

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Connect America Fund)	WC Docket No. 10-90
)	
A National Broadband Plan for Our Future)	GN Docket No. 09-51
)	
High-Cost Universal Service Support)	WC Docket No. 05-337

COMMENTS OF CENTURYLINK

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July 12, 2010

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SUMMARY

CenturyLink supports the Commission's effort to kick off the comprehensive reform of universal service to provide high cost support for broadband and voice services in targeted high cost areas, including a smooth transition from the present system. CenturyLink agrees with much of the language and accompanying proposals in the National Broadband Plan concerning the Connect America Fund ("CAF"). CenturyLink urges the Commission to implement those proposals, but with some significant refinements to better achieve the stated goals.

The National Broadband Plan recognizes the fact that achieving greater and faster broadband availability is most efficiently accomplished on network infrastructure expansion and enhancements by existing facilities-based operators. Existing providers of networks to the remotest regions of America are the most likely source of expanded broadband coverage because they can more economically build expansions to their existing networks to accomplish the goals of the National Broadband Plan. Given these facts, the FCC should ensure that it stabilizes the universal service and intercarrier compensation systems to protect ongoing infrastructure development. The availability of external assistance, however, is limited, and must be spent wisely pursuant to verifiable standards to ensure compliance with the public policy objectives.

These policy concerns dictate that a CAF must be developed based on certain assumptions:

- An essential policy objective would avoid unfunded mandates, which distort competition and broadband investment.
- USF support should not be reduced until the CAF is established, quantified, and is distributing support, except for reductions that support duplicative networks.
- There should only be one supported provider in each high-cost area, and that provider must offer, to the extent available, broadband and voice (including stand-alone broadband or stand-alone voice) from its own network to any requesting customer. All other

providers should be relieved of carrier-of-last resort obligations and price regulation for broadband and voice service in the supported area.

- All housing units in areas where broadband and voice services are found to be uneconomic should be supported with a single methodology regardless of technology used, based on the number of housing units that are projected to be able to receive broadband services.
- Support should be provided at a level sufficient to make broadband deployment economically feasible and affordable, including areas that have broadband today only because of the existence of USF support for voice, which facilitates broadband.
- The Broadband Availability Gap model can be a starting point for the CAF model, but it must be modified to support sustainable long-term service and account for the support needed in high-cost areas that already have broadband only because of USF support.
- The support, and thus the model, should be calculated on a granular level where wire center, not county, is the preferable geographic unit because the wire center is the unit by which the current universal service obligations will be replaced.
- Funding must be provided for longer term maintenance of existing and new network infrastructure to ensure reliability and quality of service.

Through such an approach, the Commission can achieve real increases in the availability of broadband service to rural America over the next few years.

The CAF should be equally available to any responsible provider of a network using any type of technology that realistically supports the broadband service speed and voice commitment the Commission selects for the specific geographic area. Conversely, all providers should be free to decline the support and attendant obligations should the funding be insufficient. The support must be calculated and distributed on a granular basis to target the highest-cost areas. Wire centers are the most readily available geographic areas that have definable costs and economics to provide a firm baseline of data upon which to distribute CAF support. Use of wire centers will greatly enhance the efficiency of CAF distributions as compared to use of other geographic unit alternatives.

CAF recipients must make firm commitments to deploy broadband, and to maintain voice services universally, within a reasonable time period. There needs to be continuing support of

operational expenses (“OPEX”) and maintenance capital expenses (“CAPEX”) in the highest cost areas for ongoing operation and maintenance of voice and broadband services. In addition, the funding mechanism must account for the fact that affordable broadband is not sustainable without support in many places that have broadband today because of support for loop-plant-related investments that also benefit broadband service. The support for the PSTN as it continues to evolve to a broadband network is crucial to maintaining and advancing communications in unserved rural portions of our nation. The CAF must be structured to meet customer needs by providing support for a converged high quality voice and broadband network.

One of the most important lessons to be learned from the Commission’s USF experience is that public policy mandates must be fully funded in order to be achieved. If the Commission desires ubiquitous broadband service, it must provide sufficient funding to achieve that goal. Project-based support has certain public interest benefits, such as better defining the CAF’s monetary requirements, easing administration, and establishing enforceable accountability standards. However, project-based support cannot work if it repeats the pitfalls of the existing voice USF system. The CAF cost development and distribution methodology should be based on the number of housing units that are projected to be able to receive broadband services. CAF support must be based on real world network operations, including changes in the services provided, in order to meet broadband availability public policy goals.

There is a need to reprogram and retarget the USF to support broadband networks and stand-alone voice service where requested. However, the current USF system is an interdependent program that, together with intercarrier compensation, provides substantial support for rural networks that cannot be ignored during the transition to the CAF—especially since the regions that are currently high cost for voice will also be high cost for broadband. All

of these interrelated programs must be restructured to ensure that existing support is sufficient and sustainable to meet rapidly evolving consumer and business demands.

Interstate Access Support (“IAS”) should be maintained. IAS and Interstate Common Line Support (“ICLS”) were established for price cap and rate-of-return carriers, respectively, to replace implicit subsidies found in the common line rate elements of interstate access charges. Both are critical components for continued high cost area investment: the support is currently used to build and maintain the very networks that form the basis of faster and ubiquitous broadband services. There is no policy or legal justification for treating the mechanisms differently. At a minimum, IAS should not be eliminated until the CAF is created, and then only phased out over a reasonable period of time.

Funding of competitive carriers, on the other hand, is used to build duplicative networks, which only increase the cost of rural broadband deployment, and should be phased out over a maximum period of five years. The Federal-State Joint Board has already concluded that voice USF should no longer be used to fund duplicate networks. Therefore, the identical support rule should be eliminated. In addition, there is no rational basis for awarding access replacement USF to wireless carriers who never charged access charges in the first place, do not bear the burden of the carrier-of-last-resort obligation to serve uneconomic areas, and accordingly, have the freedom to avoid serving such areas. It is high time to implement these universally held policy conclusions.

The National Broadband Model created by FCC staff appears to be a good start at attempting to create an economic model that will predict at a high-level the incremental costs of providing broadband services to currently unserved areas. However, the model must be refined

along the lines indicated above if it is to be used to estimate the amount of CAF support that will be needed to support broadband service in uneconomic areas.

In addition, parties cannot provide complete comments on the model prior to being given access to the model to better test and evaluate the model's complex data tables and relational databases. From only a general exposure to the methodology, CenturyLink agrees with the identified risks and shortcomings of the model identified by the authors. Specifically, the model:

- appears to model costs for wireline and wireless providers based on different assumptions that significantly skew modeled results;
- appears to seriously underestimate the number of unserved households by using inaccurate publicly available source data, rather than company-specific data;
- provides very little confidence that estimated incremental costs are reliable;
- relies on projections of costs associated with 4G technologies that are not yet commercially available, which creates reliability concerns; and
- cannot take into account extreme conditions in some locations that cannot be satisfied with strict modeling algorithms.

Therefore, the model will need to be modified. In addition, like any model, it cannot be dispositive of needed support in all cases and therefore providers must have the option either to obtain adequate support levels or to elect not to provide service at the suggested support level.

In the interim, the FCC could promote broadband availability by adopting a simple program using repurposed USF support. Such a program would increase broadband availability promptly, with virtually no chance of failing to achieve the Commission's goals. If all of the foregoing principles are adopted, the Commission has a real chance of achieving the broadband availability goals it has set in line with congressional expectations.

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High-Cost Universal Service Support)	WC Docket No. 05-337

COMMENTS OF CENTURYLINK

CenturyLink, on behalf of its operating subsidiaries, hereby files these comments in the above-captioned proceedings in response to the Federal Communications Commission’s *Notices* seeking comment with respect to the establishment of the Connect America Fund (“CAF”).¹ CenturyLink supports many of the proposals contained in the National Broadband Plan² with respect to establishing the CAF. The National Broadband Plan proposes to preserve the current network while refocusing existing USF support calculated based on averaged costs to provide voice service to a targeted support mechanism for a broadband network that also provides voice service, after a transition period.³ CenturyLink supports this proposal as a general matter and

¹ Connect America Fund; A National Broadband Plan for Our Future; High-Cost Universal Service Support, WC Docket No. 10-90, *et al.*, Notice of Inquiry and Notice of Proposed rulemaking, FCC No. 10-58 (rel. Apr. 21, 2010)(“*Notices*”). These comments will sometimes refer to issues solely raised in the Notice of Proposed Rulemaking as “*NPRM*” and those raised solely in the Notice of Inquiry as “*NOI*”.

