. subscribed.<sup>6</sup> In contrast, only 15 percent of residential subscribers use dial-up Internet access.<sup>7</sup> Moreover, subscriptions to high-speed access to the Internet by residential customers increased 29.4 percent from June 2006 to June 2007, the most recent period for which data is available.<sup>8</sup>

While at least 50 percent of the nation's households access the Internet through the use of broadband or high-speed service, the speeds at which data is transferred for the various services that comprise this category vary greatly. Broadband access to the Internet is increasingly being offered in rural areas; however, the broadband services

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<sup>4</sup> See *High-Cost Universal Service Support*, WC Docket No. 05-337, and *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Recommended Decision ("*Recommended Decision*") (rel. Nov. 20, 2007) at ¶ 4.

<sup>5</sup> See *High-Cost Universal Service Support*, WC Docket No. 05-337, and *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, National Telecommunications Cooperative Association Initial Comments ("*NTCA Comments*") (filed Apr. 17, 2008) at pp. 8-9, Comments of CenturyTel, Inc. (filed Apr. 17, 2008) at pp. 28-30, and Initial Consolidated Comments of the Western Telecommunications Alliance (filed Apr. 17, 2008) at pp. 5-9.

<sup>6</sup> See Mary Madden, Data Memo RE: Internet penetration and impact, April 2006, Pew Research Center.

<sup>7</sup> See John B. Horrigan, "Why it will Be Hard to Close the Broadband Divide," Pew Research Center.

<sup>8</sup> See Federal Communications Commission, "High-Speed Services for Internet Access: Status as of June 30, 2007" ("*FCC Broadband Report*") March 2007 at Table 3.

offered in rural areas often do not provide data transfer at rates comparable to those offered in urban areas. Furthermore, as broadband access to the Internet is offered, consumers become accustomed to speeds that are greater than those experienced with dial-up Internet access and tend to demand even greater speeds. For example, the American Association of Retired Persons (“AARP”) has recently suggested that 10 mbps should be the standard for new broadband access to the Internet deployments supported by USF.<sup>9</sup> Currently, only 5.6 percent of subscriptions for high-speed access to the Internet have information transfer rates that are greater than or equal to 10 mbps.<sup>10</sup> It is reasonable to assume that the majority of such subscriptions are in urban areas.

Section 254(b)(3) of the Telecommunications Act of 1934, as amended (“the Act”) states that “[c]onsumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.” In addition, Section 151 of the Act states that the Commission shall execute and enforce the provisions of the Act “[f]or the purpose of regulating interstate and foreign commerce in communication by

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<sup>9</sup> See *High-Cost Universal Service Support*, WC Docket No. 05-337, and *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Notice of Proposed Rulemaking, Comments of AARP (“*AARP Comments*”) (filed Apr. 17, 2008) at p. 11. The Companies would offer that given current support and the costs of provisioning broadband in very rural areas such as much of Nebraska, a goal of achieving such standards in much rural America is unrealistic.

<sup>10</sup> See *FCC Broadband Report* at Table 5.

wire and radio so as to make available, so far as possible, to all people of the United States, without discrimination on the basis of race, color, religion, national origin, or sex, a rapid, efficient, nationwide, and world-wide wire and radio communication service with adequate facilities at reasonable charges. . . .”<sup>11</sup> In order to maintain the offering of reasonably comparable broadband access to the Internet between urban and rural areas (and particularly in extremely sparsely populated areas) at rates that are reasonably comparable, the Companies strongly urge the Commission to conclude that universal service support of broadband access will be necessary to fulfill this universal service principle. As discussed below, without support to provide broadband access to the Internet in high-cost rural areas, the universal service principles in Section 254(b)(3) and Section 151 of the Act, as well as the Joint Board’s goal of universal availability of broadband Internet services, cannot be achieved.

