

**BEFORE THE FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of

Connect America Fund

A National Broadband Plan for Our Future

High-Cost Universal Service Support

WC Docket No. 10-90

GN Docket No. 09-51

WC Docket No. 05-337

**COMMENTS OF  
THE OREGON TELECOMMUNICATIONS ASSOCIATION  
AND  
THE WASHINGTON INDEPENDENT TELECOMMUNICATIONS ASSOCIATION**

**July 12, 2010**

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## SUMMARY

The Federal Communications Commission (Commission) has laid out an ambitious agenda to reform the existing universal service mechanisms, reform intercarrier compensation and to create a broadband program. The bulk of these Comments will be to provide a factual context so that the Commission can see how the proposed modifications to universal service mechanisms and intercarrier compensation may affect rural incumbent local exchange carriers (Rural ILECs) that serve in Oregon and Washington.

For example, just looking at intercarrier compensation reform, and then focusing solely on switched access revenues, the effect of the proposed intercarrier compensation reform would drive the rates for customers of Rural ILECs serving in Oregon to over thirty dollars per month for most companies and over forty dollars per month for some. This rate level is above what is sustainable and is not in compliance with the policies spelled out in 47 U.S.C. § 254(b).

The effect of the proposed intercarrier compensation reform for Rural ILECs serving communities in Washington is to drive local rates over sixty dollars per month per customer for two companies. The rates for customers of most companies would go to over thirty dollars per month, with several in the forty to sixty dollar range, in addition to the two companies that would exceed sixty dollars per month. These rates are not comparable to urban rate levels for the same service.

These levels of rates are not sustainable. Customer rates at these levels would result in failure of the network that provides communications services and serves as the basis for broadband service in rural Oregon and rural Washington. The Commission's policies would fail and the goal of ubiquitous broadband would not be met.

In these Comments, the Rural ILECs express significant concern over the proposed model. These Comments echo the concerns about a lack of transparency related to the proposed model raised by other parties. There is no certainty at this time that the model will accurately predict the cost to provide service.

The use of counties as the basis for modeling cost would result in significant understatement of costs to provide service in rural areas. In many instances in Oregon and Washington, the counties are quite large in geographic size and often include a major city within the county. The issue of density is a very real issue for service in rural areas in Oregon and Washington. If there is a major city in a county, the relatively high density of that city will obscure the much higher cost of providing service in the rural areas of the county. The most accurate methodology would be to use the Rural ILEC's service area. Absent that, more accuracy compared to using county level data can be obtained by using census block groups or census tracts. The average cost at the county level is not a meaningful measurement of the cost of service in rural areas in a county.

The proposed reforms to the universal service mechanisms create disincentives to investment in rural Oregon and rural Washington. The uncertainty related to those issues place the evolving public switched telecommunications network (PSTN) in jeopardy. The PSTN is evolving into a public broadband network (PBN) that will support broadband service. Existing funding mechanisms, which are largely the existing universal service fund and Rural Utility Service (RUS) lending programs, have made it possible to invest in an evolving network that is becoming the PBN. The reforms proposed by the Commission may put the existing loans from the RUS at risk, as well as make future investment unlikely. If there are going to be changes to

the universal service funding mechanisms, then the replacement needs to be carefully spelled out and known so that uncertainty does not rule the day.

Freezing support at 2010 levels is in conflict with the statutory goals set out in 47 U.S.C. § 254(b) that service in rural America should have service levels and service rates that are comparable to that in urban areas. Freezing support at 2010 levels is inconsistent with obtaining the Commission's broadband goals. Converting Interstate Common Line Support to a frozen per-line result will only ensure that support will decrease as access lines are lost, even though the cost to serve rural America remains the same or increases. The Commission should take steps to freeze existing support only after it provides clear and detailed rules on how the Connect America Fund will be formed and operate.

**COMMENTS OF  
THE OREGON TELECOMMUNICATIONS ASSOCIATION  
AND  
THE WASHINGTON INDEPENDENT TELECOMMUNICATIONS ASSOCIATION**

**I. INTRODUCTION**

The Oregon Telecommunications Association (OTA) and the Washington Independent Telecommunications Association (WITA) join together to present these Comments to the Commission in response to the Commission's Notice of Inquiry and Notice of Proposed Rulemaking (Notice) issued in this docket. OTA is a trade association whose members are primarily, although not exclusively, those companies that are Rural ILECs serving rural communities in the State of Oregon. Like OTA, WITA is a trade association, but in this case its members are the Rural ILECs serving rural communities in the State of Washington. OTA and WITA have had a long history of promoting rural economic development in their respective states and understand the challenges that their member companies face in providing communication service to customers in rural communities.<sup>1</sup>

**II. THE ROLE OF THE NETWORK IN ACHIEVING  
THE COMMISSION'S BROADBAND GOALS**

In order for the Commission's goals for broadband service to be met, the Commission needs to keep in mind the basic infrastructure that provides the means to reach those goals. The public switched telecommunications network (PSTN or network) is key to the delivery of telecommunications and broadband service to customers in rural Oregon and rural Washington. The network is the foundation for communications services, whether wireline, wireless or

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<sup>1</sup> A list of OTA's members participating in these Comments is set out on Appendix 1. A list of WITA's members is set out on Appendix 2. Please note that these Comments include data concerning CenturyLink. That data was gathered in the course of separate proceedings in Oregon and Washington. CenturyLink is not participating in these Comments. Use of data concerning CenturyLink should not be construed as CenturyLink endorsing these Comments. CenturyLink intends to file its own comments.

broadband. In fact, with the help of today's support mechanisms, what has been called the PSTN in the past is rapidly evolving into the public broadband network (PBN) of the future.

It is obvious to most observers that wireline telecommunications depends on the network. However, wireless traffic also rides on the PSTN to a substantial extent. Wireless traffic is not truly "wireless" in that it does not travel through the air from cell tower to cell tower to ultimately reach the handset of the person on the called end of the communications. Instead, it is most often carried from cell tower to a landline connection and then over the PSTN to reach the cellular provider's switch and then routed out to the called party, again often traveling over the PSTN.<sup>2</sup>

The need of wireless carriers to access the Rural ILEC's networks is growing as the wireless carriers expand their data offerings. Where in the past some wireless carriers could use microwave transmission for backhaul of traffic in some locations, the data loads are quickly outstripping microwave capacity. This means the wireless carriers are relying even more often on the wireline network. For rural America, this places even more emphasis on the need to sustain the rural wireline networks. Without those networks, not only will access to wireline broadband be lost, the ability to provide wireless broadband connectivity will be lost across much of rural America.

It is also imperative to understand that a wireless customer can never terminate a call to a wireline customer without the PSTN. Failure to support a viable PSTN reduces the value to

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<sup>2</sup> This network reality is documented in *Wireless Needs Wires: The Vital Role of Rural Networks in Completing the Call*, published by the Foundation for Rural Service in March, 2006. This paper states in part: "Without thoughtful consideration by policymakers of the challenges of providing wireless services in rural America, as well as the dependence of wireless services on wireline networks, portions of the nation are likely to remain underserved ... Most importantly, one must recognize that without the underlying wireline network, wireless networks could not exist in their current form. In spite of this obvious fact, large wireless carriers and policymakers alike continue to pursue practices and policies that will in fact undermine the critical wireline network. While discussions on how to modify reciprocal compensation, access charges, and universal service continue, attention must be placed on ensuring these mechanisms are capable of maintaining the fiscal health of that wireline network."

users of wireless service if they cannot complete a call to a wireline customer. Further, the wireless customer's service is degraded if the wireless customer cannot receive a call from a wireline customer.

In rural Oregon and rural Washington, broadband services are dependent on the PSTN. While the general public may believe that the broadband traffic accesses a "cloud" and thereby is transported by some unknown means to various web sites, the truth is that the PSTN provides the means to get a broadband user's Internet connection to the Internet backbone.

These concepts are depicted in the following diagrams that illustrate how the network is used for wireless and broadband services.

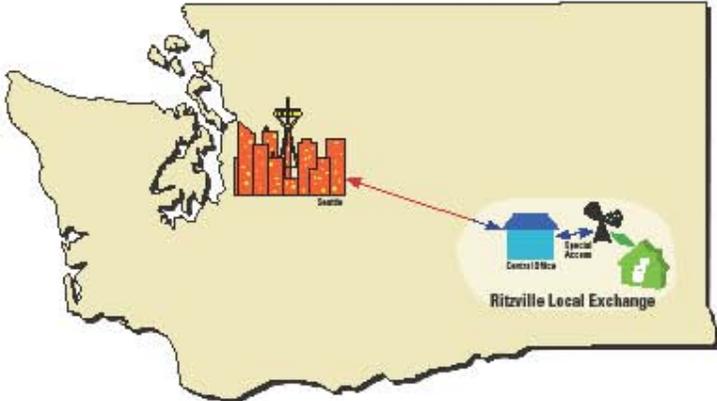
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# Nearly every call and every technology relies on a robust wireline network.

