Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
International Comparison and Consumer Survey Requirements in the Broadband Data Improvement Act	)	GN Docket No. 09-47
	)	
A National Broadband Plan for Our Future	)	GN Docket No. 09-51
	)	
Inquiry Concerning the Deployment of Advanced Telecommunications Capability to All Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996 as Amended by the Broadband Data Improvement Act.	)	GN Docket No. 09-137
	)	
Comments Sought on the Role of the Universal Service Fund and Intercarrier Compensation in the National Broadband Plan, NBP PN #19	)	DA 09-2419
	)	

To: The Commission

COMMENTS OF THE RURAL HIGH COST CARRIERS
ON NATIONAL BROADBAND PLAN PUBLIC NOTICE #19

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Executive Summary

The Rural High Cost Carriers are extremely concerned about the intersection of the Commission's Broadband policy and real revenue requirements, including intercarrier compensation and federal universal service fund receipts. Rural carriers are dependant upon such revenue requirements to continue to provide service at affordable prices in accordance with the Telecommunications Act of 1934, as amended in 1996.

In order to ensure that the deployment of broadband across the United States does not create a negative impact on the provision of rural service, which includes not only voice but also broadband, the Rural High Cost carriers urge the Commission ensure four policies are reflected in the National Broadband Plan:

1. The size of any USF-related broadband fund, or related government directed revenues, should be driven by the Commission's public policy decision as to the desirable broadband speeds, and by eliminating wasteful spending on CETCs under the identical support rule.

2 Ideas such as USF portability and forward-looking pricing are unworkable in the real world because the deployment of high quality and sustainable IP-related services, such as e-mail, VOIP and video, in rural areas, requires sustainable networks.

3. Reductions in current levels of high cost support and/or intercarrier compensation would jeopardize the ability of the Rural High Cost Carriers to continue to serve customers and deploy broadband capable networks.

4. The principle of cost-causation is paramount in designing a broadband-related contribution mechanism because upward pressure on the universal service fund will continue to

exist as a result of broadband speed requirements and increases in demand. Those who profit from the network by driving increasing amounts of content and applications should be included in this calculus.

Given the multi-use nature of rural telecommunications networks, the current high cost support and intercarrier compensation mechanisms are necessary to ensure the continued ability of rural incumbent local exchange carriers to provide not only voice service, but also reliable broadband service to rural America.

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To: The Commission

COMMENTS OF THE RURAL HIGH COST CARRIERS ON NATIONAL BROADBAND PLAN PUBLIC NOTICE #19

These Comments are filed on behalf of the South Dakota Telecommunications Association (SDTA)[1], All West Communications, Inc., BEK Communications, Big Bend Telephone Company, Breda Telephone Corp., Buggs Island Telephone Cooperative, Cameron Telephone Company, The Chillicothe Telephone Company, Clear Lake Telephone Company, Dumont Telephone Company, Hanson Communications, Inc., Horizon Telecom, Peñasco Valley Telecommunications Cooperative, The Ponderosa Telephone Co., Prairie Grove Telephone

[1] SDTA is an association of 31 rural incumbent local exchange carriers in South Dakota.

Company, Inc., Public Service Telephone Company, Inc., Spring Grove Communications, and Townes Telecommunications, Inc.[2] (hereinafter collectively referred to as the Rural High Cost Carriers), in response to the Commission's Public Notice (Comment Sought on the Role of the Universal Service Fund and Intercarrier Compensation in the National Broadband Plan), GN Docket Nos. 09-47, 09-51 and 09-137, DA-09-2419, released November 13, 2009.

The Rural High Cost Carriers represent a cross-section of rural incumbent local exchange carriers who provide a full range of telecommunications services and facilities, including Broadband, in rural, high cost areas of the United States. The carriers provision service in areas typically covering many miles, which are often sparsely populated and difficult and expensive to serve. For instance, most rural carriers in South Dakota serve 5 or fewer customers per square mile.

As such, these carriers are dependent upon intercarrier compensation and federal universal service fund ("USF") receipts to provide service at affordable prices. For these carriers, it is not unusual for the combination of access charges, intercarrier compensation and federal USF support to amount to over 60% of the company's total revenues, and for some carriers, the amount is even higher.[3] Indeed, it is not uncommon to find relative percentages of between 25%-40% of interstate revenues/federal USF for members of the group.