**III. Trends in the Cost of Providing Broadband Access to the Internet in Rural Areas Illustrate the Need for Support to Maintain and Expand the Provision of Broadband Access in Such Areas.**

The Companies assert that the provision of broadband access to the Internet in rural areas will require adequate universal service funding in order to deploy and maintain the offering of such service, and to fulfill universal service goals and principles. The Joint Board recommended that a secondary purpose of the separate broadband fund it proposes would be to provide continuing operating support to providers of broadband access to the Internet in areas where low customer density makes it uneconomical to operate broadband facilities, even after receiving funding for construction.<sup>12</sup> As will be

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<sup>11</sup> 47 U.S.C. § 151.

<sup>12</sup> See *Recommended Decision* at ¶ 12.

demonstrated by the following discussion, the Companies urge the Commission to make universal service funding to maintain and expand the availability of broadband access to the Internet in high-cost rural areas the top priority of the nation's core long-term universal service policy.

Recurring costs for use of facilities located beyond a rural company's network that are necessary to provide broadband access to the Internet are increasing dramatically. For example, costs of accessing the Internet backbone for the Consolidated Companies have increased 63 percent in the past two years and increased 97 percent for Great Plains during the same period. Both Companies are also experiencing large increases in the cost of so-called "middle-mile" transport necessary to enable customers to reach Internet gateways. All of these costs will continue to rise as customers' appetites for bandwidth grow.

While costs to provide broadband access to the Internet are increasing dramatically, prices and revenues are lagging behind, creating a price squeeze that only worsens as costs increase in an uncontrolled manner. While subscribers are demanding greater bandwidth, a trend that will only continue, rural carriers simply cannot raise retail rates enough to compensate for the increased costs of providing this greater bandwidth. Figure 1 below illustrates the ratio of broadband access to the Internet (Digital Subscriber Line or "DSL") committed bandwidth<sup>13</sup> relative to revenue for the Consolidated Companies. As can be seen from Figure 1, Consolidated's ratio of DSL revenue to

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<sup>13</sup> Committed bandwidth is defined as the maximum amount of bandwidth that the subscriber may receive for the broadband access to the Internet service for which he subscribes.

bandwidth is continually declining.<sup>14</sup> The ratio has decreased by about half over the 2003 to 2007 time period. Furthermore, because the demand for broadband access to the Internet is price elastic, attempting to increase prices to cover the increases in costs is not feasible. The price elasticity of demand for broadband access to the Internet has been estimated at about -2.0 based on a composite of studies.<sup>15</sup> These numbers mean that for every 1.0 percent increase in the price of the service, the demand for the service will decrease by 2.0 percent. The Companies assert that given the demographics of customers in the very rural areas that they serve, it is likely that the price elasticity for broadband is greater for these customers than indicated in the aforementioned studies.

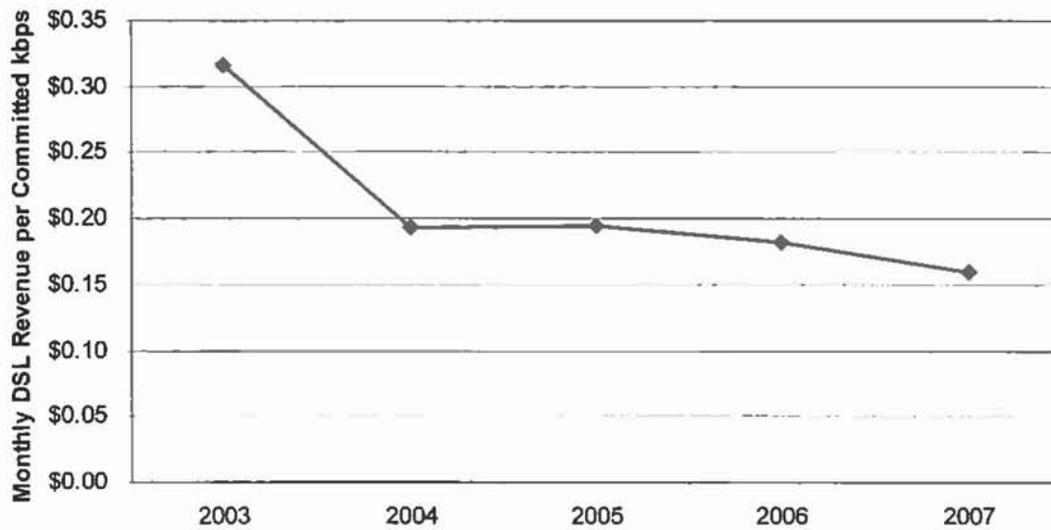
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<sup>14</sup> Great Plains faces a similar situation with regard to providing broadband access to the Internet.