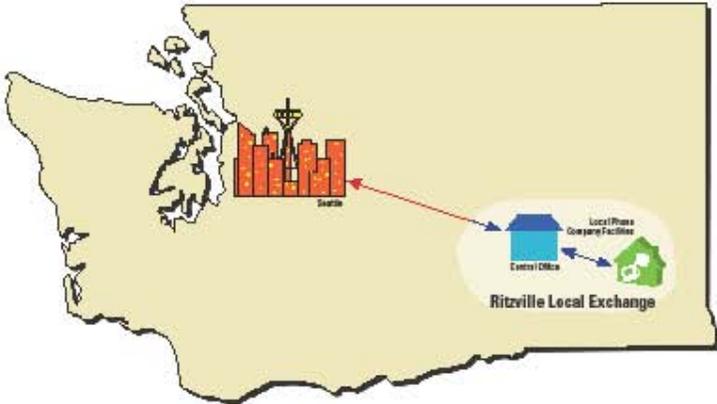
Path of calls between a Granddaughter in Seattle and her Grandmother in Ritzville who uses a traditional **Long Distance Service**.



Path of calls between a Granddaughter in Seattle and her Grandmother in Ritzville who uses a **Cellular service**.



Path of calls between a Granddaughter in Seattle and her Grandmother in Ritzville who uses a **Voice Over Internet Protocol (VoIP) Service**.



- Local Phone Company Facilities used in completing the call
- Facilities of other carriers
- Portion of call that is wireless

1. The Role of Density in Serving Rural Areas.

A key consideration in understanding why it is important to support the rural PSTN and why there is the need for federal and state universal service funds is the relative density of service areas. The relatively low density of the areas served by most OTA and WITA members makes it very expensive to provide the PSTN.<sup>3</sup> The relative density of the areas served by WITA's members are set out on Table 1.

Table 1  
WITA MEMBERS  
DENSITY ANALYSIS

Company	Square Miles Served*	Working Loops**	Density (loops/sq. mi.)
Asotin	303	1,217	4.02
Beaver Creek	32	28	0.88
CenturyLink	20,800	206,161	9.91
Ellensburg	1,373	18,812	13.70
Hood Canal	14	1,377	98.36
Inland	367	2,645	7.21
Kalama	120	2,968	24.73
Lewis River	156	5,717	36.65
McDaniel	190	4,041	21.27
Pend Oreille	1,027	1,941	1.89
Pioneer	800	765	0.96
Rainier Connect	91	3,652	40.13
St. John	238	614	2.58
Tenino	100	3,421	34.21
Toledo	127	2,020	15.91
Wahkiakum	110	1,169	10.63
Whidbey	82	12,780	155.85
Hat Island	1	83	83.00
YCOM	176	10,880	61.82
WITA Average	26,119	280,430	10.74

Verizon 36.5 lines/sq. mile

Qwest 107.81 lines/sq. mile

\*As reported by the company

\*\*From USAC Report HC05, 3rd Quarter 2009

<sup>3</sup> This does not even begin to take into account issues related to geography, which also present significant challenges to many OTA and WITA members.

The relative density for OTA's members are very similar to that of WITA's members.

Table 2

OTA MEMBERS  
DENSITY ANALYSIS

Company	Square Miles Served*	2010 Working Loops**	Density (loops/sq. mi.)
Asotin	116	137	1.18
Beaver Creek	64	4,214	65.84
Canby	84	10,090	120.12
Cascade	1,762	8,346	4.74
CenturyLink	29,965	106,313	3.55
Clear Creek	52	3,313	63.71
ColtonTel	62	1,084	17.48
Eagle	250	465	1.86
Gervais	32	908	28.38
Helix	180	284	1.58
Home	730	750	1.03
Molalla	290	5,745	19.81
Monitor	43	638	14.84
Monroe	50	919	18.38
Mt. Angel	17	1,813	106.65
Nehalem	374	2,966	7.93
North-State	323	486	1.50
OR-Idaho	4,486	676	0.15
Oregon Tel	1,278	1,685	1.32
People's	60	1,232	20.53
Pine	620	987	1.59
Pioneer	1,330	13,864	10.42
Roome	65	644	9.91
St. Paul	34	605	17.79
Scio	100	1,674	16.74
Stayton	106	6,454	60.89
Trans-Cascades	893	200	0.22

\*As reported by the company

\*\*From USAC Report HC05, 2nd Quarter 2010

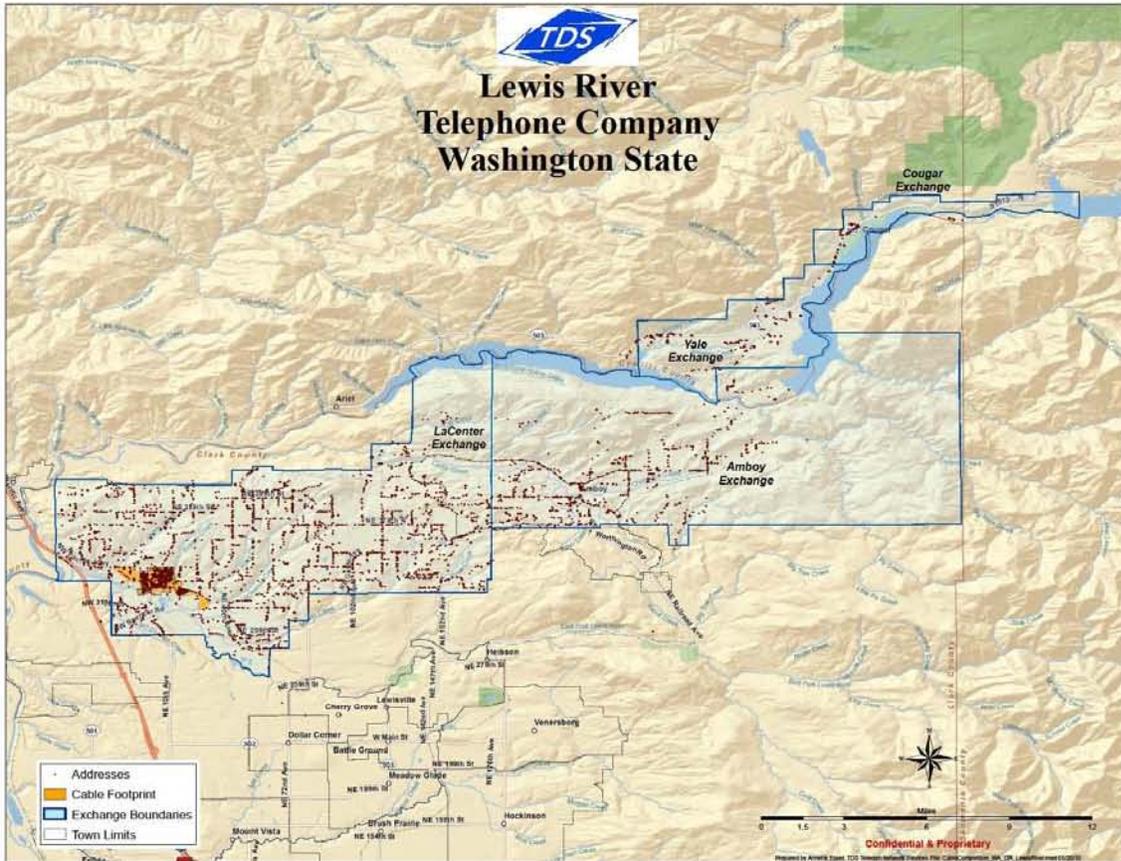
For the most part, these service areas are very low density. What this data demonstrates is that it can be expected that the cost to serve each customer in rural areas is much higher than the average cost to serve customers in more densely-populated urban areas.

2. The Role of the Hole in the Donut.

In addition to density, the concept of the "donut hole" serves to emphasize just how rural some of these areas are. Set out below is a diagram for TDS's Lewis River operating company in Washington. This diagram shows that even though the exchanges are relatively sparsely populated to start with, once the "hole in the donut" concept is taken into consideration, providing service to areas outside the "donut hole" becomes very expensive because of the extremely sparse population.

Please note that this diagram also serves the purpose of demonstrating that even if there is wireline competition in the form of cable company entry, there is a need to provide support for the far-flung population in the exchange. The areas of cable service outlined on the map represent TDS' best estimate of existing cable company footprint. Obviously, cable serves only areas of relatively greater density. The challenges of providing telecommunications and broadband to the widely dispersed population cannot be understated.

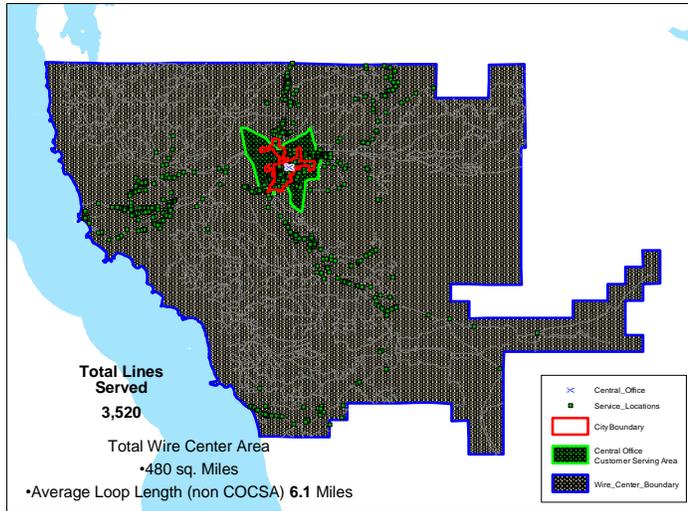
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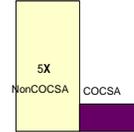
The above map is a very clear demonstration of the "donut hole" concept. Cable is only in the most dense portion of the LaCenter exchange. Cable does not even begin to reach the Amboy, Vale and Cougar exchanges. That is cream skimming, not competition.