Against this background, the Rural High Cost Carriers are extremely concerned about the intersection of the Commission's Broadband policy with real revenue requirements, including intercarrier compensation and USF, which already have been compromised by the ill-considered policy experiments of prior administrations. For example, in 2001 the FCC made the policy

[2] Townes Telecommunications, Inc. is comprised of eight rural incumbent local exchange carriers serving areas in Arkansas, Colorado, Florida, Kansas, Missouri, Texas and Pennsylvania.
[3] More specific data is expected to be filed in the comments of the National Exchange Carriers Association.

decision to shift carrier common line revenue requirements from interstate access charges into the USF mechanism.[4] This former revenue requirement was thus transformed into a USF-related "subsidy" by nothing more than an administrative judgment. The related loop costs did not change and, indeed, no real analysis attended the judgment to reclassify a revenue requirement into a subsidy (now known as Interstate Common Line Support). Commenters note that the FCC has not yet ruled on the petition asking for reconsideration of this decision in 8 years.[5]

The change was indeed harmful. The reclassified costs became a USF revenue element which is now portable to Competitive Eligible Telecommunications Carriers ("CETCs") under the Commission's policies.[6] This, even though most CETCs had no corresponding common line investments to begin with, such as is the case with the proliferation of wireless CETCs.[7] The ultimate consequence is that the USF has now become unsustainable in its present form. Payments to CETCs under the "identical support rule"[8] by 2007 had swollen the USF by

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[4] Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers; Federal-State Joint Board on Universal Service; Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation; Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers; Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166, 16 FCC Rcd 19613 (2001) ("MAG Order").
[5] Petition for Reconsideration of Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service, Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation, Prescribing the Authorized Rate of Return From Interstate Services of Local Exchange Carriers by South Dakota Telecommunications Association, CC Docket Nos. 00-256, 96-45, 98-77, 98-166, Petition for Reconsideration, filed December 31, 2001.
[6] MAG Order at ¶41.
[7] High-Cost Universal Service Support; Federal-State Joint Board on Universal Service, WC Docket No. 05-337, CC Docket No. 96-45, Recommended Decision, 22 FCC Rcd 20477 (November 2007). ("2007 Joint Board Decision").
[8] 47 C.F.R. § 54.307(a); see also 2007 Joint Board Decision; see also Applications of Cellco Partnership d/b/a Verizon Wireless and Atlantis Holdings LLC For Consent to Transfer Control of Licenses, Authorizations, and Spectrum Manager and *De Facto* Transfer Leasing

approximately $1 billion and were projected by the Federal-State Joint Board to continue growing exponentially. And this is despite the fact, as noted by the same Joint Board, that payments to ILECs had remained relatively flat or declining during the same period.[9] This history, including the implementation of the identical support rule and efforts to hold accountable the wireless industry for USF abuses,[10] should inform the Commission as it explores its policy options to further the universal availability of broadband within the U.S.[11]

Specifically, the Rural High Cost Carriers submit that the FCC should incorporate the following policies in its National Broadband Plan.

1. The size of any USF-related broadband fund, or related government directed revenues, should be driven by the Commission's public policy decision as to the desirable broadband speeds, and by eliminating wasteful spending on CETCs under the identical support rule.

2 The deployment of high quality and sustainable IP-related services, such as e-mail, VOIP and video, in rural areas, requires sustainable networks. Ideas such as USF portability and forward-looking pricing are unworkable in the real world.

3. Reductions in current levels of high cost support and/or intercarrier compensation would jeopardize the ability of the Rural High Cost Carriers to continue to serve customers and deploy broadband capable networks.

Arrangements and Petition for Declaratory Ruling that the Transaction is Consistent with Section 310(b)(4) of the Communications Act, WT Docket No. 08-95, *Memorandum Opinion and Order and Declaratory Ruling,* 23 FCC Rcd 17444 (2008). (Alltel-Verizon Merger Order).

[9] 2007 Joint Board Decision at ¶39.

[10] See Virginia Cellular, LLC Petition for Designation as an Eligible Telecommunications Carrier for the Commonwealth of Virginia, CC Docket No. 96-45, Memorandum Opinion and Order, 19 FCC Rcd 1563 (2004); see also Highland Cellular, Inc. Petition for Designation as an Eligible Telecommunications Carrier for the Commonwealth of Virginia, CC Docket No. 96-45, Memorandum Opinion and Order, 19 FCC Rcd 6422 (2004).