² Federal Communications Commission, Connecting America: The National Broadband Plan, GN Docket No. 09-51 (rel. Mar. 16, 2010)(“National Broadband Plan”).

³ *Id.* at 145.

encourages the Commission to use it as a starting point for reform of USF, subject to some important modifications specified below.

I. PROVIDING HIGH-SPEED BROADBAND TO REMAINING UNSERVED AREAS REQUIRES ADDITIONAL SUPPORT IN ORDER TO MEET THE COMMISSION'S BROADBAND GOALS.

The National Broadband Plan recognizes that the promise of providing broadband speeds to all Americans at the chosen standard for CAF support of 4 Mbps download speed and 1 Mbps upload speed (“4/1 Mbps”) depends for the vast majority of its funding on private enterprise.⁴ This conclusion is quite similar to the same *sub silentio* assessment reached with respect to voice universal service, which was largely driven by private investment as well.⁵

The good news about this assessment is that promoting broadband availability leverages the investment in existing networks that can be enhanced with incremental investment. The incremental nature of this investment leads inevitably to the conclusion that broadband availability goals are best achieved when existing networks are recognized for the value they provide today and the potential they provide to deliver rapidly evolving advanced services for the future. Promoting broadband should be a focused effort that does not attempt to do too much by also trying to meet other Commission goals such as promoting competition.⁶ Where it is

⁴ *Id.* at 3; 18-19. CenturyLink does not take a position whether 4/1 is the appropriate level of broadband service to support. Rather CenturyLink emphasizes that whatever level of broadband is chosen, adequate support must be provided to ensure that the selected provider can make a business case to operate.

⁵ *Id.* at 3.

⁶ The Commission has already discovered the error of trying to promote competition through the universal service program. *See, e.g., High Cost Universal Service Support*, Order, 23 FCC Rcd 8834, ¶ 6 (2008) (“*CETC Freeze Order*”). Statement of Commissioner Larry S. Landis, *High-Cost Universal Service Support*, WC Docket No. 05-337, 22 FCC Rcd 20477, 20506 (Fed.-St. Jt. Bd. USF, 2007) (“*Comprehensive USF Reform Recommended Decision*”) (the “pathology” of the existing system, which promotes “subsidized competition”, must end).

uneconomic for one provider to serve a particular area, it is wasteful to support two providers with external assistance.

A. The Existing Wireline Network Should be Supported in a Targeted Manner Because it Provides an Essential Foundation for Deploying Broadband in High Cost Areas.

CenturyLink has been building, upgrading, and maintaining networks that serve rural parts of the country. ILEC wireline networks will continue to serve as critical infrastructure for most basic and advanced services across multiple technologies and topologies for the foreseeable future—especially when it comes to meeting speed and reliability requirements. Broadband services provided by both wireline and wireless carriers rely heavily on the previously built infrastructure. The Commission recognized in the National Broadband Plan that continuing to provide voice-based support for networks in the highest cost rural areas will be required for some time,⁷ and in many of those areas, new broadband support will be required even where broadband exists today. The industry has already been moving towards converging the network services and support to provide both voice and broadband. And these government policies must protect and encourage this private investment.⁸ The FCC staff clearly recognizes that wireline networks are most likely to provide broadband at targeted speeds given current demonstrated and planned infrastructure upgrades.⁹

⁷ National Broadband Plan at 150. Many customers will prefer to only subscribe to voice services and until broadband is able to reach remote areas, will have to obtain their communications needs through voice services.

⁸ *Id.* at 4.

⁹ *Id.* at 137; Omnibus Broadband Initiative, Federal Communications Commission, Broadband Availability Gap, OBI Technical Paper No. 1, at 26-28 (Apr. 2010) (“Broadband Availability Gap”) (released as Appendix C to the *Notices*).

B. The Economic Characteristics of the Highest Cost Service Areas Make Additional Support Critical Toward Attaining Greater Broadband Availability.

The FCC's Omnibus Broadband Initiative ("OBI") staff has estimated that some 7 million housing units, or roughly 5.4 percent of nationwide households, cannot receive 4/1 Mbps broadband today.¹⁰ Others have estimated that the market standing alone is unlikely to deploy broadband to the last 10 to 15 percent of customers based on current economics and technology.¹¹ Some providers serve a greater proportion of the areas where broadband is not economically feasible without support. For example, more than 14 percent of CenturyLink's wire centers serve less than 10 households per square mile and nearly 30 percent serve fewer than 20 households per square mile. In one of CenturyLink's large Texas study areas, the cost of deploying nearly ubiquitous 6 Mbps broadband service will cost approximately 35 times greater per line in the uneconomic high cost wire centers than in the low cost wire centers.¹²

The relationship between per-customer cost and population density plainly is not constant. Rather costs increase much more rapidly as density units reach their lowest levels. Serving the last 15 percent of population density is more expensive than the per-unit costs of the first 85 percent, serving the last 10 percent per unit is more expensive than the last 15 percent

¹⁰ Broadband Availability Gap at 5 (Percentage is based on the report's finding that 123 million housing units have broadband available, whereas 7 million housing units do not. *Id.* at 17.).

¹¹ ILECs reach approximately 84 percent of the households they serve nationwide with broadband at over 200 kbps in at least one direction. *High-Speed Services for Internet Access: Status as of December 31, 2008*, Industry Analysis and Technology Division, Wireline Competition Bureau, Federal Communications Commission, at 43 (Feb. 2010). Cable estimates that "broadband infrastructure" is available to approximately 92 percent of U.S. households. National Cable & Telecommunications Association, Petition for Rulemaking, RM-11584, at 3 (Nov. 5, 2009) ("*NCTA Petition*"). This cable-provided figure is subject to serious doubt. See Section VI.C.2., *infra*.

¹² See Michael J. Balhoff, Robert C. Rowe, and Bradley P. Williams, *Universal Service Funding: Realities of Serving Telecom Customer in High-Cost Regions*, (Summer 2007), available at www.balhoffwilliams.com ("Balhoff Study").

and serving the last 5 percent is much more expensive per-unit than serving the last 10 percent.

The public policy objectives of universal service funding must recognize the fact of rapidly increasing per-unit costs as population density decreases and the National Broadband Plan appears to do this by illustrating the high cost of serving the last 250,000 homes. One approach could be to allow providers to use satellite-based service to serve a small percentage of households.

Using private investment alone, a company must conduct an analysis prior to introducing new services by determining whether the expected revenues from the services offered in the chosen area will exceed the ongoing operational costs and recover over time the initial capital costs associated with such deployment. Such a revenue projection will be governed by the market price for services in nearby geographic areas, the value of the service perceived by prospective consumers, and affordability considerations, times the number of expected subscribers. Using this standard evaluative criteria in many rural areas would project that deploying broadband does not produce positive economics because the expected costs are higher than in more densely populated areas and there are not enough customers to produce revenues to cover even normal expected costs, much less the higher costs that will be required. Generally, these are the same areas for which voice services would not be economically feasible but for the current universal service funding mechanisms including intercarrier compensation and access replacement mechanisms such as IAS. This analysis is similar to gaps in expected revenues from voice services that are supported by universal service at present.

While transforming a terrestrial carrier-of-last-resort (“COLR”) network into a ubiquitous broadband network is likely the most efficient means to delivering a robust broadband platform in unserved high cost areas, intercarrier compensation, USF, and substantial amounts of

private capital will be necessary to accomplish this transformation. The issue is timeless. There have been, are, and will continue to be areas of the United States where population density is insufficient to support viable voice and/or broadband networks. These areas must be supported if the goals of universal service are to be realized.

C. The FCC Must Target Support to Uneconomic Areas and End the Practice of Relying on Unsustainable Cross Subsidies and Implicit Support to Achieve Regulatory Mandates.