In the next two diagrams, CenturyLink has provided estimates of the difference in cost in serving the donut hole versus the rest of the exchange. These estimates are based on CenturyLink's costs of providing service. Based on these estimates, the cost to serve the outlying area is five to six times higher than the cost to serve the relatively more dense core.

# Forks, Washington

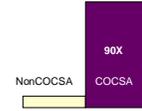


### Investment per Line Ratio



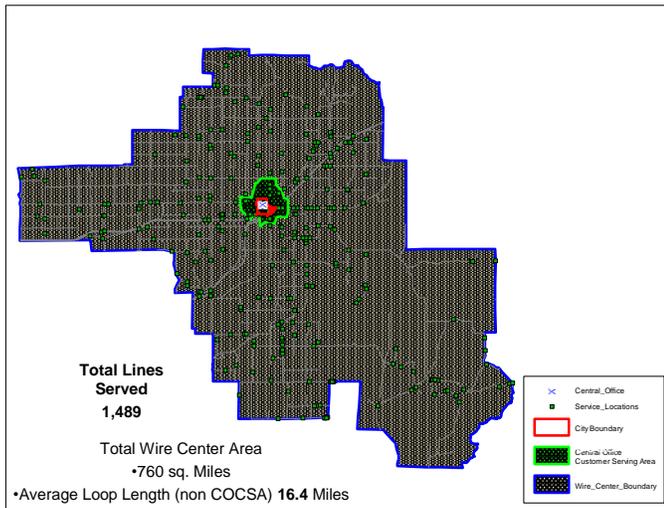
The Investment per line that is required to serve customers outside of the Central Office Customer Serving Area is **5 times** greater than to serve the more dense Central Office Serving Area.

### Density Ratio

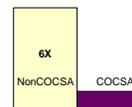


The Central Office Customer Serving Area is **90 times** more dense than the non Central Office serving area.

# Ritzville, Washington

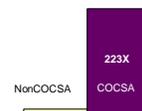


### Investment per Line Ratio



The Investment per line that is required to serve customers outside of the Central Office Customer Serving Area is **6 times** greater than to serve the more dense Central Office Serving Area.

### Density Ratio



The Central Office Customer Serving Area is **223 times** more dense than the non Central Office serving area.

It is clearly more expensive to serve the less dense rural areas than it is the more densely-populated urban areas. When the next step is taken that shows the very dispersed, extremely low density areas served in most exchanges, a better understanding is gained of how much higher the costs are to provide ubiquitous service.

3. The Commission's Broadband Goals Depend on the Existence of the Network.

The Commission states its ultimate goal broadly as follows: "Goal of reform is to provide everyone with affordable voice and broadband."<sup>4</sup> The Commission correctly points out that "Broadband is becoming a prerequisite to economic opportunity for individuals, small businesses and communities. Those without broadband ... are becoming more isolated from the modern American economy."<sup>5</sup> The important point that needs to be clearly understood is that as the PSTN evolves to be a broadband-based network, that is a public broadband network (PBN), it will only do so if clear means of support for the PBN is available.

Without the PSTN or PBN, rural Oregon and rural Washington would be isolated from the communications world. Connection for business, communication and recreational purposes would not be possible. As the PSTN evolves into a broadband network, it will continue to play a fundamental role in bringing these broadband-based communications to rural Oregon and rural Washington.

**III. THE FACTS BEHIND PROVIDING SERVICE IN RURAL OREGON AND RURAL WASHINGTON**

1. Rural ILECs in Oregon and Washington Depend Upon Intercarrier Compensation and Universal Service Support for a Large Portion of the Revenues Used to Provide Service.

In the National Broadband Plan, the Commission makes the following observation: "In rural America USF and ICC represent a significant portion of revenues for some of the smallest

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<sup>4</sup> National Broadband Plan at p. 141.

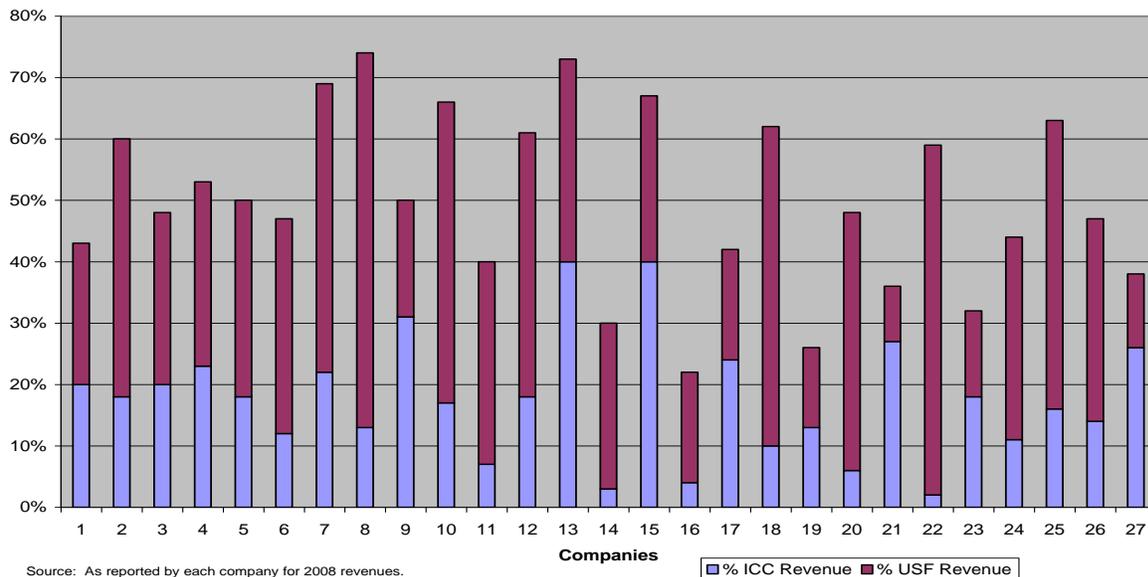
<sup>5</sup> National Broadband Plan at p. 265.

carriers - i.e., 60% or more of their regulated revenue."<sup>6</sup> This is an accurate observation. The data in Table 3, below, demonstrates that Oregon Rural ILECs receive, on average, fifty percent of their regulated telecommunications revenue from intercarrier compensation and existing universal service funds. In Oregon, there is a state universal service fund. That state USF support is included in these figures.

For some companies, the combined support received from intercarrier compensation and universal service mechanisms exceeds sixty percent. That is the case for nine of the Oregon Rural ILECs. For four companies, the revenue is close to or exceeds seventy percent of the total regulated revenue figures.<sup>7</sup>

Table 3

OTA Member Companies  
Percent Total Regulated Telecommunication Revenue From ICC/USF  
(Company Average - 50%)



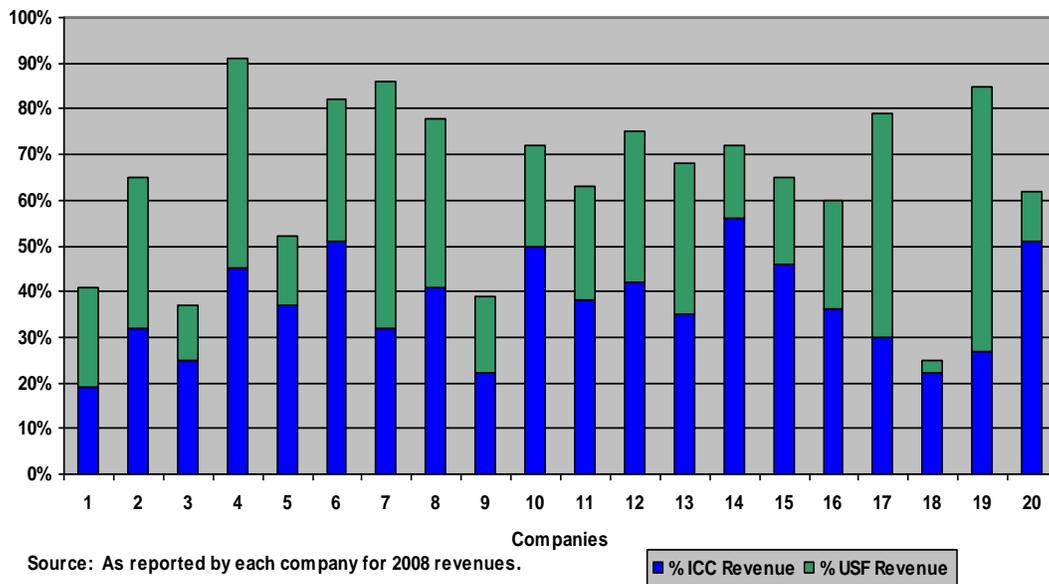
<sup>6</sup> National Broadband Plan at p. 140.

<sup>7</sup> For purposes of this calculation, total regulated telecommunication revenue includes revenue from tariffed DSL services. Most of the Rural ILECs provide DSL service through the NECA Tariff.

In Table 4, similar information is portrayed for Rural ILECs in Washington. In Washington, the average WITA member receives sixty-five percent of its total regulated telecommunications revenue from intercarrier compensation and universal service.<sup>8</sup> In the case of one company, that figure is in excess of ninety percent. Three other companies receive over eighty percent of their regulated revenue from intercarrier compensation and universal service funds.<sup>9</sup>

Table 4

WITA Member Companies  
 Percent Total Regulated Telecommunication Revenue From ICC/USF  
 (Company Average - 65%)



The obvious question to ask is that if the Commission's goal of intercarrier compensation reform is obtained by first transitioning intrastate access rates to the interstate level, followed by

<sup>8</sup> Washington does not have an explicit state universal service fund. Instead, universal service support is included in intrastate access rates.