[11] Public Notice at 1.

4. The Commission should follow its precedent on cost-causation in designing a broadband-related contribution mechanism. Even with the changes necessary to rationalize USF spending, particularly with CETCs as discussed, upward pressure on the fund will probably exist by dint of FCC-related determinations as to broadband speed requirements and increases in demand. Accordingly, the Commission also should rationalize the contribution base by following its historic principles of cost-causation. Those who profit from the network by driving increasing amounts of content and applications should be included in this calculus.

These points are discussed in order.

I.

The Size of the Fund Should Be Determined First By Capacity Requirements and Regulatory Reform

The Rural High Cost Carriers have expended considerable capital and effort in extending broadband service into rural areas of America.[12] Additional investment amounts are necessary to reach more remote areas, however, and to maintain and operate these modern telecommunications networks. The Commission's November 13, 2009 Public Notice, at Question 1., invites comment on the appropriate size of the fund for the various support mechanisms.

The high cost mechanism itself urgently needs reform. It is bloated by well over $1 billion, as determined by the recent (2007) Federal-State Joint Board which studied this issue, by virtue of the ill-considered "identical support rule." The Commission has struggled to make wireless carriers accountable under this rule by requiring specific tower construction by wireless CETC applicants,[13] and by requiring those of the largest wireless carriers (i.e., Alltel and Verizon

[12] See, 2007 Joint Board Decision.
[13] See, Highland Cellular *supra* n. 10.

Wireless) to, respectively, demonstrate their USF-related costs and relinquish participation in the fund.[14] Finally, the Commission has capped CETC support, finding that a "primary consequence" of the high cost support mechanism vis-à-vis CETCs, has been to "promote the sale of multiple supported wireless handsets in given households."[15] It is primarily the demand from this sector that caused the Federal-State Joint Board to recommend eliminating the identical support rule[16] and was directly related to the Commission's later action implementing an interim cap and requiring cost support for CETCs under certain circumstances.[17]

Thus, these Commenters submit there are already substantial savings to be realized by simply cleaning up the fund itself (no doubt referred to, charitably, as an "inefficiency" in this Commission's November 18, 2009 News Release: "FCC Identifies Critical Gaps In Path To Future Universal Broadband"). Commission action in eliminating the identical support rule thus will relieve much of the pressure on the fund – an important element to be considered in determining its size.

Directly related to sizing the fund, however, is defining the FCC's broadband vision. For example, does the FCC foresee a national broadband network primarily capable of e-mail access, or something more? Last week, Chairman Genachowski published remarks detailing a more expansive vision of broadband services: "Broadband is about more than desktop computers – it's

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[14] Applications of ALLTEL Corporation, Transferor, and Atlantis Holdings LLC, Transferee, For Consent To Transfer Control of Licenses, Leases and Authorizations, WT Docket No. 07-128, Memorandum Opinion and Order, 22 FCC Rcd 19517 (2007); Alltel-Verizon Merger Order.

[15] In the Matter of High-Cost Universal Service Support; Federal-State Joint Board on Universal Service; Alltel Communications, Inc., et al. Petitions for Designation as Eligible Telecommunications Carriers; RCC Minnesota, Inc. and RCC Atlantic, Inc. New Hampshire ETC Designation Amendment, WC Docket No. 05-337; CC Docket No. 96-45, 23 FCC Rcd 8834 (2008) at ¶33.

[16] See 2007 Joint Board Decision at n. 11.

[17] In the Matter of High-Cost Universal Service Support, 23 FCC Rcd 8834 at ¶31.

about connecting a new generation of intelligent home devices around energy, health care, education and TVs. And it's about a new wave of innovation in home appliances to rival the one brought about by electricity."[18]

Thus, given the Commission's intense focus on broadband technology and services, it is more likely than not that current broadband speeds previously defined by the Commission[19] may change. Consequently, so will the size and characteristics of the physical networks change in order to support Commission requirements.

In view of this fact, these Commenters respectfully submit that the Commission should define its broadband expectations as a first step. This, and cleaning up the waste and inefficiency imposed by the identical support rule, will go a long way toward defining the appropriate size of the high cost fund and related broadband amounts.

II.