The problems with existing high cost loop support for voice services are instructive in how not to design the CAF. Study area averaging of intercarrier compensation and universal service funding, and the state-wide averaging used to distribute non-rural high cost loop support, are fundamental problems with the current system. The existence of these implicit cross subsidies in the current system contributes to the destabilization of investment and buildout incentives to expand service to rural high cost areas.¹³

Prior to competition, this system worked, largely by requiring customers in low-cost areas adjacent to high-cost areas to pay averaged rates to subsidize the same rates in the high-cost areas. These and other implicit funding mechanisms, particularly in intercarrier compensation, funded COLR networks in uneconomic high cost areas. High-cost wire centers exist nationwide and are embedded in study areas of all sizes and average cost levels. The smaller the study area, the more likely the intercarrier compensation rates and USF reflect the true underlying costs of providing service in that area. Larger study areas, however, often mask the significant economic disparities among wire centers within a single study area, where the cost differentials among wire centers can vary exponentially. The effect of study area averaging

¹³ Implicit cross-subsidies also undermine competition and should not be the focus of the CAF. See Section III.C., *supra*.

is to deprive wire-centers of funding for which it would qualify if it had stand-alone operations simply because it is part of a larger study area. This policy produces perverse outcomes whereby consumers in neighboring rural areas served by smaller geographic territories enjoy the benefits of universal service funding—greater investment, service, and affordable pricing—than do similarly situated consumers in rural high-cost wire centers in larger study areas. If ubiquitous broadband availability is to be attained, then all rural consumers should be treated the same, so future broadband support mechanisms must be designed differently than today's USF mechanisms.

In high cost areas, external support often makes the difference between feasibly offering affordable service or not. For example, a CenturyLink special study of its wire centers observed that 14 percent of its wire centers had a negative return on investment and another 45 percent produced returns of less than 10 percent.¹⁴ In other words, just 41 percent (100 percent less the 14 and 45 percent mentioned above) of the exchanges were generating financial returns sufficient to fund their operations. And, since the advent of competition, these exchanges no longer can be expected to generate sufficient margins to fund the shortfall in the other 59 percent of wire centers in the study area. These facts are not conducive to increasing, or even maintaining, investment in rural areas. Without reformed public policy, carefully crafted to provide sufficient funding to rural, high-costs areas, the promise of universal broadband service will remain unfulfilled.

¹⁴ See Balhoff Study at 35.

D. Intercarrier Compensation is an Integral Component of Universal Service Reform.

Reform of intercarrier compensation is a critical component of generating sufficient funding to deliver on the promise of broadband universal service. The National Broadband Plan recognizes this fact, and urges the Commission to reform intercarrier compensation as part of the broadband availability measures.¹⁵ CenturyLink agrees with this recognition and urges the Commission to complete its reform initiatives in 2010 by quickly adopting an order addressing these points without further unnecessary proceedings.¹⁶ Proper reform of intercarrier compensation would not only reduce regulatory arbitrage, but would also enhance stability in terms of the ILEC financial model and encourage external capital availability at reasonable rates and on attractive terms.¹⁷ A critical component of such stability would be a reasonable, and relatively lengthy, transition period to allow carriers to adjust to such significant changes.

Although the compensation system was established to deliver voice services, the same network used to deliver voice services also provides broadband capability to Americans and access to the Internet. A gradual shift in intercarrier compensation would avoid compromising the ability of the Commission to establish and meet broadband goals based largely on private investment capital. A rational, stable, and measured movement toward reform of intercarrier

¹⁵ National Broadband Plan at 148.

¹⁶ The FCC committed to resolving comprehensive reform plan in the near term, but it is not clear when the Commission expects to proceed to a final order. *Id.* Intercarrier compensation reform has been pending for a substantial period of time. *Developing a Unified Intercarrier Compensation Regime*, Notice of Proposed Rulemaking, CC Docket No. 01-92, 16 FCC Rcd 9610 (2001) (“2001 Intercarrier Compensation NPRM”); *Developing a Unified Intercarrier Compensation Regime*, Notice of Proposed Rulemaking, CC Docket No. 01-92, 20 FCC Rcd 4685 (2005) (“2005 Intercarrier Compensation FNPRM”).

¹⁷ Comments of CenturyTel, CC Docket No. 05-337, et al., at 3-5 (Nov. 26, 2008) (“CenturyTel ICC-USF Global Reform Comments”); Comments of Embarq, CC Docket No. 05-337, et al., at 16 (Nov. 26, 2008) (“Embarq ICC-USF Global Reform Comments”).

compensation will best ensure that the network necessary to deliver broadband to rural subscribers is not harmed at the expense of rural customers and communities.

Before specifically addressing intercarrier compensation reform, however, three simple steps should be taken on an immediate basis to better define the scope of needed reform and fairly recognize the level at which all carriers rely on intercarrier compensation to support their networks:

- First, the Commission must adopt phantom traffic rules in order to enforce existing obligations.¹⁸
- Second, the Commission must confirm and enforce existing access charge compensation for VoIP services.¹⁹
- Third, current self-help efforts must cease, and withheld funds must be paid.²⁰

CenturyLink is on record urging the Commission to immediately address these three critical precursory issues to global reform of intercarrier compensation.²² Stabilizing intercarrier compensation rules and policies without further delay will further the Commission's goals of ensuring the existence of robust networks capable of providing reliable broadband service to rural Americans that cannot now receive broadband.

¹⁸ *High-Cost Universal Service Support*, WC Docket No. 05-337, et al., Order on Remand & Report & Order and Further Notice of Proposed Rulemaking, 24 FCC Rcd 6475, Appendix A, ¶¶ 326, et seq. (2008) (“*ICC-USF FNPRM*”). A better approach would be to follow an industry consensus approach previously filed with the Commission. Letter from Glenn T. Reynolds, Vice President, Policy, USTelecom, to Marlene H. Dortch, Secretary, FCC, CC Docket No. 01-92 (filed Feb. 12, 2008).

¹⁹ The National Broadband Plan already recognizes that the FCC should clarify the applicability of existing compensation rules to VoIP traffic. National Broadband Plan at 148.

²⁰ *Central Tel. Co. of Va. v. Sprint Comms. Co.*, No. 3:09-CV-720 (E.D. Va, filed Nov. 16, 2009); *CenturyTel of Chatham, L.L.C. v. Sprint Comms. Co.*, No. 3:09-CV-1951 (W.D. La, filed Nov. 23, 2009).

²² Comments of CenturyLink on NBP Public Notice # 19 (Role of USF and Intercarrier Compensation), GN Docket No. 09-47, et. al., at 33-38 (filed Dec. 7, 2010) (“CenturyLink NBP # 19 Comments”).

II. THE COMMISSION SHOULD ADOPT THE BASIC FRAMEWORK PROPOSED IN THE NATIONAL BROADBAND PLAN AND CONFORM THE MODEL TO MEET THAT FRAMEWORK.

The National Broadband Plan proposes to refocus the existing voice-only USF by directing support to broadband networks whose operators will provide broadband and voice services to all requesting customers within a defined area, after a transition period that eases the replacement of the existing voice-only USF support mechanisms.²³

The goal of reform is to provide everyone with affordable voice and broadband. The reforms must be achieved over time to manage the impact on consumers, who ultimately pay for universal service. The FCC should target areas that are currently unserved, while taking care to ensure that consumers continue to enjoy broadband and voice services that are available today.²⁴

CenturyLink supports this general proposal with some important modifications specified below.

Although the *Notices* focus primarily on specific issues that do not address the structure of the CAF mechanism itself, CenturyLink believes that establishing the CAF's parameters must occur before creating a workable model.²⁵ The design of the CAF will provide critical inputs to a model, including geographic areas to be used, the number of unserved customers to be targeted, revenues from services to be included, and whether to support only a single provider. Therefore, CenturyLink urges the Commission to first establish the CAF's contours prior to finally developing an economic model. In these comments, CenturyLink provides what it believes to be the parameters that could best meet the Commission's broadband availability goals.

²³ National Broadband Plan at 145

²⁴ *Id.* at 141.

²⁵ See Section VI., *supra*.

A. The Commission Should Adopt a Connect America Fund Focused on Supporting Broadband in High Cost Areas of the Country.

1. Funds should be provided only for targeted high-cost areas.

Consistent with the National Broadband Plan proposal, current USF support should be transitioned over time to support broadband and additional support should be targeted to high-cost geographic areas that do not receive adequate support to provide broadband at target speeds where there is no current business case which could support such services entirely through private investment.²⁶ High-cost should be defined to mean that a carrier that owns a network is incapable under a rational economic business model of providing the target broadband speed to a definable unit of the current network, such as a wire center for a wireline carrier.²⁷ This approach fixes the current problems of the current universal service approach, which for rural carriers, targets money to entire study areas that experience higher-than-average costs, and for non-rural carriers, targets entire states with higher-than-average costs.²⁸ As the National Broadband Plan recognizes, the amount of funds required to bring broadband at high speeds everywhere is much greater than can be reasonably expected from a government-funded program such as universal service.²⁹ Thus CAF support should be targeted to those areas in need of broadband services.

²⁶ National Broadband Plan at 145.

²⁷ The unit could be a switching center for a wireless carrier or a headend for a cable company.