<sup>15</sup> See Stephen B. Pociask, "Net Neutrality and the Effects on Consumers," The American Consumer Institute, May 9, 2007, at fn. 50, citing J. Gregory Sidak, "A Consumer Welfare Approach to Network Neutrality Regulations of the Internet," forthcoming in the *Journal of Competition Law & Economics*, Oxford Press, Vol. 2:3, 2006, p. 465 at fn. 450.

**Figure 1**  
**Consolidated's DSL Revenue Relative to Bandwidth**



AARP asserts that as a result of offering broadband access to the Internet, supported carriers have access to a new revenue source – broadband service revenue.<sup>16</sup> Furthermore, AARP indicates that some supported carriers have generated operating synergies and economies of scope that may result in universal service support reductions.<sup>17</sup> The Companies believe that the information presented above effectively rebuts these assertions with regard to rural carriers serving high-cost areas. While AARP recognizes that additional revenues result from the provision of broadband access to the Internet, it does not recognize the additional costs associated with providing broadband access to the Internet – and many of those costs are outside a rural carrier’s control and are escalating as bandwidth demands rise. The construction and maintenance of a broadband-capable network, which is currently implicitly supported through high-cost

<sup>16</sup> See *AARP Comments* at p. 28.

<sup>17</sup> *Id.* at pp. 28-29.

universal service support, is only a portion of the cost to provide broadband access to the Internet. The recurring costs to provide broadband access to the Internet are increasing substantially, and are outpacing increases in revenue growth, leading to little or no margin for providing the service. Therefore, the Companies assert that it is not reasonable to assume that the provision of broadband access to the Internet will result in a reduced need for universal service support – especially in the nation’s most rural areas, which include much of Nebraska. In fact, as discussed here and in the following section, when considering the costs and revenue trends for all services that contribute to network cost recovery, explicit support will likely be needed to provide broadband access to the Internet in high-cost rural areas.

**IV. Trends in Access Minutes Indicate That Access Charges May Not Provide a Sustainable Long-Term Cost Recovery Mechanism Needed to Provide Broadband Access to the Internet in Rural Areas.**

The National Telecommunications Cooperative Association (“NTCA”) indicated that the ability of rural carriers to offer their customers broadband access to the Internet services comparable to those available in urban areas depends on revenue from several sources, one of those being access charges.<sup>18</sup> NTCA points out that if the funding from any source should shrink appreciably or be eliminated, the funding for the telecommunications network in rural areas will be at risk.<sup>19</sup> The Companies’ own experiences with declines in access minutes, as well as trends for the National Exchange Carrier Association (“NECA”) pool, confirm NTCA’s comments regarding the decline in

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<sup>18</sup> See *NTCA Comments* at p. 12.

<sup>19</sup> *Id.* at pp. 12-13.

access minutes and the detrimental effects such a decline is creating for the deployment of broadband access to the Internet.<sup>20</sup>

Switched access demand has been decreasing for the vast majority of rural carriers in recent years. Even more troubling, the rate of decline is accelerating. As shown in Figure 2 below, Great Plains' overall switched access demand (interstate and intrastate) has declined continuously since 2003. In fact, the rate of decline has increased over the last few years.<sup>21</sup>