Any Supplemental Broadband Funding Mechanism Should Recognize The Multi-Use Nature of ILEC Networks and the Need for Sustainability

Item number 3 of the Public Notice concerns various options to 'transition' the current high cost mechanism to support advanced broadband deployment. Several ideas are mentioned, such as maintenance of operating expenses of "legacy voice-only networks" but supporting "new investment" from a broadband field (3a); the possible deployment of a mechanism that would discontinue associated funding with the loss of a subscriber (3b); and, the use of a forward-looking cost model to determine support, instead of actual costs (3c).

[18] Prepared Remarks of Chairman Julius Genachowski, "Innovation in a Broadband World", The Innovation Economy Conference, Washington, DC, Dec. 1, 2009.

[19] See In the Matter of Development of Nationwide Broadband Data to Evaluate Reasonable and Timely Deployment of Advanced Services to All Americans, Improvement of Wireless Broadband Subscribership Data, and Development of Data on Interconnected Voice over Internet Protocol (VoIP) Subscribership, 23 FCC Rcd 9691 at 9700-9702 (2008).

The Commenters respectfully submit that such concepts as transitioning funding away from voice services, stranding investment by migrating funding amounts as customer attrition occurs, and calculating USF support based upon hypothetical (forward looking) models, will actually retard the goal of rural broadband deployment instead of advancing it. These ideas ignore the fundamental realities of network planning and economics and would kill investment incentives and financing. The current USF mechanism has, to date, allowed the placement of state-of-the art network facilities in the difficult-to-serve rural areas. The Commission's Report to Congress should take this opportunity to strengthen its commitment to efficient, multi-use network solutions for service delivery and to eliminate wasteful and inefficient support for competitors who offer little investment for their USF dollars, or none at all in the case of resale.[20]

As previously discussed, the option of a transitional USF program for voice-only networks is unworkable, given the multi-use nature of rural ILEC networks, and would possibly fritter away a USF mechanism which has been extremely effective in the deployment of rural broadband. In this respect, the 2007 Federal-State Joint Board Recommended Decision referenced earlier is instructive. There, the Joint Board examined the existing USF mechanism and made several succinct findings as to the program's effect. For instance, the Joint Board found that, as of 2007, 1) "Support to most if not all RLECs has been flat or has even declined since 2003 [FN omitted]. Under existing support mechanisms, RLECs have done a commendable job of providing voice and broadband services to their subscribers." (emphasis supplied); 2) "A significant portion of the High Cost Loop Fund supports the capital costs of providing broadband-capable loop facilities for rural carriers. Under this system, rural LECs (RLECs) have done a commendable job of providing broadband to nearly all of their customers.

[20] See Petition of TracFone Wireless, Inc. for Forbearance from 47 U.S.C. § 214(e)(1)(A) and 47 C.F.R. § 54.201(i), CC Docket No. 96-45, Order, 20 FCC Rcd 15095 (2005).

While this program may need adjustments, we recognize its effectiveness in maintaining an essential network for POLRs [Providers of Last Resort] and in deploying broadband." (emphasis supplied); and 3) "We believe it is no longer in the public interest to use federal universal service support to subsidize competition and build duplicate networks in high-cost areas. Consistent with the Joint board Pubic Notice released in September 2007 [FN omitted], we recommend that the Commission eliminate the identical support rule. The rule bears little or no relationship to the amount of money competitive ETCs have invested in rural and other high cost areas of the country." (emphasis supplied).[21]

Thus, aside from recognizing that the primary reason for runaway growth in the high cost fund was revenue flows to CETCs (see, e.g., para. 9 & n. 11) -- an observation inconsistent with the notion that ILEC high cost support is broken -- the Joint Board recognized the multi-use nature of the rural ILEC's networks. The Commenters here would represent to the Commission that, indeed, such is the case. Networks, including loop plants, are constructed in an integrated manner to support a variety of service applications, including voice and services associated with broadband. It would be extremely difficult and inefficient to provide separate broadband networks for those companies, and likely confiscatory for USF dollars "transitioned" away from networks providing voice, when their business case was predicated upon USF support.