<sup>9</sup> As in Oregon, the Washington companies, as a general rule, provide DSL service through the NECA Tariff and that revenue is included in the calculations.

a second transition to a zero access rate by 2020, how will these companies make up for the loss of that sizable revenue stream? The Commission's preliminary proposal is through increased subscriber line charges (SLCs) and rebalancing (meaning raising) local rates.<sup>10</sup> As the next section demonstrates, that is not possible.

2. There is Not Enough Room in Local Rates to Make Up the Loss of Access Charge Revenue.

In this section, these Comments lay out what will happen to local rates under the Commission's intercarrier compensation reform proposal. This does not include any possible loss of universal service fund revenue. This is only the loss of switched access charge revenue.

Table 5 demonstrates the level local rates would reach in Oregon under the first phase of the Commission's proposal to address intercarrier compensation reform. This phase would be reducing the level of intrastate switched access rates to the composite interstate switched access rate level. The result would be local rates ranging from a low of \$24.74 per month to a high of \$46.52 per month. There would be a total of five companies that would have local rates exceeding forty dollars per month. There would be many more companies in the mid to upper thirties for monthly rates. These rate levels are not sustainable.

[Intentionally left blank.]

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<sup>10</sup> National Broadband Plan at p.148.

Table 5

OTA ILEC MEMBERS  
EFFECT OF TRANSITION OF INTRASTATE SWITCHED ACCESS RATES  
TO COMPOSITE INTERSTATE SWITCHED RATE LEVEL

Company	Current Rate*	Post Transition Rate**
Asotin	\$12.25	\$32.52
Beaver Creek	\$24.00	\$32.93
Canby	\$24.08	\$33.43
Cascade	\$27.39/\$23.74	\$37.81/\$34.16
CenturyLink	\$18.84	\$24.43
Clear Creek	\$26.37	\$35.47
ColtonTel	\$37.85	\$46.52
Eagle	\$11.60	\$26.58
Gervais	\$27.95	\$40.78
Helix	\$15.67-\$19.67	\$28.29-\$32.29
Home	\$16.55	\$35.92
Molalla	\$27.95	\$36.00
Monitor	\$16.65	\$28.68
Monroe	\$23.58	\$33.85
Mt. Angel	\$18.00	\$28.43
Nehalem	\$13.00	\$29.40
North-State	\$26.80	\$42.41
OR-Idaho	\$11.65-\$20.05	\$24.74-\$33.14
Oregon Tel	\$22.50	\$43.27
People's	\$22.90	\$33.48
Pine	\$10.00	\$26.87
Pioneer	\$16.45	\$30.03
Roome	\$27.00/\$30.00	\$42.26/\$45.26
St. Paul	\$20.85	\$33.04
Scio	\$23.15-\$24.50	\$28.86-\$30.21
Stayton	\$18.49	\$31.86
Trans-Cascades	\$22.12	\$38.72

\*Taken from company tariffs and pricing schedules for residential rates including EAS.

\*\*Includes existing \$6.50 Subscriber Line Charge.

Table 6, below, sets out the rates for WITA member companies following an intrastate switched access rate transition to the composite interstate switched access rate level. In Washington, there would be five companies whose monthly rate would exceed forty dollars per month and in two cases would exceed fifty dollars per month. That level of local rates is not

sustainable. That means that without some other source of support, the network in these rural communities would ultimately cease to exist.

Table 6

WITA MEMBERS  
EFFECT OF TRANSITION OF INTRASTATE SWITCHED ACCESS RATES  
TO COMPOSITE INTERSTATE SWITCHED RATE LEVEL

Company	Current Rate*	Post Transition Rate**
TDS (Asotin)	\$17.20	\$39.86
CenturyLink (WA)	\$25.90	\$41.58
CenturyLink (Coviche)	\$19.00	\$32.21
CenturyLink (Embarq)	\$16.40	\$29.33
FairPoint (Ellensburg)	\$8.47	\$26.40
FairPoint (YCOM)	\$16.00	\$29.49
Hat Island	\$15.00	\$27.87
Hood Canal	\$13.75	\$33.46
Inland	\$13.80	\$52.66
Kalama	\$13.00	\$27.85
TDS (Lewis River)	\$26.00	\$37.80
TDS (McDaniel)	\$14.30	\$35.15
Pend Oreille	\$14.50	\$32.95
Pioneer	\$9.00	\$46.66
Rainier Connect	\$13.75	\$35.81
St. John	\$9.50	\$38.20
Tenino	\$12.00	\$27.16
Toledo	\$30.94	\$56.25
Wahkiakum	\$13.40	\$47.36
Whidbey	\$9.40	\$29.44

\*Taken from Exhibit TWZ-3 prepared by Commission Staff Member Mr. Zawislak in Docket UT-081393. This includes EAS. Where a company has different rates for different exchanges, the rate for the most populated exchange was chosen.

\*\*Includes existing \$6.50 Subscriber Line Charge.

In the second phase of the Commission's proposed plan for intercarrier compensation reform, switched access rates are transitioned to a zero rate over time. Under this scenario, there would be twelve companies in Oregon that would have local monthly rates of fifty dollars or more. The highest of these rates is \$139.57 per month. There would be another eight companies whose monthly rate would exceed forty dollars per month.

Table 7

OTA ILEC MEMBERS  
EFFECT OF TRANSITION OF SWITCHED  
ACCESS RATES TO "0" RATE

Company	Existing Local Rate* (w/EAS)	Rate After Transition**
Asotin	\$12.25	\$45.10
Beaver Creek	\$24.00	\$38.95
Canby	\$24.08	\$42.66
Cascade	\$27.39/\$23.74	\$53.51/\$49.86
Clear Creek	\$26.37	\$43.26
ColtonTel	\$37.85	\$74.79
Eagle	\$11.60	\$41.54
Gervais	\$27.95	\$60.20
Helix	\$15.67-\$19.67	\$135.57-\$139.57
Home	\$16.55	\$41.66
Molalla	\$27.95	\$42.93
Monitor	\$16.65	\$71.13
Monroe	\$23.58	\$35.81
Mt. Angel	\$18.00	\$41.20
Nehalem	\$13.00	\$30.19
North-State	\$26.80	\$75.69
OR-Idaho	\$11.65-\$20.05	\$39.81-\$48.21
Oregon Tel	\$22.50	\$58.66
People's	\$22.90	\$80.59
Pine	\$10.00	\$22.30
Pioneer	\$16.45	\$42.11
Roome	\$27.00/\$30.00	\$59.38/\$62.38
St. Paul	\$20.85	\$59.22
Scio	\$23.15-\$24.50	\$29.37-\$30.72
Stayton	\$18.49	\$53.15
Trans-Cascades	\$22.12	\$51.33

\*Residential Rate

\*\*Includes existing SLC at \$6.50 per month

In Washington, at the time of achieving a zero switched access rate, five companies would have monthly rates that exceed fifty dollars per month and another seven companies would be above or very near to forty dollars per month. Again, these are not sustainable local rates.

Table 8

WITA MEMBERS  
EFFECT OF TRANSITION OF SWITCHED  
ACCESS RATE TO "0" RATE

Company	Current Rate*	Rate with \$6.50 SLC
TDS (Asotin)	\$17.20	\$41.20
CenturyLink (WA)	\$25.90	\$53.57
CenturyLink (Coviche)	\$19.00	\$46.63
CenturyLink (Embarq)	\$16.40	\$39.35
FairPoint (Ellensburg)	\$8.47	\$28.34
FairPoint (YCOM)	\$16.00	\$30.77
Hat Island	\$15.00	\$30.21
Hood Canal	\$13.75	\$37.36
Inland	\$13.80	\$65.86
Kalama	\$13.00	\$31.14
TDS (Lewis River)	\$26.00	\$38.70
TDS (McDaniel)	\$14.30	\$38.61
POTC	\$14.50	\$35.92
Pioneer	\$9.00	\$54.29
Rainier Connect	\$13.75	\$38.44
St. John	\$9.50	\$46.68
Tenino	\$12.00	\$31.07
Toledo	\$30.94	\$62.29
Wahkiakum	\$13.40	\$57.41
Whidbey	\$9.40	\$32.73

\*Taken from Exhibit TWZ-3 prepared by Commission Staff Member Mr. Zawislak in Docket UT-081393. Includes EAS. Where a company has different rates for different exchanges, the rate for the most populated exchange was chosen.

The rate levels produced by intercarrier compensation reform come nowhere near meeting the universal service goals that now exist in 47 U.S.C. § 254(b) that (1) quality services should be available at just, reasonable and affordable rates and (2) communications services be available in rural areas at rates that are reasonably comparable to those in urban areas.

#### IV. DISCUSSION OF THE NATIONAL BROADBAND PLAN MODEL

In the Notice, the Commission calls for comment on a number of aspects of the cost model to be used, and whether a model should be used, in the efforts to reform universal service mechanisms. OTA and WITA will not provide detailed comments on this section of the Notice. OTA and WITA are aware that many aspects of the model will be addressed by the joint rural wireline associations effort.<sup>11</sup> However, OTA and WITA do offer comment on three aspects of the use of a model. One aspect is the lack of transparency. The second is the tentative conclusion to use a geographic area of a county as the basis for calculating costs. The third area of comment is on the use of auctions.

