Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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

REPLY COMMENTS OF THE

INDEPENDENT TELEPHONE & TELECOMMUNICATIONS ALLIANCE

To the Commission:

I. INTRODUCTION

The comments submitted in response to the Commission's recent Notice of Inquiry (NOI)[1] evidence the fact that substantial attention must be paid to the provision of telecommunications and advanced services throughout the Nation. Despite best efforts, a judicially-satisfactory mechanism for providing sufficient Universal Service Fund (USF) support for non-rural, high-cost areas has eluded the Commission and, consequently, the industry, since the first judicial remand in 2003. The Commission's commitment to conclude a solution for the non-rural, high-cost areas of the Nation by 2010 coincides with the Commission's on-going efforts to address comprehensive reform of USF. Toward that end, ITTA included in its initial comments a restatement of its plan for comprehensive USF reform.

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[1] *High-Cost Universal Service Support; Federal-State Joint Board on Universal Service Support: Notice of Inquiry,* WC Docket No. 05-337, CC Docket No. 96-45, FCC 09-28 (rel. Apr. 8, 2009).

II. TARGETING IS RECOGNIZED BY A RANGE OF PARTIES AS THE APPROPRIATE BASIS FOR USF DISTRIBUTIONS.

As described in its initial comments, the ITTA proposal represents a blend of plans filed in the above-captioned dockets by Qwest and Embarq. The fundamental element of the ITTA proposal is the targeting of USF support to the high-cost areas that need it most; this is achieved by focusing on wire center costs, rather than state-wide averages. The ITTA plan would realign all price-cap carriers, including rural and non-rural, within a new funding mechanism. USF support for price-cap carriers would be distributed on the basis of costs as informed by population density at the wire center level, resulting in targeted support for areas that are affected adversely by state-wide averaging under the current non-rural methodology and study area averaging under the current rural methodology. At the same time, all rate-of-return carriers would operate under current rural rate-of-return mechanisms. And, although ITTA recommends that the Commission take the court remand as the opportunity to adopt the ITTA or similar proposals regarding comprehensive reform, if the Commission limits its decision to address only the current non-rural funding mechanism, then it should at least grant any pending petitions for rural price-cap carriers to receive high-cost loop support through the non-rural mechanism.

Time Warner Cable, Inc., observes that a limited outcome to the instant proceeding that addresses only the Tenth Circuit remand would disrupt the momentum that has been building for overall reform.[2] The ITTA proposal, by contrast, provides a blueprint for comprehensive reform by addressing price cap and rate of return carriers,

[2] Comments of Time Warner Cable, Inc. at 3.

the role of competitive eligible telecommunications carriers (CETCs) (including the elimination of the identical support rule), and the emerging role of broadband in the Nation's communications networks.

The bedrock of ITTA's proposal is the targeting of support to the areas that need it most. As noted in ITTA's initial comments, funding would be prioritized on the basis of population density. Sparsely settled areas result in higher costs because facilities must be constructed over far longer distances to reach end users. The distances between individual end users and the carrier's need to aggregate a critical mass of traffic in a switch together often necessitate the use of particularly long loops, increasing costs dramatically. Recognizing this, the Commission has stated that "for universal service purposes … cost differences caused by differing loop lengths are the most significant cost factor."[3] State-wide averaging obscures the costs of providing service in sparsely populated regions, as the low-cost areas, now host to competitive providers, are no longer able to generate adequately the implicit support that could be relied upon in the era of territorially-monopoly providers.

Like ITTA, AT&T recognized that low population density is a major factor in making an area "high-cost,"[4] and CTIA recognized the principle that USF support should be "focused on completing deployment projects in areas where it is uneconomic for

[3] *Federal-State Joint Board on Universal Service (Forward-Looking Mechanism for High Cost Support for Non-Rural LECs): Fifth Report and Order,* CC Docket No. 96-45, FCC 98-279, 13 FCC Rcd 21,323, at para. 75 (1998).

