Alliance of Rural CMRS Carriers
Interim Per-Line Cap Proposal

As a measure to temporarily control the size of the High Cost Program and to free up funding for broadband initiatives, the Alliance of Rural CMRS Carriers ("ARC") proposes to cap per-line support to ILECs. The proposed cap would be effective as of either March of 2008 or March of 2010, depending upon how much existing support for fixed voice service the Commission wants to repurpose for broadband.

Capping per-line ILEC support will encourage efficiency and promote the broadband and universal service goals set out by Congress and the FCC during the transitional period, until the FCC implements comprehensive universal service and intercarrier compensation reforms. This proposal will provide all stakeholders with additional incentive to develop competitively neutral reforms, and move expeditiously toward a comprehensive resolution.

The Problem to be Addressed

Between 2001 and 2008, the number of ILEC loops nationwide decreased from approximately 175 million to approximately 125 million, a 28% drop. Over the same time period, support to ILECs from the High-Cost Program increased from roughly $2.6 billion to approximately $3.1 billion. From 2008 to 2010, average per-line support for ILECs nationwide increased from $5.37 to $6.77, an increase of 26%.

The Commission predicted this combination of trends over ten years ago. It is now clear that an increasingly large percentage of high-cost support is being used to fund fixed voice services that consumers are rapidly abandoning, as there has been no corresponding reduction in support. The Commission must repurpose as much of such support as possible toward broadband, so that consumers in rural and high-cost areas can see improved access to both fixed and mobile broadband platforms at the earliest possible date.

The Proposed Solution

In order to stem the increasing per-line support to ILECs, we propose that the Commission cap each ILEC at the per-line level of support it was eligible to receive as of either March 2008 or March 2010. This would be accomplished in a simple three-step process:

Step One: Divide the ILEC's projected quarterly support for either the first quarter of 2008[1] or the first quarter of 2010[2] by that ILEC's loop count that was used to calculate the ILEC's support for that quarter. The result is the ILEC's capped per-line support.

Step Two: For each calendar quarter while this proposal is in effect, divide the ILEC's projected uncapped quarterly support by the ILEC's loop count used to calculate the ILEC's support for that quarter. The result is uncapped per-line support.

Step Three: If an ILEC's uncapped per-line support for the then current quarter is greater than its capped per-line support level, then it will receive support based on the capped per-line amount, multiplied by its then-current number of lines. If an ILEC's per-line support for the current quarter is at or below the capped per-line support level, then it will receive uncapped support without any adjustment.

Potential Savings

ARC estimates that if its proposal to cap per-line support at the March 2010 level is implemented now, it would yield a savings of approximately $541 million between the second quarter of 2010 and the second quarter of 2012, based on current landline access count trends.

This proposal would promote universal service objectives and present a fair and effective solution to the ongoing problem of increasing per-line support to ILECs. The proposal would thus fulfill the universal service principle of sufficiency, which, the *Alenco* court has made clear, is intended to benefit rural citizens, not to guarantee a market outcome for any service provider.[3] The proposal would also serve the universal service principle of predictability in that it establishes "an upper, definitive bound" on per-line support an ILEC may receive[4].

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[1] See USAC High-Cost Appendix HC01 at http://www.universalservice.org/about/governance/fcc-filings/2008/quarter-1.aspx.

[2] See USAC High Cost Appendix HC01 at http://www.usac.org/about/governance/fcc-filings/2010/quarter-1.aspx.

[3] *Alenco Communications v. FCC*, 201 F.3d 608, 621 n.17 (5th Cir. 2000).

[4] *High-Cost Universal Support,* 23 FCC Rcd 8834, 8841 (para. 14) (2008) ("*Interim Cap Order*").

Alternatively the Commission may wish to cap each ILEC's support at the per-line level of support it was eligible to receive as of March 2008. This alternative proposal is competitively neutral because the interim cap on ILECs would be set as of the same date as the interim cap on competitive ETCs. We estimate that this proposal would reduce ILEC support by $1.8 billion between the second quarter of 2010 and the second quarter of 2012. This would give the Commission increased flexibility to roll out broadband pilot programs and initiatives, some of which would be returned to ILECs making broadband investments and reaching out to low-income households.

Under either scenario, ILECs would be encouraged to become more efficient. If an ILEC's costs stayed level or continued to rise even as its line counts dropped, its support will reflect declining numbers of customers. On the other hand, if an ILEC's support has gone down as fast as, or faster than, its customer numbers, it will receive no further reduction in support as a result of the per-line cap. Above all, this solution ensures that the Universal Service Fund supports those services and providers that consumers are choosing in the marketplace.

If interim caps are to be implemented in a competitively neutral fashion, all classes of carrier should share the burden equitably. ARC's per-line cap proposal, in combination with the existing Interim CETC Cap, would promote competitive neutrality by capping support in a way that does not single out carriers for their technology or competitive status. Moreover, as this is an interim measure, a per-line cap will free up substantial funds which can be repurposed for broadband pilot programs to jump start investments in rural and high-cost areas.

Tribal Exception

As with the Interim CETC Cap, ILECs serving tribal areas ("Covered Locations") would qualify for uncapped per-line support. ILECs will receive the per-line support they would be eligible to receive if this proposal were not adopted. This exception would ensure that ILECs would not be prevented from meeting their universal service obligations in tribal areas, whose high costs and low penetration rates present unique challenges.

Case-by-Case Exception

If an ILEC believes its capped support will be insufficient to continue providing services to consumers in high-cost areas, it may submit a request for an exception to the Commission, describing the hardship, including a demonstration of its relevant return on investment, dividend payments, a financial analysis of why it will be forced to discontinue service to consumers in high-cost areas, and a description of how it will use additional support to invest in its network.

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