²⁸ 47 C.F.R. §§ 36.601, *et seq.* (rural); *Federal State Joint Board on Universal Service*, CC Docket No. 96-45, Ninth Report & Order, 14 FCC Rcd 20432 (1999) (“*USF Ninth Report & Order*”)(non-rural).

²⁹ National Broadband Plan at 3-5.

2. Funds should be provided only for one carrier with COLR obligations for voice and broadband services.

At the same time the Commission moves to a more targeted calculation of and distribution of support to truly high-cost areas, it should also eliminate duplicative support.³⁰

There is no longer public policy justification for providing universal service support for a second provider to build out to a particular area. Although multiple providers could qualify for support from the CAF, support should not be used to build duplicate networks.³¹

Today's urban and more densely populated markets are dominated by intermodal competition where competitors have the freedom to pick and choose where they will serve, often opting to serve profitable areas while ignoring other higher-cost regions. As the Commission implements the CAF it is crucial that it balance two needs: the need to provide adequate funding to meet policy requirements, and the need to target areas that will not benefit from increasing intermodal competition in the near term.³² The problem of obtaining insufficient support is exacerbated in the broadband context because of the lower subscription rates for broadband services, particular in rural areas with lower income levels and an older population.³³ Thus, the CAF should focus only on supporting a single provider for both broadband and voice.

One of the most critical requirements the Commission should impose is that the company that has chosen to receive support provide supported broadband and voice services throughout

³⁰ *Id.* at 145.

³¹ At the same time the Commission moves to a more targeted calculation of and distribution of support to truly high-cost areas, it should also eliminate duplicative support. *See* section V., *infra*.

³² It is precisely this very balance that the courts have agreed was permitted under Section 254. *Qwest Corp v. FCC*, 258 F.3d 1191, 1199 (10th Cir. 2001) (“*Qwest I*”).

³³ Pew Internet & Home Life Project, Home Broadband Adoption 2009 (Jun. 17, 2009), available at <http://pewresearch.org/pubs/1254/home-broadband-adoption-2009> (last viewed Nov. 23, 2009) (“2009 Pew Internet Research”).

the supported geographic territory.³⁴ This makes sense because the COLR has provided voice services in a wire center for which their COLR obligation for the entire wire center will be transferred to the selected provider. The service obligation proposed bears some similarities to the COLR requirement imposed in the voice environment, which is how policymakers ensure universal voice services. The broadband buildout requirement would also be the equivalent of anti-redlining requirements in the cable regulatory environment,³⁵ but the new broadband COLR would require ubiquitous service rather than just an economically feasible subset of the franchise.³⁶ Any transition to the CAF must take into account that existing voice networks support critical consumer services such as emergency services, such as E-911,³⁷ CALEA,³⁸ and telecommunications relay services,³⁹ all of which must be maintained through the transition and under the new CAF.

³⁴ The Commission has previously required an eligible telecommunications carrier to provide service throughout a rural ILEC service territory in order to qualify for universal service support pursuant to the requirements of 47 U.S.C. § 214(e)(5). While it is true that the Commission has allowed certain competitive eligible telecommunications carriers (“CETCs”) to request that only portions of a rural telephone company’s service territory be served by the CETC, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, 20 FCC Rcd 6371, ¶ 75 (2005) (“*CETC Order*”), such a policy undermines the goals of obtaining service for the most remote customers because it allows competitors to cherry pick the profitable areas only, thus undermining the rationale for universal service support in the first place.

³⁵ See 47 U.S.C. § 541(a)(3).

³⁶ CenturyLink has previously argued that cable TV companies often define franchise areas to exclude the most rural Americans, thereby undermining the ability of cable networks to reach unserved broadband. CenturyLink NBP # 19 Comments at 52-53. Such unfulfilled promises are evident in the failure of cable TV companies to establish franchise areas in the small towns and countryside of America. Wireless carriers have also failed in this regard, even though some of them have become CETCs with the promise to “advertise” the “availability of their” services throughout their territory.

³⁷ 47 C.F.R. §§ 64.3000, *et seq.*

³⁸ See, e.g., 47 C.F.R. §§ 1.20000, *et seq.*

³⁹ 47 U.S.C. §§ 64.601, *et seq.*

In a concomitant fashion, if the existing ILEC with COLR responsibilities for voice services fails to be selected, it should be immediately freed of any COLR obligation for voice services and related regulatory requirements because it no longer would receive the necessary funding to meet that requirement. Such a change is fair and necessary given that the ILEC would no longer have a government commitment to allow it a reasonable opportunity to recover the difference between its actual expected revenues and what it could normally expect in a non-high cost area, particularly given the new broadband competition in the area that will be supported by the CAF. Indeed, the U.S. Constitution would require that if the carrier loses the benefit of the original regulatory bargain, its COLR and any pricing and service regulations would need to be preemptively eliminated at the same time as the rewards the government provided to induce service in the first place.⁴⁰

The one provider principle, however, should not be implemented by concluding that CAF support is unnecessary where a second facilities-based provider serves only a percentage of the ILEC's territory.⁴¹ An approach that would remove support or begin a costly proceeding based on a showing of competition in only part of the area would harm the remaining customers that are served only by the supported provider. Without the support that made the initial investment

⁴⁰ The U.S. Supreme Court has held that a government agency cannot simply abruptly change the historic regulatory scheme by eliminating compensation mechanisms without providing an adequate way to recover prudent investment that was recovered through an state-imposed rate-setting methodology. *Duquesne Light Co. v. Barasch*, 488 U.S. 299, 315 (1989) (“[A] State's decision to arbitrarily switch back and forth between methodologies in a way which required investors to bear the risk of bad investments at some times while denying them the benefit of good investments at others would raise serious constitutional questions.”).

⁴¹ NCTA, for instance proposes that USF be eliminated for all current recipients when another facilities-based provider serves 75 percent of the households in the recipient's market. *NCTA Petition* at 5. For the same reasons, the Commission should also reject proposals to eliminate USF once there is deregulation of ILEC rates in a market. *Id.*; *See also* Comments of Sprint Nextel, Inc., WC Docket No. 05-337, at 24-25 (Nov. 26, 2008)(retail rate deregulation should justify elimination of USF)

feasible, the broadband provider will eventually be forced to cease providing service to the remaining customers. A second provider may simply have chosen not to serve the highest cost customers in an area, while avoiding the truly high cost areas that ILECs often serve because of the COLR obligation.⁴²

Notwithstanding, the CAF should be implemented in a competitively neutral fashion consistent with the requirements of the Communications Act. Any broadband provider could apply for wire center support so long as it would be willing (1) to assume exclusive COLR responsibilities for offering facilities-based broadband and voice service throughout the entire wire center, (2) to use support to deploy broadband at the mandated speed in the wire center (together with voice services), and (3) to deploy broadband service exclusively over its own facilities.⁴³

3. Funds should be awarded only to a provider who builds its own network.

The CAF recipient should be required to provide broadband and voice services from its own network, rather than rely on resale or unbundled services from the wireline provider in the territory. Requiring private investment in a network will promote a natural incentive to provide seamless, quality, and reliable services to consumers. What is more, public resources would be squandered if USF support were simply switched from one provider to another, but the rules allowed continued reliance on the existing network to provide the underlying services. This switch in the name of the provider, rather than the builder of the network, would be wasteful economically because after the switch both companies would have to earn their own profits from

⁴² See note 133, *infra*.

⁴³ The only exception would be for the hardest-to-reach customers that could be served by satellite-delivered broadband services. See section II.A. 5., *infra*.

the arrangement, not just one. In addition, this arrangement distorts investment incentives: the underlying wholesale provider would not be motivated to invest because it could not control and expand its network; the reseller would not be investing at all, since it is only marketing the service it purchases at wholesale and one cannot count on such business continuing into the future. The National Broadband Plan rightfully recognized that federal policies must encourage private investors to build out networks to provide broadband service.⁴⁴ This recognition could only be supported and maintained over time if the CAF recipient were required to build its own network.

4. If CAF support is based on or limited by the use of a model, that model must make improvements over current USF model-based support.

The FCC staff identifies needed support based on the incremental costs of upgrading the existing network or building a new network.⁴⁵ Although details continue to be undefined, it appears that the current economic model under consideration does not go far enough to model real-world networks that are different from existing network deployment and financial and demographic characteristics of wire centers. The existing High Cost Proxy Model (“HCPM”) used to distribute non-rural high cost loop support has been roundly criticized for not adequately modeling the actual networks in place so that a reasonable base line is available.⁴⁶ If the FCC is

⁴⁴ National Broadband Plan at 4.