**Figure 2**  
**Great Plains' Switched Access Demand**  
(Millions of Minutes)

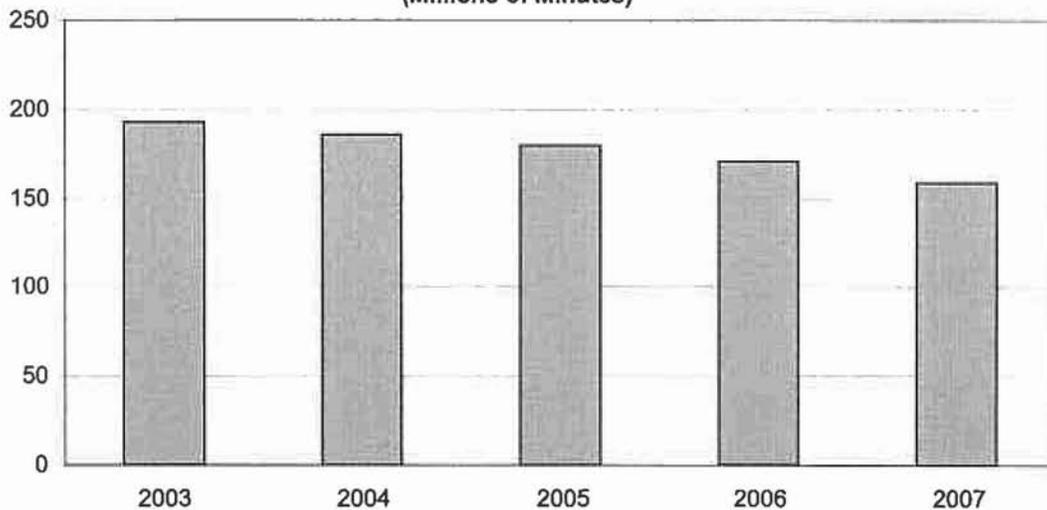
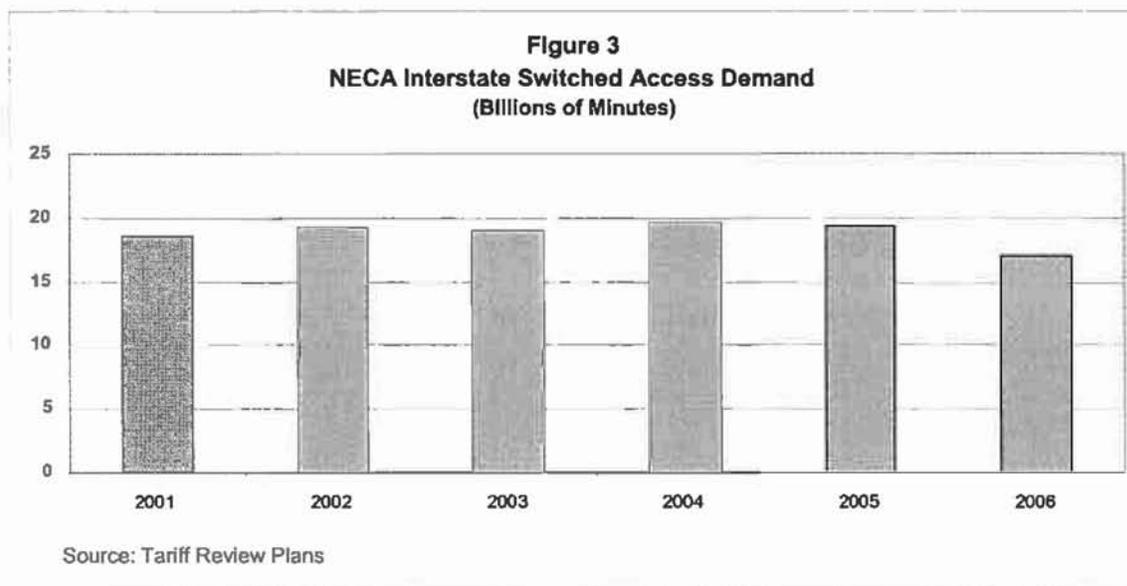


Figure 3 illustrates historical interstate switched access demand for the NECA pool from 2001 to 2006. While interstate switched access demand experienced slight variations from 2001 through 2005, it exhibited much sharper declines from 2005 to 2007. From 2005 to 2006, switched access demand decreased 11.8 percent. Data for a

<sup>20</sup> Id. at pp. 13-14.