1. The Commission Has Not Met the Goal of Transparency as it Relates to the Model.

The Commission emphasizes the need for transparency throughout many sections of the National Broadband Plan. However, the Commission itself has not met this goal when it comes to the model. OTA and WITA join in the Comments of GVNW Consulting, Inc. which were filed June 3, 2010, that there is a substantial concern that the Commission's model has not actually been released to the public for testing and analysis.<sup>12</sup> The Commission is very well aware of both the Joint Board and its own conclusions that earlier models were not useful in estimating the cost of rural carriers.<sup>13</sup> This underscores the need to make the model widely available.

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<sup>11</sup> It is expected that the National Exchange Carrier Association, Inc. (NECA), National Telecommunications Cooperative Association (NTCA), Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), and Western Telecommunications Alliance (WTA) will submit comments discussing the model.

<sup>12</sup> Comments of GVNW Consulting, Inc. at p. 6.

<sup>13</sup> See, e.g., In the Matter of 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, CC Docket Nos. 96-45 and 00-256, 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, FCC 01-157 (Rel. May 23, 2001).

Further, in an ex parte that occurred on June 3, 2010, representatives from NECA, NTCA, OPASTCO, WTA and the Rural Alliance met with several representatives of the Commission to discuss various aspects of the National Broadband Plan. One item that was discussed was the lack of transparency with the Commission's current proposed broadband cost model and how the proposed model "does not accurately reflect the actual costs associated with RLEC networks serving high-cost rural communities."<sup>14</sup> OTA and WITA join in those concerns.

2. The Use of the County as the Geographic Area is the Wrong Result.

In Paragraph 42 of the Notice, the Commission seeks comment on what geographic area it should use in calculating the cost of deploying a network and providing service. The Commission points out that "The National Broadband Plan model uses counties because they 'appear large enough in most cases to provide the scale benefits but not so large as to inhibit deployment of the most cost-effective technology,' or remaining technology neutral."<sup>15</sup>

Counties are not good geographical units to be used for estimating costs, at least not in states like Oregon and Washington. In Oregon and Washington, and in many other western states, counties are large geographical units. Often there is a major city or relatively densely populated community in the county and very rural areas outside the city. Using the county as a basis to calculate the cost will distort the actual cost of serving the rural areas of the county.

Some specific examples may help. One example is Lane County in Oregon. Lane County includes the relatively densely populated city of Eugene. Eugene city limits take in 40 square miles and there is a population of 146,356 within the city, for a density of 3,403 persons per square mile.<sup>16</sup> The Rural ILEC Pioneer Telephone Cooperative serves four exchanges in the

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<sup>14</sup> Ex parte filed June 4, 2010, by NECA on behalf of the participating entities.

<sup>15</sup> Notice at ¶ 42 quoting OBI, The Broadband Availability Gap at 37.

<sup>16</sup> Source is Census Bureau at <http://quickfacts.census.gov/qfd/states/41000.html>.

county. As set out on Table 2, Pioneer's average density is 10.42 working loops per square mile. These four exchanges are less dense than Pioneer's average. The density of Eugene drives the average for Lane County to 70.9 persons per square mile.<sup>17</sup>

Another example is Benton County which contains the City of Corvallis. Corvallis covers 13 square miles with a population of 49,807.<sup>18</sup> This produces a density of 3,627 persons per square mile. In that same county, Monroe Telephone Company operates a service area with a density of 18.83 working loops per square mile. Pioneer Telephone Cooperative serves much of the outlying rural portions of the county with an average density of 10.42 working loops per square mile. Benton County as a whole has an average of 35.6 persons per square mile.<sup>19</sup>

A similar scenario exists in Washington. There, Thurston County is home to the State Capitol of Olympia. Olympia is comprised of approximately 16 square miles with a population of 44,645. This produces an average density of 2,790 people per square mile.<sup>20</sup> In that same county, Tenino Telephone Company serves an area where the density is 34.21 access lines per square mile. This compares to the overall density in Thurston County of 285 people per square mile.<sup>21</sup>

Another example in Washington is Lewis County. In Lewis County, the commercial centers are Chehalis and Centralia. These two communities have an area of just over 13 square miles and a population of 21,799, an average density of 1,677 people per square mile.<sup>22</sup> In that same county, the Rural ILEC Toledo Telephone Company serves an area with a density of 15.91 access lines per square mile. McDaniel Telephone Company serves an area in Lewis County that

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<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

<sup>20</sup> Figures can be found at <http://quickfacts.census.gov/qfd/states/53000.html>.

<sup>21</sup> Ibid.

<sup>22</sup> Figures for Centralia and Chehalis are from [www.city-data.com/city/Centralia-Washington.html](http://www.city-data.com/city/Centralia-Washington.html) and [wikipedia.org/wiki/Chehalis,\\_Washington](http://wikipedia.org/wiki/Chehalis,_Washington).

has a density of 21.27 access lines per square mile and CenturyLink serves several exchanges, all with densities much less than Centralia and Chehalis. The overall average for Lewis County is 28.5 people per square mile.<sup>23</sup>

To the extent that density will drive cost, and it often does in telecommunications, use of the county would in almost every case significantly understate the cost of providing service in both Oregon and Washington for Rural ILEC areas. In the tables below, each county that one of the Rural ILECs in Oregon and Washington serves in is set out with the county's density taken from census data. That density figure is then compared to the actual density in the Rural ILEC's specific serving area.<sup>24</sup>

What the tables demonstrate is that the Rural ILEC's service area is usually much less dense than the county as a whole. In addition, the tables demonstrate that even in the more rural areas of the state, the Rural ILEC tends to have a service area much less dense than the county as a whole. For example, North-State's service area is in Wasco County, Oregon. Wasco County has an average density of 1.5 people per square mile. On the other hand, North-State's service area has only 1.5 working loops per square mile. Thus, even in this very rural setting, using county average data would understate the Rural ILEC's cost of service.

[Intentionally left blank.]

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<sup>23</sup> See, Footnote 19, above.

<sup>24</sup> CenturyLink is not included in these tables since it serves in almost every county in each state.

Table 9

OREGON STATE  
COUNTY DENSITY COMPARISON

Company	Density (loops/sq. mi.)*	County	Population/ Sq. Mi.**
Asotin	1.18	Wallowa	2.3
Beaver Creek	65.84	Clackamas	181.2
Canby	120.12	Clackamas	181.2
Cascade***	4.74	Clackamas	181.2
Clear Creek	63.71	Clackamas	181.2
ColtonTel	17.48	Clackamas	181.2
Eagle	1.86	Baker	5.5
Gervais	28.38	Marion	240.6
Helix	1.58	Umatilla	21.9
Home	1.03	Gilliam	1.6
Molalla	19.81	Clackamas	181.2
Monitor	14.84	Marion	240.6
Monroe	18.38	Benton	35.6
Mt. Angel	106.65	Marion	240.6
Nehalem	7.42	Tillamook	22.0
North-State	1.50	Wasco	10.0
OR-Idaho	0.15	Malheur	3.2
Oregon Tel***	1.32	Baker	5.5
People's***	20.53	Linn	45.0
Pine	1.59	Baker	5.5
Pioneer	10.42	Benton/Lane	35.6/70.9
Roome	9.91	Linn	45.0
St. Paul	17.79	Marion	240.6
Scio	16.74	Linn	45.0
Stayton***	60.89	Marion	240.6
Trans-Cascades	0.22	Wasco/Jefferson	10.0/10.7

\*Taken from Table 2, above.

\*\*Census Bureau Quick Facts at <http://quickfacts.census.gov/qfd/status/41000.html>

\*\*\*Cascade also serves exchanges in Baker and Douglas Counties. The exchange in Clackamas County is its largest exchange. Oregon Tel also serves exchanges in Grant and Malheur Counties. Stayton also serves territory in Linn County. Stayton's primary service area (the City of Stayton) is in Marion County. People's service area includes a portion of Marion County.

Table 10

WASHINGTON STATE  
COUNTY DENSITY COMPARISON

Company	Density (loops/sq. mi.)*	County	Population/Sq. Mi.**
Asotin	4.02	Asotin	32.4
Beaver Creek	0.88	Snohomish	290.1
Ellensburg***	13.70	Kittitas	32.4
Hat Island	83.00	Island	344
Hood Canal	98.36	Mason	51.4
Inland***	7.21	Kittitas	32.4
Kalama	24.73	Cowlitz	81.6
Lewis River	36.65	Clark	549.7
McDaniel	21.27	Lewis	28.5
Pend Oreille	1.89	Pend Oreille	8.4
Pioneer	0.96	Whitman	18.9
Rainier Connect	40.13	Pierce	417
Skyline	11.58	Okanogan	7.5
St. John	2.58	Whitman	18.9
Tenino	34.21	Thurston	285
Toledo	15.91	Lewis	28.5
Wahkiakum	10.63	Wahkiakum/Pacific	14.5/22.5
Whidbey***	155.85	Island	344
YCOM	61.82	Thurston	285

\*Taken from Table 1, above.

\*\*Census Bureau Quick Facts at <http://quickfacts.census.gov/qfd/status/53000.html>

\*\*\*One of Ellensburg's exchanges is in the much more densely populated Yakima County. Inland also serves exchanges in Mason, Whitman and Walla Walla Counties. The Kittitas County exchange is its largest. Whidbey also serves the Point Roberts exchange in Whatcom County. Its exchange in Island County is its largest.