⁴⁵ Broadband Availability Gap at 2.

⁴⁶ See *Federal-State Joint Board on Universal Service*, Order on Remand, Further Notice of Proposed Rulemaking, & Memorandum Opinion & Order, 18 FCC Rcd 22559, ¶ 14 (2003) (“*Qwest Remand Order*”) (denied Qwest and SBC requests to increase non-rural funding); *Id.*, ¶ 27 (denied Vermont petition to increase non-rural support); *Iowa Telecom Petition for Forbearance Under 47 U.S.C. § 160(c) from the Universal service High-Cost Loop Support Mechanism*, WC Docket No. 05-337, 22 FCC Rcd 15801 (2007) (“*Iowa Telecom Forbearance Denial*”); Hawaiian Telcom, Inc., Petition for Waiver of Sections 54.309 and 54.313(d)(vi) of the Commission’s Rules, WC Docket No. 08-4 (filed Dec. 31, 2007). Although the FCC has refused to credit these criticisms as a justification for changing

going to create a new model for use in distributing broadband USF, the broadband model must better model existing network costs in order to ensure that it is providing sufficient support to promote its broadband availability goals. If the model establishes a theoretical cost that does not reflect real world characteristics in particular markets, then a broadband provider would be required to upgrade the network in order to meet the base line expectations of the model without any USF at all. Although a theoretical model may limit the size of the fund, such insufficient support would reduce theoretical results but not real world results that are desired.

In particular, the model must recognize that in certain high cost areas today, voice and broadband services are provided solely because a provider receives external assistance, such as through the voice-only USF system. Such support needs to be continued if existing and speedier broadband are to be provided in these areas. The incremental modeling that has been completed to date assumes, without justification, that no further support is necessary where networks today provide voice and broadband. Such assumptions are erroneous and need to be corrected in order to meet the demands of Section 254. In addition, the modeling must recognize that network cost characteristics can and do change in the future, such as is the case with declining access lines by wireline carriers, with fewer customers to support the existing, relatively fixed costs of the

the current USF funding mechanism for non-rural high cost loop support, that rejection has never responded to these criticisms of the model itself. Rather, the FCC has simply concluded that the support issued pursuant to the model is “sufficient” because universal service for voice has been obtained. *High Cost Universal Service Support*, Order on Remand and Memorandum Opinion & Order, WC Docket No. 05-337, FCC 10-56, ¶ 31 (rel. Apr. 16, 2010)(“*Qwest Further Remand Order*”). The FCC cannot rely on this post-hoc rationalization argument for broadband, even if it were a rational reason for assuming that universal service for voice services was sufficient, since the broadband results have not yet been achieved. It is doubtful that this post-hoc rationalization is true even for voice given that a number of factors could have resulted in the achievement of universal service for voice that are unrelated to the sufficiency of the model and associated non-rural mechanism, themselves.

network. Such declines can and do make previously economic areas, uneconomic to serve.

These are also the types of situations that must be supported under the CAF.

In addition, network investment in facilities that provide added capacity for second and middle mile transport should be supported, as recognized in the Plan.⁴⁷ With support, transport services would be created and offered to other broadband providers, including mobile broadband providers seeking to serve supported areas. One of the material impediments to providing broadband at significant speed levels is that there is often insufficient capacity in many rural transport networks to handle the increased capacity needs of broadband services. The issues associated with second and middle mile transport have been well documented during comments on the Plan itself.⁴⁸

Given the inherent model limitations, CenturyLink submits that the economic model itself should not be directly used to calculate and distribute support. Rather, it should be used to identify the possible funding level that will be necessary to achieve the desired full deployment of broadband service, which could serve as guidance for a company deciding whether or not to take on the obligation to provide the supported services in that particular wire center. It would enable a rational business person to evaluate the business case for providing broadband service in a particular wire center and make its own choice as to whether it is economically feasible to do so given projected costs and revenues, and broadband USF support. This approach should also provide a mechanism to protect consumers if no provider were willing to come forward pursuant to the CAF. If no provider chooses to provide the supported service, then the funding level

⁴⁷ National Broadband Plan at 148.

⁴⁸ See comments filed with respect to this issue in GN Docket No. 09-51. Public Notice, *Comment Sought on Impact of Middle and Second Mile Access on Broadband Availability and Deployment*, National Broadband Plan Public Notice #11, DA 09-2186 (rel. Oct. 8, 2009).

specified in the model could be revisited to establish a level at which a provider would assume the obligation.

5. The FCC should establish appropriate requirements designed to achieve specific broadband speeds and coverage.

The FCC should define specific requirements that must be fulfilled in order to obtain CAF support. In particular, it makes public policy sense to make a carrier's network capable of providing broadband services to covered housing units at the mandated speed over a reasonable implementation time frame as a condition for receiving CAF USF support. Support should be provided based on a broadband network, rather than on a subset of housing units that subscribe to broadband: this ensures sufficient funding to support the Commission's broadband availability goals. The National Broadband Plan proposes use of 4/1 Mbps service as the initial target speed although the Plan itself has a goal of much speedier service nationwide, but without making a finding that such a high speed would be available ubiquitously.⁵³ CenturyLink does not take a position as to whether 4 Mbps downstream is the appropriate target, but 1 Mbps upstream could be problematic given current technologies employed and anticipated costs.⁵⁴

The FCC staff recognizes that providing even 4/1 Mbps speed to the hardest-to-reach customers is extraordinarily expensive, and implies that the cost may exceed the benefits of 100

⁵³ National Broadband Plan at 135. The Plan sets as a goal the provision of 100 Mbps service download/ 50 Mbps upload speeds to 100 million housing units by 2020. *Id.* at 9.

⁵⁴ Broadband networks of all technologies generally are not configured today to deliver as much as 1 Mbps upstream for residential services because consumers largely have not demanded such capabilities for residential use. It appears that there may be technological solutions that could deliver 1 Mbps upstream, but at a cost to downstream service levels and/or with increased deployment costs. Moreover, the costs of deploying 1 Mbps upstream service in areas that are already served would be substantial because networks would have to be reconfigured. In light of these costs and limited customer demand for 1 Mbps upstream at this time, the Commission should consider whether this part of the broadband standard best uses limited resources to support broadband deployment where it is not economically feasible.

percent coverage at the 4/1 Mbps speed.⁵⁵ For these reasons the FCC should strongly consider whether it should require a carrier to provide 4/1 Mbps service to 100 percent of the households in a geographic territory. Rather, the FCC should consider alternative speeds, in particular the upload speed of 1Mbps which requires a complete redeployment of broadband in areas already served but at lower upload speeds. Satellite is an alternative to consider in satisfying broadband needs in these exceedingly high cost areas.

Finally, all other existing USF rules applicable to eligible telecommunications carriers should continue in force, such as the commitment to provide the customer with access to emergency services.⁵⁶ These conditions are necessary to ensure that public interest mandates continue to be met through the use of external assistance.

- B. The Commission Should Better Target Disbursement of Funds to Carriers and Geographic Areas Most Likely to Advance Broadband Goals.**
 - 1. Funds should be targeted to the true high cost areas, correcting for the cross-subsidization which characterizes the current disbursement mechanism.**

One of the most vexing problems with creating a disbursement mechanism for the CAF is selection of the geographic area to serve as the basis for support. The National Broadband Plan itself does not announce a proposed geographic area to be used to distribute CAF support.⁵⁷ Selection of an area that is too large will inevitably include areas which are not high cost and thus not in need of support. Selection of too small an area will decrease the likelihood that competing providers might want to serve the area, thus making a determination of the amount of

⁵⁵ Broadband Availability Gap at 5-8.

⁵⁶ The CETC guidelines are currently set forth in *CETC Order*, ¶¶ 20-39.

⁵⁷ National Broadband Plan at 145. However, the Broadband Availability Gap focuses its efforts on service areas comprising single counties. Broadband Availability Gap at 37.

support more difficult.⁵⁸ In addition, the selection of any area will be made difficult because existing networks that are the most likely to be able to provide broadband at the mandated speed serve different and perhaps overlapping areas. And the CAF should be structured to avoid the current, most serious defect of the non-rural high cost loop mechanism that fails to provide sufficient support for the high cost areas of carriers with large study areas.⁵⁹

a. Wire centers provide the most reliable and readily usable geographic area that would ease the transition to a CAF.