The Public Notice options to have USF support follow customers to different networks, and to have support on a forward-looking model, fare no better on the score of encouraging investment. Like last year's proposal to award rural high cost USF by reverse auctions, the inherent unpredictability of a portable revenue stream will certainly chill lending and investment

[21] 2007 Joint Board Decision at ¶¶ 39, 30 & 35.

in the very facilities which the Commission wants constructed.[22] Likewise, a forward-looking model has been rejected as unreliable for rural companies already,[23] and it has not passed judicial muster for non-rural companies.[24]

In sum, rural ILECs build real, integrated multi-use networks with real operating requirements and real debt service. Proposals to reduce USF support for the integrated networks by transitioning, USF portability, or forward-looking cost models are more likely to reduce broadband investment and availability than encourage it. Accordingly, the rural high cost companies urge the Commission to reject these bad ideas.

III.

Reductions in High Cost Support and/or Intercarrier Compensation Would Jeopardize the Ability of the Rural High Cost Carriers To Continue To Serve Customers And Deploy Broadband Capable Networks.

The Commission asks for comment on the factual analysis that should be undertaken to determine whether reductions in current levels of high cost support and/or intercarrier compensation would jeopardize the ability of carriers to continue to serve customers and deploy broadband capable networks or whether the current system has led to regulatory arbitrage and inefficient investment that have undermined the deployment of advanced communications. The Commission also asks a number of questions concerning the impact of changes in current

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[22] Letter from Lawrence Zawalick, Vice President, Rural Telephone Finance Cooperative, to Kevin Martin et al., Commissioners, FCC, CC Dockets 01-92; 96-45, (filed October 27, 2008).

[23] See, Federal-State Joint Board on Universal Service, Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256, 16 FCC Rcd 11244 (2001).

[24] See Qwest Corp. v. FCC, 258 F.3d 1191 (10th Cir. 2003) ("Qwest I"); see also Qwest Communications Int'l, Inc. v. FCC, 398 F.3d 1222 (10th Cir. 2005) ("Qwest II").

revenue flows on the ability of carriers to continue to serve customers and deploy broadband capable networks.

The Rural High Cost Carriers contend that there is abundant evidence already on file at the Commission and in the public record which demonstrates that current high cost support and intercarrier compensation mechanisms are especially necessary to the ability of rural carriers to continue to serve customers at current levels and that additional high cost support will be necessary to fully deploy and maintain broadband capable networks in high cost rural areas.[25] The public record also clearly identifies certain Commission policies which have caused regulatory arbitrage and the inefficient use of universal service support and which can, and should, be eliminated without entirely abandoning current mechanisms.[26]

It is clear that federal high cost support and intercarrier compensation, including intrastate and interstate access, constitute critical revenue streams in the high cost environment in which the Rural High Cost Carriers operate. For most of the rural ILECs participating in these comments, federal universal service support and intercarrier compensation account for between 40% and 62% of revenues. For most of these rural ILECs, federal universal service support accounts for more than 20% of revenues.

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[25] 2007 Joint Board Decision at ¶30; Broadband Task Force Delivers Status Report On Feb. 17 National Broadband Plan: Staff Details State of U.S. Broadband, Outlines Path Forward, 2009 FCC LEXIS 5026 (September 29, 2009) ("The incremental cost to universal availability varies significantly depending on the speed of service, with preliminary estimates showing that the total investment required ranging from $ 20 billion for 768 Mbps-3 Mbps service to $ 350 billion for 100 Mbps or faster.")

[26] See 2007 Joint Board Decision at ¶35; In the Matter of High Cost Universal Service Reform; 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, CC Docket Nos. 96-45, 99-200, 96-98, 01-92, 99-68, WC Docket Nos. 05-337, 03-109, 06-122, 04-36, Order on Remand and Report and Order and Further Notice of Proposed Rulemaking, FCC 08-262, 24 FCC Rcd 6475 (rel. Nov. 5, 2008)("Order/FNPRM")

Further, the public record demonstrates that the impact of the loss of a significant portion of intercarrier compensation revenues or federal universal service support would severely and adversely impact consumers. For example, the record in the Commission's 2008 Order and Further Notice of Proposed Rulemaking on universal service and intercarrier compensation contains data showing that reducing terminating intrastate and interstate access rates to $.0007 for the rural ILECs in South Dakota would have a revenue impact of $25.45 per line per month and that eliminating originating access would have an additional revenue impact of $13.76 per line per month.[27] With increases of this magnitude, rates would not be affordable or comparable to urban rates, as required by the Communications Act. Accordingly, the continued receipt of federal universal service support and intercarrier compensation is essential for the Rural High Cost Carriers to build out and maintain their current broadband capable networks and services.