[4] Comments of AT&T at 33.

carriers to do so without support."[5] ITTA has championed these positions in prior filings, noting that the ultimate purpose of USF is to ensure sufficient support for carriers that undertake the provision of service where general economic conditions would not support such ventures. The overriding principle that support must be targeted in order to enable proper support was echoed by parties whose interests may ultimately diverge from those of ITTA; notwithstanding the fact that those parties may have different visions of the type of network that ultimately emerges, they share with ITTA the recognition that tightly focused, targeted support is necessary to deliver adequate resources to areas where the market cannot by itself justify the carriers' provision of reasonably comparable service at comparable rates. For example, AT&T states outright that "[t]he Commission should . . . eliminate statewide averaging, which assumes continued reliance on unsustainable and rapidly declining implicit subsidies."[6] The Nebraska Public Service Commission (NE-PSC) agrees, stating that the most critical issue is the targeting of support to rural areas.[7] The market phenomena that warrant targeting are explained by several parties. The NE-PSC explains, "With competitive pressure in urban markets, companies like Qwest are finding it increasingly difficult to remain competitive with the erosion of implicit subsidies."[8] Windstream, too, describes the larger study areas of price-cap carriers, and the

[5] Comments of CTIA at 12.

[6] Comments of AT&T at 6.

[7] Comments of NE-PSC at 2.

[8] Comments of NE-PSC at 2.

> wider variation in size of wire centers contained within a study area . . . . these carriers are more likely to experience instances where a few high-density wire centers cause the average cost for an entire study area to fall below the threshold for rural support, even though the vast majority of wire centers in the study area are very small and serve very few people.[9]

Like the blended Embarq/Qwest plan proposed by ITTA, Windstream supports the creation of a USF regime that establishes a single mechanism for price-cap carriers.[10] Creation of such a targeting mechanism will ensure that support is delivered to the areas that need it most.

III. ADEQUATE SUPPORT MUST CONTEMPLATE NARROWBAND NEEDS AS BROADBAND DEPLOYMENT CONTINUES.

Adequate support for narrowband networks is necessary while broadband deployment unfolds. The viability of narrowband networks cannot be abandoned under the false assumption that broadband networks are a turnkey replacement that can be implemented at low costs. Accordingly, the ITTA proposal addresses USF reform in a manner that addresses price cap, rate-of-return, and competitive carriers in order to ensure the strength of the USF and, consequently, the networks that are supported by it and which can provide a basis for broadband capabilities. While ITTA agrees that intercarrier compensation (ICC) and USF are intertwined with each other, it disagrees with those who argue that receipt of USF support should be tied to reductions in intrastate access charges. ITTA concurs with AT&T that comprehensive reform of ICC must be completed,[11] but notes that any mandated reduction in access revenues would require the

[9] Comments of Windstream at 7, *citing* National Exchange Carrier Association, Trends 2008 (rel. 2008).

[10] Comments of Windstream at 7.

[11] *See* Comments of AT&T at 6, 14.

implementation of an alternative recovery mechanism (ARM) that would compensate carriers for the foregone access-based revenue source.[12]

Such support is necessary. Population density, and other factors such as terrain, will continue to ensure that the costs of providing service in many areas of the Nation will exceed the level at which requisite investment would be justified by normative economic models. This is true whether for narrowband or broadband networks. The National Cable & Telecommunications Association (NCTA) submits that mechanisms should transition from voice-focused to broadband-focused, yet also conjectures that the need for funding should be declining as technology and competition advance.[13] As regards the costs of technology, it would be incorrect to assume that the costs decrease as technology advances. While a colorable argument might be made that the cost of *raw per unit capacity* may decrease, initial deployment costs remain relatively constant. As explained in a recent White Paper, "the infrastructure costs for higher bandwidth networks (i.e., FTTH, FTTN, etc.) are not falling dramatically on an annual basis because the majority of the initial investment/construction costs arise from labor, which has not