Use of wire centers provides the best solution that is currently available to the question of what geographic area to be used as the basis for distributing support. Selecting a wireline carrier's wire center simply makes sense for five reasons. First, since these wire centers were built in a logical fashion to serve groups of customers in a geographic area, this same logic could inform a competing provider's decisions to build a network to provide broadband service to the same area. Second, because COLR responsibilities were established at the wire center level, in order to achieve a seamless continuation or handoff of such COLR responsibilities in the new broadband era, maintaining these obligations at the wire center is essential to protect customers. Third, other carriers who serve customers must also build their networks to efficiently interconnect with ILEC telephone networks in order to ensure that their customers can contact any other domestic or international location on the Internet.⁶⁰ Fourth, competing carriers often rely on piece parts of the telephone company territory to obtain second and middle mile capacity

⁵⁸ Commission staff focus their selection of geographic region almost exclusively as an economic decision as to whether scale economies are fairly represented through the territory selected. Broadband Availability Gap at 37.

⁵⁹ See Section III.A., *infra*.

⁶⁰ For instance, wireless carriers use back haul facilities to connect their cell sites with wireless switching centers, often routed through and aggregated at telephone company wire centers.

to provide Internet services.⁶¹ Fifth, existing wireline providers that have deployed DSL are the most likely providers of broadband services to areas that cannot obtain broadband service in any event.

The fact that different carriers have somewhat divergent service territories admittedly complicates the process of developing a geographic territory for CAF distribution purposes. CenturyLink suspects that the Commission is attempting to identify some “neutral” territory that is easy to define to promote competitive neutrality. Establishing a territory that no broadband provider has built a network in does not promote competitive neutrality at all, but only would make the geographic designation equally irrational for every likely provider. In addition, permitting different carriers to self-select their own service territories would undermine the Commission’s goal of minimizing the amount of public dollars spent on promoting broadband because evaluation of competing application territories would be administratively burdensome and hence would delay needed broadband funding.⁶² CenturyLink submits that the need for speed and efficiency are important enough policy considerations applicable to broadband availability goals to justify selection of a standardized territory based on existing network architecture (i.e., wire centers) for distributing support.

b. Use of counties or census blocks would be burdensome for all carriers and fail to account for differences in coverage areas using different technologies.

Although the National Broadband Plan does not identify a geographic territory for disbursing the CAF, the FCC staff indicates that a model based on counties would be a better

⁶¹ National Broadband Plan at 143.

⁶² Evaluating the geographic scope of ARRA applications has been one of the most controversial aspects of the broadband stimulus funding program. *See, e.g.* Comments of Organization for the Protection and Advancement of Small Telephone Companies, Docket No. 0907141137-91375-05, RUS/NTIA, at 6 (filed Nov. 30, 2009).

geographic unit for use in disbursing support.⁶³ Although, maintaining the economic model at the census block level and aggregating costs to the county level for purposes of estimating the overall incremental cost to bring broadband to unserved works well, county aggregation for purposes of estimating USF disbursement is not efficient. This inefficiency is demonstrated through the following table.

CenturyLink County / Wire Center Statistics

Number of counties served by 1 or more wire centers	937	
Number of counties completely served by CenturyLink wire centers*	15	
Number of counties have same border as a wire center	2	
Number of counties not completely served by CenturyLink	922	
Number of CenturyLink wire centers	2,409	
Number of wire centers effectively serving 1 county	1,149	
Number of wire centers with service in 2 counties	880	
Number of wire centers with service in 3 counties	315	
Number of wire centers with service in 4 or more counties	65	
Number of wire centers with service in more than 1 county	1,260	
Total CenturyLink service area based on actual wire centers	722,081	sq. mi.
Total CenturyLink service area implied based on counties	1,035,205	sq. mi.
Total housing units in served counties inside WC	9,401,137	HUs
Total housing units in served counties outside WC	33,503,153	HUs

Note: All wire centers and county statistics are base on CenturyLink properties.

*Wire centers selected do not span across more than one county.

As demonstrated, CenturyLink does not provide service solely within counties. To serve every housing unit within the counties that CenturyLink has territory would require building another network to approximately 34 million housing units. There is little doubt that neither wireless nor cable company networks fit precisely within counties either because clusters of households that can justify network deployment are unlikely to fall exactly along county lines in rural areas. This inevitably leads to the question of how a carrier could fill out the parts of a

⁶³ Broadband Availability Gap at 37.

county in which it does not currently have any network. This practical difficulty will increase the costs of all carriers, increasing the amount of money required to deploy broadband service.

Given all these reasons, existing wire centers currently provide the most granular geographic area to distribute CAF support. They are far superior to any other relatively discrete geographic area. Although the Commission can leave open the possibility that it can discover some other geographic areas to serve as the basis for distributing CAF support, the Commission is wiser to select wire centers now and achieve some quick and meaningful successes before embarking on a riskier methodology.⁶⁴

2. Costs should be determined for all participants using one model that targets support at a proper level of averaging; this will fix the system currently in place.

The current voice-only USF high cost mechanisms make distinctions based on definitions of “rural” and “non-rural” study areas, or price-cap and rate-of-return study areas, neither of which take into account the fact that differently classified carriers face the same challenges in rural areas. These differences in treatment only serve to disadvantage some rural customers. It is well known that large rural study areas often contain many high-cost wire centers that do not receive support because of widespread cross-subsidization caused by study-area averaging. For voice USF, this illogical categorization has failed to provide adequate support to price cap carrier rural areas, and has led to lower availability data for broadband customers as well. The National Broadband Plan recognizes this issue.⁶⁵

⁶⁴ If the Commission does not adopt wire centers, it would be better to allow carriers to propose their own service territories than utilize an artificial construct like counties that matches no one’s network. Utilizing a carrier-selected territory adds burdens to evaluating competing proposals, however, it would avoid the very real problems of determining how the successful USF recipient can serve customers that do not fall within its network footprint.

⁶⁵ National Broadband Plan at 141

The FCC should end distinctions based on the type of carrier and, instead, treat all high-cost areas the same in the CAF. Treating all broadband providers alike, but providing support based on wire centers, will better serve rural America, rather than penalizing customers depending on the regulatory status of the providers that serves them.

Because of the need of price cap carriers to improve efficiencies, maintenance and expansion of rural networks requires a carrier to make a careful economic analysis of the potential revenues that can be achieved from customers, particularly in high-cost territories. If customers cannot produce sufficient and sustainable broadband revenues, there is a disincentive to upgrade a network to accommodate advanced communications or to modernize facilities.⁶⁶ Such a result is antithetical, however, to ensuring that rural subscribers have access to modern and advanced services, something that Section 254 was intended to guarantee. This disincentive to investment in rural America by price cap companies must be addressed by the Commission to fulfill its universal service mandate and the universal broadband goal it ultimately envisions.⁶⁷

⁶⁶ This disincentive has been manifested to date in the decision of certain price cap carriers to sell existing high-cost exchanges to smaller carriers with different economic profiles, retaining the lower-cost, higher-density exchanges for themselves. Given that the Commission has established the “parent trap” rule, however, there is a limit on the ability to sell high-cost exchanges as a way to ensure that customers enjoy the benefits of added investment in their exchanges and advanced networks. 47 C.F.R. § 54.305.

⁶⁷ As the Commission has observed, there is nothing in the law that requires it to make a distinction between rural and non-rural carriers for universal service purposes. *Federal-State Joint Board on Universal Service*, Order, CC Docket No. 96-45, 19 FCC Rcd 11538, ¶ 1 n.2 (2004); Tenth Report & Order, 14 FCC Rcd 10156, ¶ 458 (1999) (“*Tenth Report & Order*”). Those distinctions, on the other hand, do make sense in terms of the relative rights granted under the Section 251 interconnection provisions or with respect to the grant of CETC status under Section 214(e).

3. The CAF should pay for operational as well as capital expenditures pursuant to clearly defined criteria.

Some have suggested that only capital expenditures (“CAPEX”) for introducing broadband should be supported by the CAF.⁶⁸ While it is true that up-front expenditures are high in rural areas and require support in order to be economically justifiable, proposals to limit USF to up-front investment fundamentally ignore the economics of serving rural customers and provides only a short-term view of evolving network needs and customer demands. The cost of providing broadband and voice services is also a function of ongoing OPEX, such as maintenance, repair, customer service, etc., and a large portion of these costs are elevated and fixed in rural regions. In addition, many maintenance costs that are needed to maintain and upgrade a network will be capitalized, even though these may not be viewed as initial capital construction costs, which has been termed maintenance CAPEX. For instance, repair costs per housing unit are often higher in rural areas because of long travel times, the length of the plant that must be inspected and maintained, and the need to locate offices and repair personnel in reasonable proximity with the delivered services. These high fixed costs can only be spread over a few customers in sparsely populated communities.⁶⁹ Therefore, the relative amount of ongoing per-subscriber costs is simply much higher in rural areas than in urban ones. If prices of broadband services are not high enough to recoup these additional costs, then additional support is necessary to “ensure that all people of the United States have access to broadband capability. .