The record also is clear that certain aspects of the Commission's policies with respect to intercarrier compensation and universal service result in regulatory arbitrage and inefficient investment. The solutions to these problems, however, are well known and could be implemented by the Commission without a wholesale abandonment of current mechanisms. For example, arguably the greatest cause of inefficient universal service funding is the result of the identical support rule, whereby the amount of high cost support provided to competitive carriers has no relationship to the competitive carrier's costs. Not only can this lead to providing excessive high cost support to competitive carriers, but support on this basis provides a competitive carrier with little incentive to invest in, or expand, its own facilities in areas with low population densities. Although the Federal-State Joint Board recommended the elimination of the identical support rule, the Commission has failed to act on the recommendation.

[27] See Reply Comments of the South Dakota Telecommunications Association (filed December 22, 2008), Order/FNPRM.

Among the factors driving "arbitrage" are the Commission's historic reluctance to require IP traffic to pay for its use of the public switched telephone network (PSTN) and the Commission's lack of action on phantom traffic. The problem of phantom traffic is well documented and the Commission proposed various changes in the Order/FNPRM to deal with unidentified traffic including required signaling, information and financial responsibility for carriers delivering unidentified traffic.[28] The failure of IP-based traffic to pay its way for traffic that looks and sounds like circuit switched traffic is a particularly pernicious form of arbitrage. The Commission should reform intercarrier compensation by enforcing rules to deal with unidentified traffic and by closing the information service loophole for IP-based traffic.

IV.

The Adoption of a Contribution Mechanism Should Follow the FCC's Principles of Cost Causation

As indicated earlier in these Comments, the Rural High Cost Carrier's believe that the Commission's goal of universal broadband will inevitably, all things being equal, increase the amount of USF support. We have also discussed ways to relieve some of this pressure, such as by eliminating the identical support rule.

On the contribution side, these Commenters submit that the current base of support, from which contribution of broadband services is insufficient, is clearly inequitable. Some mechanism must exist for cost causers, such as those imposing huge content burdens of the broadband network, to pay their fair share. At present, these entities pay little or nothing. In this respect, the Cleland study of Google's internet bandwidth usage and corresponding payment is worthy of

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[28] Order/FNPRM, (App'x C) at paras. 332-338.

the Commission's consideration.[29] In his analysis, Mr. Cleland, a well-known telecommunications consultant, concludes that Google receives an implicit subsidy of $6.9 billion from U.S. consumers. And while these numbers may or may not be correct, the study certainly constitutes a red flag that cost causers, such as large content providers like Google, are not paying their fair share of network costs.

This analysis should be the subject of intense focus in determining how to support USF in a broadband world. Cost causation has been a hallmark principle in the Commission's rate design policies and it is especially apt in the present debate.[30]

V.

Conclusion

Based on the foregoing, the Rural High Cost Carriers submit that the FCC should first size any USF-related broadband fund based on public policy decisions as to the desirable broadband speeds and the elimination of wasteful spending on CETCs under the identical support rule. The Commission should reject ideas such as USF portability and forward-looking pricing because they are unworkable in the real world and contrary to the deployment of high quality and sustainable networks in rural areas. With respect to universal service contributions, the Commission should follow its precedent on cost-causation in designing a broadband-related contribution mechanism that includes those who profit from the network by driving increasing

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[29] Cleland, Scott. "A First-Ever Research Study: Estimating Google's U.S. Consumer Internet Usage & Cost -- 2007-2010", December 4, 2008, NetCompetition.org; available online as of December 7, 2009 at: http://www.netcompetition.org/study_of_google_internet_usage_costs2.pdf.

[30] In the Matter of Access Charge Reform; Price Cap Performance Review for Local Exchange Carriers; Transport Rate Structure and Pricing End User Common Line Charges, CC Docket No. 96-262; CC Docket No. 94-1; CC Docket No. 91-213; CC Docket No. 95-72, FCC 97-158, 12 FCC Rcd 15982 at 15992, ¶24 (May 7, 1997)("The Commission has recognized in prior rulemaking proceedings that, to the extent possible, costs of interstate access should be recovered in the same way that they are incurred, consistent with principles of cost-causation.").

amounts of content and applications. Finally, the Commission should find that current high cost support and intercarrier compensation mechanisms are necessary to ensure the ability of rural incumbent local exchange carriers to continue to serve customers and deploy broadband capable networks.

Respectfully submitted,

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