While this comparison is between working loops and population, the comparison provides a good sense of the difference in density. Of course, other factors play a role. For example, if a Rural ILEC has a business center with several businesses that each have more than

one line, that means that the actual service area of the Rural ILEC is less dense than the reported average of working loops.<sup>25</sup>

Even if the county numbers are adjusted for the number of housing units rather than population, while the difference narrows, it still shows that using the county figures overstates the Rural ILEC's actual density. For example, the number of housing units per square mile for Marion County in Oregon is 101.66.<sup>26</sup> This shows a much greater density than Peoples' 20.53 working loops per square mile. In Thurston County in Washington, the figure for housing units per square mile is 141.33.<sup>27</sup> This compares to the sparse density in Tenino Telephone Company of 34.21 working loops per square mile and is still more than double YCOM's density of 61.82 working loops per square mile. It is beyond credibility to believe that a model using county-wide data would accurately predict Beaver Creek's<sup>28</sup> cost to provide service in Washington at 0.88 working loops per square mile when Snohomish County, where Beaver Creek operates, has an average density of 107.6 households per square mile.<sup>29</sup>

In addition, the areas served by the Rural ILECs are often less advantageous in geological measurements. Many times the central communities were established in the most favorable geographical locations. The rural areas tend to be more hilly, more rocky and, thus, more costly to serve.

The basic point is that through the averaging effect, the existence of relatively larger

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<sup>25</sup> The use of working loops is a conservative approach since it includes official lines and, thus, is a larger number than access lines in service. Further, the USAC reports are on a lag basis and the loss of access lines is not fully reflected in those figures, which further overstates the ILEC's density figures.

<sup>26</sup> Housing units per square mile is calculated from census data available at [quickfacts.census.gov/qfd/states/41000](https://quickfacts.census.gov/qfd/states/41000). Please note this is 2000 census data and likely understates actual housing unit density today.

<sup>27</sup> Housing units per square mile is calculated from census data available at [quickfacts.census.gov/qfd/states/53000](https://quickfacts.census.gov/qfd/states/53000). Please note this is 2000 census data and likely understates actual housing unit density today.

<sup>28</sup> To be clear on the record, Beaver Creek in Washington has no connection of any nature to the Beaver Creek which operates in Oregon.

<sup>29</sup> See, Footnote 27.

communities with much greater densities than the areas served by Rural ILECs make it appear as though the cost to provide service in those very rural areas that exist within these relatively large counties is much lower than it is in actuality.

Ideally, the cost of providing service would be based upon the Rural ILECs geographic service area. An alternative would be to use census block groups or census tracts that exist within the service area.

3. Auctions Create Economic Uncertainty and Should Not be Used.

In the Notice, the Commission seeks comment on whether some form of competitive procurement auction would be an efficient mechanism to determine subsidies for the extension of new broadband-capable infrastructure in unserved areas.<sup>30</sup> In seeking comment, the Commission notes that "because this approach involves one-time grants, it does not appear suitable for areas where operating costs exceed revenues and thus where continuing support is required."<sup>31</sup> Since the Rural ILECs, by and large, serve areas where operating costs exceed revenues and are in need of continuing support, the procurement auction would not directly affect them.<sup>32</sup> However, a comment on the use of auctions is still appropriate.

In its discussion before seeking comment, the Commission noted that "[t]he procurement auction proposal ... is similar in many ways to reverse auctions proposals that have been previously considered by the Commission."<sup>33</sup> In several sets of Comments in this docket, OTA and WITA have pointed out the dangers of an auction system, focusing in those instances on a

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<sup>30</sup> Notice at ¶ 47.

<sup>31</sup> Notice at ¶ 45.

<sup>32</sup> This assumes that "unserved" means truly unserved. That is, no broad capability at all. The term "unserved" should not mean an area with broadband access at less than 4 megabit speed.

<sup>33</sup> Notice at ¶ 45.

reverse auction proposal.<sup>34</sup> In those earlier Comments, OTA and WITA pointed out that the primary danger from an auction system is the potential effect it has to discourage investment in rural areas. That concern is still very much alive even with the procurement auction proposal suggested by the Commission. An auction system such as that under consideration by the Commission would only work if the area is completely unserved because it would then be clear that the auction was only to obtain construction funding. Otherwise, all of the dangers inherent in a reverse auction concept would apply to the procurement auction proposal as well.

## **V. THE COMMISSION'S PROPOSED USF REFORMS ARE PREMATURE**

In the NPRM portion of the Commission's Notice, the Commission proposes certain reforms to control the size of the existing high-cost program and to cut legacy high-cost support.<sup>35</sup> However, the Commission is proposing to take this step without a clear definition of what will happen next. In proposing this interim reform of the existing USF mechanism, the Commission is creating greater uncertainty for investment in rural infrastructure. Rather than taking that step, the Commission should define in detail what would happen under the Connect America Fund (CAF) and how the transition from the legacy USF program to the CAF will occur. This is an important step to take to be sure broadband continues to grow in rural America.

### **1. Freezing Legacy USF Support is Inconsistent With Meeting Broadband Deployment Goals.**

As stated in the National Broadband Plan, the "Goal of reform is to provide everyone with affordable voice and broadband."<sup>36</sup> This is an admirable goal. It is a goal that OTA and WITA support.

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<sup>34</sup> See, for example, Reply Comments of the Oregon Telecommunications Association Small Company Committee, the Washington Independent Telephone Association and the Montana Telecommunications Association filed July 2, 2007.

<sup>35</sup> Notice beginning at ¶51.

<sup>36</sup> National Broadband Plan at p. 141.

The Commission has also pointed out that, "Broadband is becoming a prerequisite to economic opportunity for individuals, small businesses and communities. Those without broadband ... are becoming more isolated from the modern American economy."<sup>37</sup> This point is emphasized in comments by Chairman Genachowski, "And we should stretch beyond one hundred megabytes. The U.S. should lead the world in ultra-high-speed broadband test beds as fast, or faster, than anywhere in the world. In the global race to the top, this will help ensure that America has infrastructure to host the boldest innovations that can be imagined."<sup>38</sup>

The Economist makes an important observation about the role of broadband:

In eras past, economic success depended on creating networks that could shift people, merchandise and electric power as efficiently and as widely as possible. Today's equivalent is broadband: the high-speed Internet service that has become as vital a tool for producers and distributors of goods as it is for people plugging into all the social and cultural opportunities offered by the web. Easy access to cheap, fast Internet services has become a facilitator of economic growth and a measure of economic performance.<sup>39</sup>

In order to meet these broadband needs, investment in rural infrastructure is required. Creating uncertainty for that investment runs contrary to the need.

It is also important to note that the Commission's proposal of four megabytes per second (Mbps) download and one Mbps up, is not a sufficient standard to meet the objectives and the needs for a vibrant American economy in rural areas. The goal of one hundred Mbps per second for one hundred million homes is a good goal, but it creates the high potential for a digital divide, leaving rural economies to suffer. The Commission needs to establish a more realistic goal to meet the needs of all Americans and the funding must be in place to reach that goal.

To date, using existing revenue sources, Rural ILECs have done a very good job in

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<sup>37</sup> National Broadband Plan at p. 265.

<sup>38</sup> FCC Chairman Julius Genachowski speech to the NARUC Conference, Washington, D.C., February 16, 2009.

<sup>39</sup> The Economist, Broadband Access, January 17, 2008.

beginning the task to provide rural America with what The Economist described as the necessary new network of commerce. For example, WITA has twenty operating ILECs as members. Ten of those provide some level of broadband coverage to one hundred percent of their subscribers. Another two can reach ninety-nine percent of their subscribers with some form of broadband. Four more are at ninety percent or greater. All of WITA's members will be at least eighty percent coverage by the end of the year. A common speed offered is ten Mbps down and 786 kilobytes per second or better up. However, the ten Mbps down standard is generally not available to one hundred percent of the customers in an exchange. A common availability is fifty to seventy percent of the customers. Often 1.5 Mbps down is available in the remaining area of the exchange, although speed availability varies considerably by company. There is more investment needed to reinforce the network and make the speeds available to all customers.

OTA has twenty-seven operating ILECs. Fifteen of those provide broadband in some form to one hundred percent of the subscribers. Another four are at ninety-eight percent or better and an additional four are at ninety percent or better. Only two ILECs are at less than eighty percent coverage. The typical speed is 6 Mbps down. Like the Washington companies, the typical speed is not always available to one hundred percent of the customers in the exchange. Often a 1.5 Mbps down standard is available in some portions of the exchange. Clearly, while the Rural ILECs are off to a good start, more investment is needed to further the work of building the new broadband network for the economy.

For some companies, particularly in eastern Oregon and eastern Washington, middle mile costs present a significant hurdle to increasing speeds for the customers.

What is very clear is that the network cannot be advanced or even maintained without support. The level of coverage that exists today will disappear without an adequate level of

support for ongoing maintenance and operations, let alone the expansion of the availability of adequate broadband to all customers.

2. Freezing Support is Not the Answer.

The Commission has proposed to freeze high-cost support for each carrier at 2010 levels.<sup>40</sup> The Commission has not described how support would transition to the CAF or how the CAF would work at a sufficient level of detail to understand what would happen in the interim. This creates economic uncertainty. This also means that the concept of additional investment in rural communication networks has gotten much riskier. Why would any prudent manager borrow new monies and make new investment if there is no indication that those monies can be repaid or recovered once the investment is made? Why would a lender make the loan?

Rural communities are too small to be able to pay for the costs of infrastructure. Investment in the type of rural infrastructure that is needed to provide an effective rural economy is significant. As reported by one source, "Deploying broadband in rural areas and areas of low customer density present its own unique challenges. It is not uncommon for the broadband infrastructure of a rural customer to cost up to 10 times more than for an urban customer."<sup>41</sup> This paper reported that typical fiber cable construction in rural areas runs between seven thousand and fifty thousand per mile or five thousand to twenty-five thousand per customer location.<sup>42</sup> The practical experience in Washington and Oregon is that this is an accurate estimate.