⁶⁸ National Telecommunications & Information Administration & Rural Utilities Service, Notice of Funds Availability (NOFA) and Solicitation of Applications, 74 Fed. Reg. 33104, 33113 (Jul. 9, 2009)(“NTIA-RUS NOFA”).

⁶⁹ Commission staff recognize the much higher ongoing operational costs that rural carriers incur. Broadband Availability Gap at 6, Exhibit 1-B. Thus, the higher ongoing costs experienced by carriers serving rural territories is a necessary component of universal service.

. . .⁷⁰ And, of course, if the price is too high, then adoption rates will remain very low, compounding the universal service coverage issue and retarding the goal of adoption. Even the National Broadband Plan recognizes that there are circumstances where ongoing support for OPEX will be required.⁷¹

CenturyLink is concerned, however, that the staff that developed the National Broadband Plan underestimates the level of need for ongoing support for universal service. As indicated previously, certain areas of the country currently receiving only voice services are uneconomic to serve because there are insufficient subscribers that can pay the costs of operating and maintaining the relatively fixed network infrastructure costs of providing service in those areas.⁷² These same diseconomies of scale will also be present in providing broadband services. Therefore, OPEX and maintenance CAPEX are likely to be necessary to address the low number of subscribers in a particular geographic area that can support broadband service.

In addition, support provided for OPEX should be adjusted for the fact that the amount is likely to be taxable, and therefore would be lower than the model would estimate.⁷³ USF distributions are currently taxed by the Internal Revenue Service (“IRS”) as income.⁷⁴ Although the industry has regularly argued that these cost-recovery funds should be treated as contributions to capital, and taxed as any capital asset, these efforts have been unsuccessful to

⁷⁰ American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115, § 6001(k)(2) (2009) (“ARRA”).

⁷¹ National Broadband Plan at 137, Exhibit 8-B.

⁷² See Section II.A.4., *supra*.

⁷³ The National Broadband Plan recognizes this fact, but assumes no need to adjust CAF support because much of the support would be for capital costs, which would not be taxable. National Broadband Plan at 146.

⁷⁴ *United States v. Coastal Utilities, Inc.*, 483 F. Supp. 2d 1232, *aff’d*, 514 F.3d 1184 (11th Cir. 2008).

date. This policy of taxing support funds strips away a large percentage of the distributions intended to advance universal service and turns over these funds to general government revenues. This tax effect should be taken into account when awarding OPEX support.

III. HIGH COST SUPPORT MUST BE SUFFICIENT TO MEET ALL OBLIGATIONS WITHOUT UNSUSTAINABLE CROSS SUBSIDIES—NO UNFUNDED MANDATES.

One of the key underpinnings of the National Broadband Plan’s goal to create the CAF based on the principles contained in Section 254 of the Act.⁷⁵ Section 254 requires that universal service support be “sufficient” to ensure that Americans in insular, rural, and high cost areas of the country receive access to affordable service.⁷⁶ The FCC must also establish rules that make universal service support be “explicit”, i.e., separated from the price of other services.⁷⁷ Another way of describing these principles is that there should not be any unfunded mandates to provide broadband without providing the funds to achieve it where that level of service would be economically unsustainable without external assistance. Therefore, “sufficiency” and “explicitness” should also govern the CAF: the fund should be formulated to achieve the goals established without relying on other services to provide “invisible” and “vanishing” support for broadband.

A. The Commission Cannot Mandate Unprofitable Broadband Deployment Without Providing Commensurate Support.

In order to achieve the goals of universal service, the FCC must not intentionally or unintentionally mandate that a certain level of broadband speed be implemented in carrier networks that cannot be accomplished without external assistance unless it makes support

⁷⁵ National Broadband Plan at 140, *et seq.*

⁷⁶ 47 U.S.C. § 254(b)(5).

⁷⁷ *Id.*, § 254(e).

available through the CAF. CenturyLink believes that broadband service can be funded through private investment and subscriber revenues to the extent that the economics of an area would justify such investment. However, remote areas of the country that cannot economically sustain broadband service should receive the appropriate level of subsidies from the CAF. CenturyLink therefore supports the major conclusion of the National Broadband Plan that some public funding is necessary to increase broadband availability.⁷⁸ Notwithstanding, it is important that the size of that external assistance not be set artificially low so that broadband availability goals cannot be achieved. The Commission should not mandate an uneconomic level of broadband services based on revenues received from other services or areas of the country.

Providing insufficient support, while continuing to mandate certain minimum levels of coverage such as 4/1 Mbps service, offend the constitutional sense of due process and fairness that are basic to all of American government policies and programs. Regulated services such as telephone services have always been provided in America based on a commitment by regulators to allow the service provider a reasonable opportunity to earn a fair return.⁷⁹ In fact, providing sufficient funding is absolutely essential to support the Commission's recognition that it must create an environment that will attract billions of dollars in private investment capital to build out networks that can support higher broadband services than exist today.⁸⁰ Regulatory uncertainty will signal to investors that any decision to deploy broadband in marginal areas is not worth the

⁷⁸ National Broadband Plan at 138.

⁷⁹ *See Federal Power Comm. v. Hope Natural Gas*, 320 U.S. 591, 600-03 (1944); *see also Policy and Rules Concerning Rates for Dominant Carriers*, Second Report and Order, 5 FCC Rcd 6786, ¶ 302 & n.398 (1990) (“*LEC Price Cap Order*”).

⁸⁰ National Broadband Plan at 3.

risk. Therefore, the Commission's disbursement system must ensure that investment incentives are promoted and not undermined.

Today, investment in companies that build communications networks that rely in part on universal service funding has already been undermined because of regulatory uncertainty. The Commission has not yet reformed universal service in a comprehensive fashion and has thereby created uncertainty about the sufficiency of any support that it will provide in the future.⁸² Uncertainty drives private investment to other industries because investors need to know that their dollars have a likelihood of generating reasonable profits that are at least as good as the profitability of other types of industries. The national broadband availability goals want to attract private investment to achieve both its availability and adoption policies. The way the Commission can succeed in this effort is to reduce uncertainty, and bring to a quick conclusion a stable universal service program that is both sufficient and explicit.

⁸² The FCC has been studying the issue of comprehensive reform of high cost programs for close to ten years. Comprehensive reform was formally initiated by the Commission over three years ago. See *High-Cost Universal Service Support*, WC Docket No. 05-337, 22 FCC Rcd 20477, 20506 (Fed.-St. Jt. Bd. USF, 2007) (“*Comprehensive USF Reform Recommended Decision*”). See also *High-Cost Universal Service Support; Federal-State Joint Board on Universal Service*, Notice of Proposed Rulemaking, WC Docket No. 05-337; CC Docket No. 96-45, 23 FCC Rcd 1531 (2008) (“*Joint Board Comprehensive USF Recommended Decision NPRM*”); *High-Cost Universal Service Support; Federal-State Joint Board on Universal Service*, Notice of Proposed Rulemaking, WC Docket No. 05-337; CC Docket No. 96-45, 23 FCC Rcd 1467 (2008) (“*Identical Support Rule NPRM*”); *High-Cost Universal Service Support; Federal-State Joint Board on Universal Service*, Notice of Proposed Rulemaking, WC Docket No. 05-337; CC Docket No. 96-45, 23 FCC 1495 (2008) (“*Reverse Auctions NPRM*”)(collectively “*USF Notices*”). These *USF Notices* were based on the *Comprehensive USF Reform Recommended Decision* that itself was based on a number of referrals to the Federal-State Joint Board on Universal Service beginning in 2002. The Commission first indicated its intention to take a global look at the operation of the USF high cost support programs in 2001. *Federal;-State Joint Board on Universal Service*, Fourteenth Report & Order, CC Docket No. 96-45, 16 FCC Rcd 11244, ¶ 169 (2001) (“*Rural Task Force Order*”).

B. The Project-Based Approach Proposed in the National Broadband Plan May Offer Public Interest Benefits.

Grant of recurring support for voice USF has produced enormous benefits for Americans because it has allowed network providers to build out to serve Americans in even remote areas. Voice USF was crafted with a recognition that high cost areas could not be sustained economically without a fair way to distribute the support.⁸³ Telephone companies have effectively achieved much of the universal service mandate.⁸⁴ It is a logical fallacy that, simply because voice networks are universally available, no further USF is needed.⁸⁵ Many telephone companies continue to provide service in remote areas only because of continued USF support.