<sup>21</sup> Consolidated has experienced similar access demand declines.

sample of NECA pool participants indicate switched access demand continued to decline at a relatively rapid rate from 2006 to 2007, roughly an 8.4 percent decrease.<sup>22</sup>

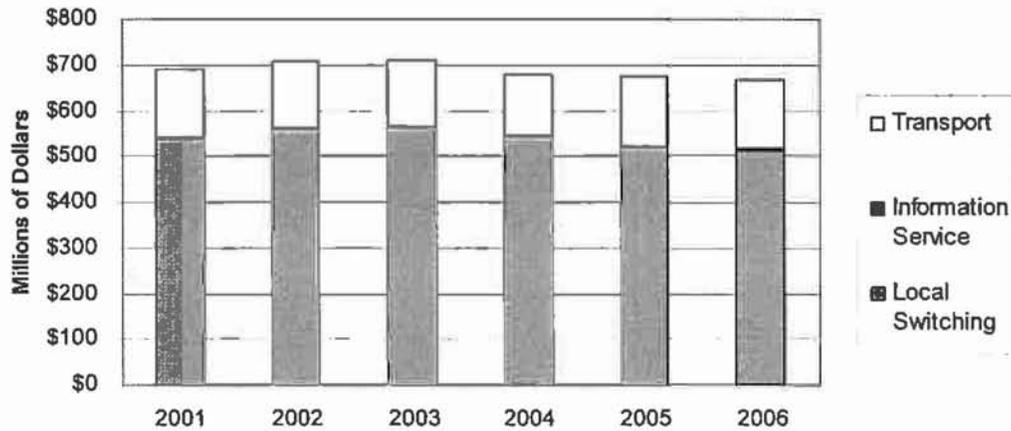


While switched access demand has been declining and the rate of decline has been increasing, according to NECA data, the costs (or revenue requirements) to provide interstate switched traffic sensitive access<sup>23</sup> have been relatively stable. The revenue requirements for interstate switched traffic-sensitive access are presented in Figure 4 below. As illustrated in the chart, the aggregate NECA pool revenue requirement to provide interstate switched traffic sensitive access declined only 1.1 percent from 2005 to 2006.

<sup>22</sup> See “Understanding Phantom Traffic and Access Avoidance,” NECA Webinar, presented March 26, 2008 at slide 3.

<sup>23</sup> The revenue requirements for local switching, transport, and information service were combined to produce an aggregate revenue requirement associated with local switched minutes.

**Figure 4**  
**NECA Annual Interstate Switched Traffic Sensitive**  
**Revenue Requirements**



Source: Tariff Review Plans

Trending this combination of rapidly declining interstate switched access minutes with generally stable interstate switched traffic-sensitive costs indicates that the composite access rate for interstate switched access minutes will likely increase rapidly in the next few years. At the Companies' request, Consortia Consulting, Inc., a telecommunications consulting firm, recently prepared a forecast of interstate switched access rates for NECA companies nationally that concluded rural carriers' composite interstate rates will rise dramatically based on existing trends. Due to the lack of necessary data to construct econometric projections, this forecast was prepared using standard trending techniques. Both recent actual trends and data from NECA forecasts used to develop tariff rates were utilized in the construction of the forecast.

Three scenarios were developed using the two components of the interstate switched access rate forecast – minutes of use and cost (revenue requirement) data. The first scenario (labeled Forecast A on Figure 5 presented below) assumed a 10 percent

annual decline in interstate switched access minutes which reflects actual declines in demand over the past few years<sup>24</sup> and is about half of the 20 percent decline forecasted by NECA in development of rates for the 2007/2008 annual access tariff (effective June 30, 2007). The decline in switched traffic-sensitive costs (2.5 percent) is about double the rate of decline over the past few years, but is a slower rate of decline than contained in the NECA forecast used to develop rates for the 2007/2008 annual access tariff. Due to a lack of better data, the same rates of decline were assumed for each consecutive year for all three versions of the forecast, an assumption the Companies believe may indeed be conservative.