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<sup>40</sup> Notice at ¶51

<sup>41</sup> *Providing World-Class Broadband: The Future of Wireless and Wireline Broadband Technologies*, Rural Telecom Educational Series, Vantage Point Solutions, funded by the Rural Telephone Finance Cooperative, at p. 3. This paper was provided to the Commission through an ex parte on June 16, 2010, as reported in a letter to Ms. Dortch dated June 17, 2010, from Karlen Reed, Senior Regulatory Counsel, Legal & Industry, National Telecommunications Cooperative Association.

<sup>42</sup> *Ibid.* at p. 12.

Capping support at 2010 will mean new investment in rural infrastructure is unlikely. The Commission should spell out in detail how the CAF will work and how support will transition to the CAF before considering whether to cap support.

Capping support at 2010 levels is also fundamentally unfair to those companies which have made recent commitments to upgrade their networks. For Rural ILECs, investment follows a "lumpy" investment cycle. A Rural ILEC may go several years without major new investment. Then the time comes when new investment is needed. In addition, for certain components of high-cost support there is up to a two year lag in recognizing the new investment. Thus, if this "lumpy" investment cycle occurred in 2009 or 2010, it will not be included in 2010 support levels.

A good example is the Toledo Telephone Company in Washington. Toledo has aging copper facilities in the City of Toledo.<sup>43</sup> In 2009, Toledo entered into a loan agreement with the Rural Utilities Service (RUS) under which Toledo is borrowing nineteen million dollars to upgrade copper facilities to fiber.<sup>44</sup> Phase one of that project began this year to address the copper facilities in the City of Toledo, which because of the age of those facilities are degrading service. Freezing support at 2010 levels would be fundamentally unfair to Toledo and other companies that have made major recent investments.

As an example of a similar situation in Oregon, Molalla Communications has replaced aging facilities in its core service area in 2008 and 2009, investing just over 5.7 million dollars in 2008 and almost 2.2 million dollars in 2009.<sup>45</sup> This investment has allowed Molalla to improve

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<sup>43</sup> The company reports that in most cases its copper facilities have been in use over twenty-five years.

<sup>44</sup> As an interesting note, the company priced out a wireless alternative. However, because of rugged terrain, weather considerations and heavy foliage in many portions of the service area, the wireless alternative did not price out as advantageous.

<sup>45</sup> By using one example from each state, it should not be assumed these are the only examples. They are not. There are several additional examples in each state.

the service its customers receive. Having made this investment, it would not be fair to disallow the recovery, in part, from support mechanism by use of an arbitrary cut-off. In addition, Molalla is currently discussing with RUS the possibility of borrowing over ten million dollars to bring fiber to its outlying customers. However, those discussions have slowed because of the uncertainty created by the National Broadband Plan and the lack of information on how the CAF will operate.

3. The Proposal to Freeze ICLS on a Per-Line Basis Means That Needed Support will be Lost.

The Commission also includes in the Notice a specific proposal to cap Interstate Common Line Support (ICLS) on a per-line basis.<sup>46</sup> ICLS provides significant levels of support for some carriers. Table 11 and Table 12 show the current level of ICLS support for OTA and WITA members, respectively.

What this data shows is that two companies in Oregon receive ICLS support at or about ninety dollars per month per line. There are an additional eight companies that receive more than thirty dollars per month per line in Oregon.

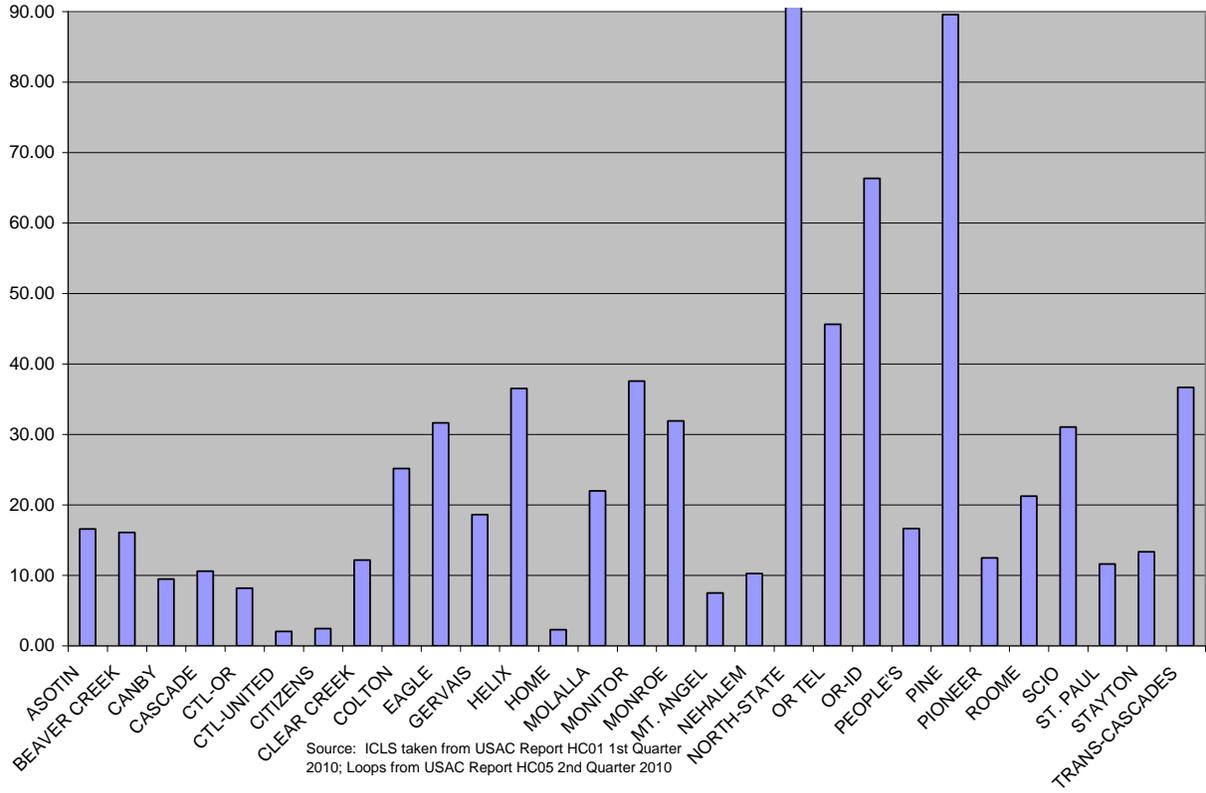
[Intentionally left blank.]

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<sup>46</sup> Notice at ¶ 56.

Table 11

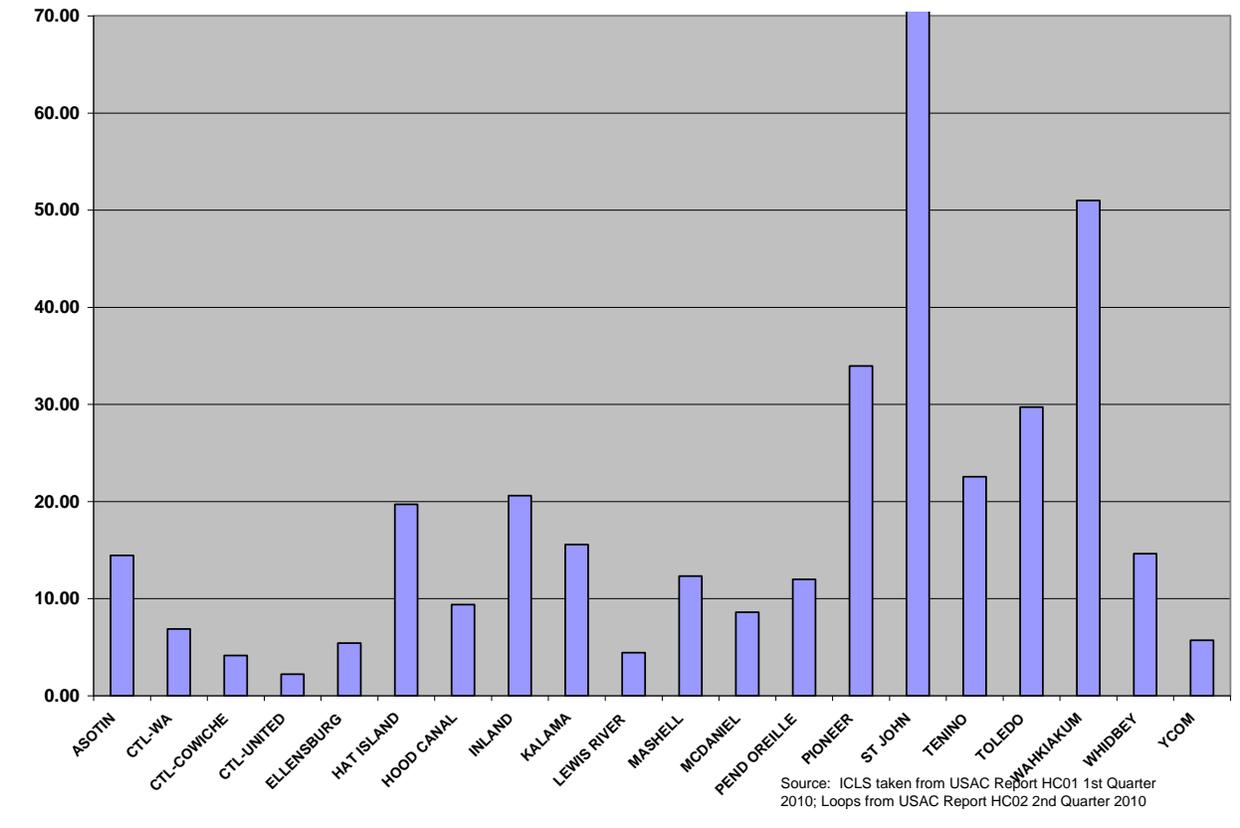
OTA Member Companies  
Frozen Per Line Per Month ICLS (IAS)



In Washington, one company receives more than seventy dollars per line of ICLS and there are an additional three companies that are close to or greater than thirty dollars per line of ICLS.