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[12] In 2008, ITTA submitted a comprehensive ICC reform proposal that would move intercarrier compensation for price-cap carriers toward CALLS target rates and included a phased-in approach that would ratchet alternative recovery mechanism (ARM) revenues downward over time. *High-Cost Universal Service Support; Federal-State Joint Board on Universal Service; Lifeline and Link-Up; Universal Service Contribution Methodology; Numbering Resource Optimization; Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; Developing a Unified Intercarrier Compensation Regime; Intercarrier Compensation for ISP-Bound Traffic; IP-Enabled Services: Comments of the Independent Telephone & Telecommunications Alliance*, Docket Nos. 05-337, 96-45, 03-109, 06-122, 99-200, 99-68, 01-92, 99-68, 04-36 (Nov. 26, 2008).

[13] Comments of NCTA at 4.

been a declining input."[14] Notions that broadband can replace narrowband voice services on an economical basis (and the corollary assumption that the narrowband network can be ignored in favor of an all-broadband Nation) are challenged by the facts surrounding technology and cost.

As noted by Windstream, voice is not an application that can be provided simply over a broadband network.[15] Existing facilities would require the support of broadband ports for all voice lines, which in turn would depend upon the deployment of additional DSLAMs and other equipment. Windstream predicts a cost of that effort alone to be in "hundreds of millions of dollars."[16] These costs would be *supplemental* to those anticipated for deploying broadband-capable lines; within the specific discussion of broadband deployment, ITTA has previously cited studies that estimate a cost in excess of $10.9 billion ($13.9 billion in 2007 dollars) to upgrade 3.3 million rural study area lines to provide broadband via DSL.[17] The notion that technological advancement should obviate the need for ongoing support should be rejected as inconsistent with data that is

[14] "America at a Crossroad: Understanding the Challenge of Broadband in Rural America," Balhoff & Williams, LLC, at 4 (2009) (http://www.balhoffrowe.com/pdf/America%20at%20a%20Crossroad.pdf, last viewed Jun. 1, 2009, 13:12).

[15] Comments of Windstream at 22.

[16] Comments of Windstream at 22, n.64.

[17] *See* Glass, Victor, *NECA Rural Broadband Cost Study: Summary of Results*, National Exchange Carrier Association, Inc., at 4 (Whippany, NJ, 2000). The $13.9 billion in 2007 dollars calculation represents 2000 values against 2007 using an average of Consumer Price Index, GDP deflator, estimated values of consumer bundle and unskilled wages, nominal GDP per capita, and relative share of GDP. *See* http://www.measuringworth.com (last viewed Nov. 17, 2008, 17:42).

on record with the Commission. Broadband deployment will continue, but at a pace consistent with the resources available to carriers.

In many instances, carriers have been able to leverage supported networks to provide not only those services implicitly required under COLR obligations, but also advanced services, as well. As noted by the Federal-State Joint Board, "[t]he High-Cost Loop program supports investment and expenses associated with local loops, even when those loops are broadband-capable."[18] Accordingly, support for narrowband networks that are necessary to bring COLR-obligated services to outlying areas results generally and ultimately in broadband deployment. Noting, however, the fact that existing USF support is not sufficient to enable robust deployment, the ITTA proposal also includes a component that provides grants to deploy broadband infrastructure. Together, the components of the ITTA proposal address the concerns, *inter alia*, of those described above: the ITTA proposal targets support for more rational and appropriate USF distribution, and enables the ordered evolution of networks toward greater broadband capabilities while ensuring access to vital voice services throughout the Nation.

[18] *High Cost Universal Service Support, Federal-State Joint Board on Universal Service: Recommended Decision,* Docket Nos. 96-45, 05-337, FCC 07J-4, at n.55 (2007).

IV. CONCLUSION

The targeting principles of the ITTA proposal are supported by a range of parties. The ITTA USF proposal is a basis for comprehensive USF reform that will deliver support to where it is needed most, and also enhance broadband deployment throughout that Nation. Accordingly, ITTA urges the Commission to adopt the plan set forth by ITTA.

Respectfully submitted,

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