Under the second scenario (labeled Forecast B on Figure 5 presented below) the decline in interstate switched access minutes was assumed to be somewhat faster, 15 percent, which is the average of actual declines in demand over the past few years<sup>25</sup> and of the NECA forecast of a 20 percent decline used to develop rates for the 2007/2008 annual access tariff. The decline in interstate switched traffic sensitive costs was held constant at 2.5 percent, the same rate of decline developed in the first scenario.

The third and last version of the projections assumed a 20 percent decline in interstate switched access minutes as projected by the NECA forecast used to develop rates for the 2007/2008 annual access tariff and an 8.5 percent decline in switched traffic sensitive costs, also as projected by the NECA forecast used to develop rates for the 2007/2008 annual access tariff. The third scenario is not presented in Figure 5, as it

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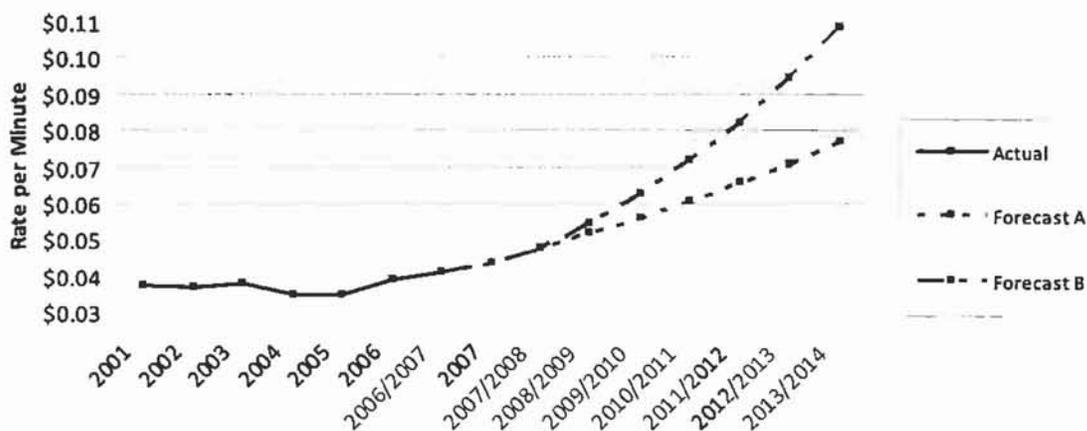
<sup>24</sup> The rate of decline for 2005-2006 is based upon data from the 2007/2008 Annual Access Tariff Review Plan, and the rate of decline for 2006-2007 is based upon data for a sample of NECA Companies. See "Understanding Phantom Traffic and Access Avoidance," NECA Webinar, presented March 26, 2008 at slide 3.

<sup>25</sup> See footnote 24.

yielded nearly identical results to Forecast B. The primary difference between the second and third scenarios is that the volume of switched access minutes is much lower under the third scenario.

The results of these interstate forecast scenarios are presented in Figure 5 below. As illustrated, average interstate switched access rates will approach \$0.05 per minute in the next one to two years. All of the forecast scenarios suggest that average interstate switched access rates will increase at a faster pace than they have in recent years. Depending upon the forecast scenario selected, average interstate switched access rates are projected to range from nearly \$0.08 per minute to almost \$0.11 per minute for the 2013/2014 annual access tariff. Regardless of the scenario selected, interstate switched access rates at these forecasted levels may cause many or all interexchange carriers to cease to provide toll service in areas served by members of the NECA pool. The same situation is likely to occur in areas served by rural carriers that are not members of the NECA pool. With such access rate increases appearing to be inevitable, as will be discussed below, changes in support and intercarrier compensation mechanisms beyond those proposed in the NPRMs will be necessary to provide sufficient cost recovery to provide services such as broadband access to the Internet in the face of changes such as the likely loss of access revenue.