Table 12

WITA Member Companies  
Frozen Per Line ICLS (IAS)



The additional problem is that the number of lines is decreasing. The attached Tables 13 and 14, for OTA and WITA respectively, show the decrease in the number of working loops over the most recent five year period of time.

Table 13

Oregon ILEC Loop Loss  
(2005-2010)

Company	2005 Working Loops*	2010 Working Loops*	Number Lost	% Loss
Asotin	143	137	6	4.20%
Beaver Creek	4,602	4,214	388	8.43%
Canby	11,380	10,090	1,290	11.34%
Cascade	9,644	8,346	1,298	13.46%
CenturyLink	74,705	59,528	15,177	20.32%
Clear Creek	3,806	3,313	493	12.95%
Colton	1,266	1,084	182	14.38%
Eagle	479	465	14	2.92%
Gervais	1,175	908	267	22.72%
Helix	337	284	53	15.73%
Home	872	750	122	13.99%
Midvale	253	244	9	3.56%
Molalla	6,631	5,745	886	13.36%
Monitor	756	638	118	15.61%
Monroe	1,038	919	119	11.46%
Mt. Angel	2,037	1,813	224	11.00%
Nehalem	3,369	2,966	403	11.96%
North-State	552	486	66	11.96%
Oregon-Idaho	735	676	59	8.03%
Oregon Tel	1,863	1,685	178	9.55%
People's	1,524	1,232	292	19.16%
Pine	981	987	-6	-0.61%
Pioneer	15,910	13,864	2,046	12.86%
Roome	692	644	48	6.94%
St. Paul	653	605	48	7.35%
Scio	1,901	1,674	227	11.94%
Stayton	7,921	6,454	1,467	18.52%
Trans-Cascades	229	200	29	12.66%
United (CenturyLink)	71,723	56,785	14,938	20.83%
Verizon	444,636	317,402	127,234	28.62%
Malheur	13,151	10,979	2,172	16.52%
Citizens	14,599	12,410	2,189	14.99%
Qwest	1,304,393	891,427	412,966	31.66%
<b>TOTAL</b>	<b>2,003,956</b>	<b>1,418,954</b>	<b>585,002</b>	<b>29.19%</b>

\*Source: USAC Report HC05 for 1st Quarter 2005 and 1st Quarter 2010.

Table 14

Washington ILEC Loop Loss  
(2005-2010)

Company	2005 Working Loops*	2010 Working Loops*	Number Lost	% Loss
Asotin	1,464	1,217	247	16.87%
CenturyLink-WA	182,045	137,697	44,348	24.36%
CenturyLink-Cowiche	2,171	1,879	292	13.45%
Ellensburg	24,295	18,812	5,483	22.57%
Hat Island	108	83	25	23.15%
Hood Canal	1,465	1,377	88	6.01%
Inland	2,790	2,645	145	5.20%
Kalama	3,294	2,968	326	9.90%
Lewis River	6,490	5,717	773	11.91%
Mashell	3,789	3,652	137	3.62%
McDaniel	4,597	4,041	556	12.09%
Pend Oreille	2,132	1,941	191	8.96%
Pioneer	899	765	134	14.91%
St. John	631	614	17	2.69%
Tenino	3,796	3,421	375	9.88%
Toledo	2,245	2,020	225	10.02%
United Telephone (CenturyLink)	83,122	66,585	16,537	19.89%
Wahkiakum	1,244	1,169	75	6.03%
Whidbey	13,703	12,780	923	6.74%
YCOM	12,329	10,880	1,449	11.75%
Verizon-WA	755,073	490,339	264,734	35.06%
Verizon-WA (Contel)	89,868	70,770	19,098	21.25%
Qwest	2,328,093	1,598,944	729,149	31.32%
<b>TOTAL</b>	<b>3,525,643</b>	<b>2,440,316</b>	<b>1,085,327</b>	<b>30.78%</b>

\*Source: USAC Report HC05 for 1st Quarter 2005 and 1st Quarter 2010.

As can be seen from these tables, line loss has been significant for a number of companies. Freezing significant levels of support on a per-line basis and then watching those lines disappear means support is lost. This creates further uncertainty and further disincentive for investment in rural infrastructure.

It is also important to keep in mind that this loss of support on a per line basis<sup>47</sup> is in addition to the loss of revenue that may occur as a result of the Commission's proposed intercarrier compensation reforms.

4. Incentive Regulation is Not Needed.

The Commission also proposes to put rate of return companies on some form of incentive regulation.<sup>48</sup> OTA and WITA do not understand this proposal. Nor does the Commission provide any specific information on what this means. Without knowing the specifics of the Commission's proposal, it is virtually impossible to comment.

OTA and WITA note, however, that if the Commission proceeds with the steps that it has outlined for intercarrier compensation reform (moving intrastate switched access rates to interstate levels over two to four years and then to zero by 2020)<sup>49</sup> and universal service reform (freezing support at 2010 levels and freezing ICLS on a per-line basis),<sup>50</sup> the Commission will have effectively placed all rural ILECs on an incentive regulation plan without needing to take any further steps.

## CONCLUSION

OTA and WITA respectfully urge the Commission not to take the steps to freeze high-cost support and to freeze and convert ICLS support to a per line number without first establishing the rules for the CAF and how the existing funds relate to and transition to the CAF.

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<sup>47</sup> Initially ICLS, but perhaps other support elements if the Commission freezes the support level for these other elements and converts the frozen support to a per-line basis.

<sup>48</sup> Notice at ¶ 55.

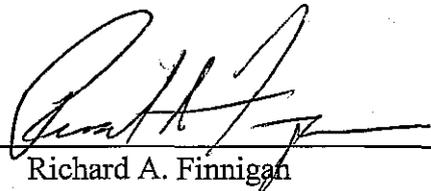
<sup>49</sup> National Broadband Plan at p. 148 and p. 150.

<sup>50</sup> Notice at ¶ 52 and ¶ 56.

Not taking that first step to define the operation of the CAF will introduce substantial uncertainty into the rural markets. This will have a chilling effect on investment in rural markets. In turn, this will substantially slow the good work that Rural ILECs have made in providing access to broadband service.

OTA and WITA support universal service reform and support intercarrier compensation reform. However, the resulting local rates are not sustainable without support mechanisms. If the existing support mechanisms go away without clear guidance on what will replace them, the existing network that provides communications between rural and urban America is in peril.

Respectfully submitted this 12th day of July, 2010.

By:   
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## APPENDIX 1

Asotin Telephone Company d/b/a TDS Telecom  
Beaver Creek Cooperative Telephone Company  
Canby Telephone Association d/b/a Canby Telcom  
Cascade Utilities, Inc. d/b/a Reliance Connects  
Clear Creek Telephone & Television  
Colton Telephone Company, d/b/a ColtonTel  
Eagle Telephone System, Inc.  
Gervais Telephone Company  
Helix Telephone Company  
Home Telephone Company d/b/a TDS Telecom  
Molalla Communications, Inc. d/b/a Molalla Communications  
Monitor Cooperative Telephone Company  
Monroe Telephone Company  
Mt. Angel Telephone Company  
Nehalem Telecommunications, Inc.  
North-State Telephone Co.  
Oregon-Idaho Utilities, Inc.  
Oregon Telephone Corporation  
People's Telephone Co.  
Pine Telephone System, Inc.  
Pioneer Telephone Cooperative  
Roome Telecommunications Inc.  
St. Paul Cooperative Telephone Association  
Scio Mutual Telephone Association  
Stayton Cooperative Telephone Company  
Trans-Cascades Telephone Company d/b/a Reliance Connects  
United Telephone Company of the Northwest d/b/a CenturyLink

## APPENDIX 2

Asotin Telephone Company d/b/a TDS Telecom  
Beaver Creek Telephone Company, d/b/a Timberline Telecom  
Ellensburg Telephone Company d/b/a FairPoint Communications  
Hat Island Telephone Company  
Hood Canal Telephone Co., Inc. d/b/a Hood Canal Communications  
Inland Telephone Company, d/b/a Inland Networks  
Kalama Telephone Company  
Lewis River Telephone Company, Inc. d/b/a TDS Telecom  
Mashell Telecom, Inc. d/b/a Rainier Connect  
McDaniel Telephone Co. d/b/a TDS Telecom  
Pend Oreille Telephone Company  
Pioneer Telephone Company  
St. John Co-operative Telephone and Telegraph Company  
Tenino Telephone Company  
The Toledo Telephone Co., Inc.  
United Telephone Company of the Northwest, d/b/a CenturyLink  
Western Wahkiakum County Telephone Company d/b/a Wahkiakum West  
Whidbey Telephone Company  
YCOM Networks, Inc. d/b/a FairPoint Communications