**Figure 5**  
**Projected NECA Interstate Switched Access Rates**



Source: Consortia Consulting Forecast

**V. The Provisioning of Broadband Access to the Internet in Rural Areas will Require Additional Changes in Support Beyond Those Proposed in the NPRMs and Changes to Intercarrier Compensation Policy.**

The information presented above indicates a combination of factors that are leading to an insufficient revenue stream to continue to provide and expand broadband access to the Internet in areas served by rural carriers such as the Companies. As noted, the costs to provide broadband access to the Internet are increasing more rapidly than revenue from the service. Also, access demand is declining rapidly. Access charge revenue currently is a significant portion of rural carriers' total revenues but may not be a sustainable revenue source in the future, especially given likely increases in rates. If access charge revenues continue to decline significantly or even disappear, other network cost recovery mechanisms must be developed to recover costs associated with building and maintaining a network – especially one that is broadband-capable.

NTCA also noted these circumstances, and indicated that a high-cost USF reform transition plan is necessary to equitably move the communications industry from the

public switched telecommunications network to a broadband Internet Protocol (“IP”) environment.<sup>26</sup> The Companies strongly concur with this recommendation and urge the Commission to begin to investigate possible network cost recovery mechanisms to replace access charges and to support the additional costs of providing broadband access to the Internet.

A first step to developing a new cost recovery mechanism is adding broadband access to the Internet to the list of supported services as proposed by the Joint Board.<sup>27</sup> The Companies concur with the Joint Board’s reasoning that adding broadband access to the Internet to the list of supported services will make the provision of such service to all Americans at affordable and reasonably comparable rates an explicit national goal.<sup>28</sup> Given the data presented above on the costs of providing broadband access to the Internet in high-cost rural areas relative to the revenues for such service, in order to fulfill the Joint Board’s proposed goal regarding broadband access to the Internet, on-going adequate support will clearly be needed in high-cost rural areas, including recognition of the significant decline in switched access demand. The broadband USF program proposed by the Joint Board is not designed to provide significant and on-going support needed to provide broadband access to the Internet in rural areas.<sup>29</sup> Rather, the primary

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<sup>26</sup> See *NTCA Comments* at pp. 12-17.

<sup>27</sup> *Id.* at ¶ 56.

<sup>28</sup> *Id.* at ¶ 57.

<sup>29</sup> See *Recommended Decision* at ¶¶ 12-15.

purpose of the Broadband Fund proposed by the Joint Board is to expend support as grants for the construction of new facilities in unserved areas.<sup>30</sup>

The Companies recommend that the Commission should begin to examine a mechanism that would provide adequate, on-going support to high-cost rural areas. Sufficient network cost recovery is an absolute precondition to providing broadband access to the Internet in high-cost rural areas. Without a robust network that is sufficiently funded, broadband access to the Internet for all Americans cannot and will not be provided.

## **VI. Conclusion**

The Companies appreciate the opportunity to reply to comments regarding the critical issue of long-term comprehensive high-cost USF reform. The Companies believe that many of the recommendations made by the Joint Board are positive steps toward USF reform. Nevertheless, the Companies submit that comprehensive long-term high-cost USF reform should address not only the current deficiencies in the USF, but must also recognize other changes which will jeopardize the ability of rural companies to maintain sufficient cost recovery.

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<sup>30</sup> Id. at ¶ 12.

Date: June 2, 2008.

The Consolidated Companies and Great Plains  
Communications, Inc.

By: Paul M. Schudel

Paul M. Schudel, No. 13723

James A. Overcash, No. 18627

WOODS & AITKEN LLP

301 South 13th Street, Suite 500

Lincoln, Nebraska 68508

Telephone (402) 437-8500

Facsimile (402) 437-8558