It is true that eliminating recurring support for voice USF, and replacing it with project-based broadband support is a fundamental change that will seriously challenge current USF recipients' capital structures and business operations. Notwithstanding, a smooth transition to a project-based mechanism can achieve public interest benefits if crafted wisely. As indicated previously, the only way to attract private capital is to create a predictable system that provides a fair opportunity to operate at a profit.⁸⁶ Providing up front assurance of a funding commitment to the life of the project can provide the needed certainty if sufficiency goals are met.

Project-based funding has four potential public interest benefits. First, it can better limit the size of the universal service fund because proposals *and* commitments to provide service can

⁸³ *Federal-State Joint Board on Universal Service*, First Report & Order, 12 FCC Rcd 8776, ¶ 12 (1997) (“*USF First Report & Order*”).

⁸⁴ The number of households that had a telephone available stood at 95.6 percent as of March 2009. Wireline Competition Bureau, Federal Communications Commission, *Telephone Penetration By Income By State (Data through March 2009)*, at 1 (rel. May 2010).

⁸⁵ Thus, the Commission’s conclusion in the *Qwest Further Remand Order* that no funding is necessary once universal service has been achieved is logically deficient. *See* note 46 *supra*.

⁸⁶ If support is eliminated, then COLR obligations and related regulatory requirements must be eliminated at the same time. *See* Section II.A.2., *supra*.

be made during defined time periods.⁸⁷ Second, it can better identify and measure the specific levels of service to be achieved in an established time frame to be provided with the disbursed funds. Third, it can better target disbursement to the specific geographic areas that need support to make broadband service available, rather than relying on a general program based solely on costs. Fourth, it can stabilize universal service funding because it would be based on the uneconomic nature of specific areas, and not be affected by the amount of USF that other areas receive.⁸⁸ If project-based support is ultimately the methodology selected for distributing CAF, then it should be designed with these potential benefits in mind.

C. Providing Support Only for Incremental Construction Will Not Be Sufficient Over Time as Current Networks in High-Cost Areas Face Erosion of Revenue and Loss of Implicit and Explicit Support.

These potential advantages, however, could easily be undermined by failing to properly define the additional investment necessary to provide broadband and voice services to a particular geographic area that would be uneconomic to serve without external support. Existing market economics change over time. The Broadband Assessment Model assumes that the state of the current broadband networks remains static, with incremental support provided over that

⁸⁷ Universal service funding for the schools and libraries program is designed to achieve this type of certainty, although problems with administration have undermined the stability of the E-rate program. General Accountability Office, *Telecommunications: Greater Involvement Needed by FCC in the Management and Oversight of the E-Rate Program*, Rep. No. GAO-05-151 (rel. Feb. 9, 2005). The FCC has begun to take some steps to rectify these issues. See, e.g., *Comprehensive Review of the Universal Service Fund Management, Administration, and Oversight*, Report & Order, WC Docket No. 05-195, 22 FCC Rcd 16372 (2007).

⁸⁸ For instance, current rural telephone company high cost loop support declines every year since it is capped and indexed to the average nationwide loop cost, which means that certain carriers lose support if their average costs are relatively lower than other carriers, whose average loop costs is increasing more rapidly. 47 C.F.R. § 36.603(a).

baseline.⁸⁹ Notwithstanding, the number of customers served in a particular market can decline substantially from year to year, materially moving the baseline.⁹⁰ These same customers may not continue to take services at current rates, or perhaps not at all, and overall population declines are occurring in many areas of rural America.⁹¹ Therefore, today's assumptions about the baseline network and the economic financials applicable to providing broadband, may quickly lead to inaccurate predictions over time.

If an incremental methodology only provides support above the outdated baseline, then there will still be a universal service gap between the existing network and the old baseline. The model, and any support based on that model, must be flexible enough to accommodate these shifts in the baseline. Therefore, the CAF support methodology must specify a standardized way to identify these actual baseline adjustments to more accurately evaluate the incremental cost of providing broadband service to a particular geographic territory.

These problems would be exacerbated if the CAF were to duplicate the existing USF problem where implicit and unstable subsidies continue to be relied upon because of study-area-wide averaging. For years, industry members have known that many non-rural and rural carrier high-cost areas do not enjoy sufficient support from the USF to enable carriers with COLR obligations to fulfill their obligation economically to provide voice service at comparable rates in

⁸⁹ Federal Communications Commission, Broadband Assessment Model, at 6 (provided by CostQuest Associates, rel. Mar. 2010)(“Broadband Assessment Model”); *See also* Broadband Availability Gap at 33.

⁹⁰ *See, e.g., Applications Filed by Frontier Communications Corporation and Verizon Communications Inc. for Assignment or Transfer of Control*, Memorandum Opinion & Order, WC Docket No. 09-95, FCC 10-87, ¶ 56 (rel. May 21, 2010).

⁹¹ *See, e.g., Memorandum from Katie King, Federal Communications Commission*, WC Docket No. 05-337 (Mar. 14, 2008)(inclusion of documents in record submitted by Nebraska Public Service Commission to FCC); General Accounting Office, *Rural Development: Profile of Rural Areas*, Report No. GAO/RCED 93-40FS, at 7 (rel. Apr. 30, 1993).

an area that would otherwise be uneconomic to serve.⁹² In particular for larger carriers, study-area averaging was developed based on the idea that the carriers could pool together low and high-cost areas in order to achieve rates that produce reasonable results for the study area as a whole. This reliance on cross subsidies has not been sustainable for many years, however, because competition in low-cost areas denies COLRs the ability to generate the returns in those areas needed to cover their losses in the high-cost areas. This same “sufficiency” problem exists with respect to funding the high costs of providing broadband services by price cap companies.

The Commission should also take stock of the fact that its current statewide averaging methodology has produced at best only mixed results at the state level. Only about half the states have established high cost funds.⁹³ And even of those states that have high cost funds, many are underfunded and continue to be subject to court challenges and controversies.⁹⁴ This use of state-wide averaging should not be duplicated for the CAF because it will not provide sufficient support to achieve the Plan’s broadband availability goals.

The root cause of the current system’s inadequacy is not difficult to identify. Indeed, the Joint Board itself accurately identified the problem in its Recommended Decision:

[T]he current high-cost universal service mechanisms are dated and need to be modernized in several ways. New entrants often compete only in the densely populated areas that have relatively low costs. This makes it much more difficult for incumbent LECs to charge the same rates in both their low-cost, densely populated areas and their higher cost remote areas. None of the existing support mechanisms adequately recognizes this phenomenon,

⁹² See note 46, *supra*.

⁹³ General Accounting Office, *Federal and State Universal Service Programs and Challenges to Funding*, GAO 02-187, Appendix III (Feb. 2002).

⁹⁴ See also Kansas Corporation Commission’s Petition for Declaratory Ruling Affirming the Lawfulness of Its USF Certification Procedure, WC Docket No. 08-55 (filed Apr. 16, 2008). Brief of FCC as Amici Curiae, *Vonage Holdings Corp. v. Nebraska Public Service Commission*, No. 08-1764 (8th Cir. filed Aug. 5, 2008).

which generally occurs on a smaller scale than the typical telephone exchange.⁹⁵

Simply stated, the existing high-cost mechanism does not adequately reflect the realities of today's competitive telecommunications market.

Given these realities, it is essential that the CAF not perpetuate study-area and state-averaging of high and low cost areas. Eliminating these weaknesses will help to create a CAF design that is pro-competitive, lead to sufficient and explicit support, and achieve availability goals.

IV. THE COMMISSION SHOULD NOT IMMEDIATELY ELIMINATE INTERSTATE ACCESS SUPPORT.

The NPRM seeks comment on the National Broadband Plan's proposal to eliminate IAS, and to transfer the saved money to the CAF.⁹⁶ The *NPRM* seeks comment on the appropriate time line for accomplishing such elimination.⁹⁷ CenturyLink appreciates the need to reprogram existing support and retarget it to support broadband. However, the current USF system is an interdependent program that, together with intercarrier compensation, provides substantial support for rural networks that cannot be ignored during the transition to the CAF. All of these interrelated mechanisms must be restructured as a whole to ensure that support continues for building out rural networks that are capable of providing broadband and voice services. Therefore, CenturyLink opposes elimination of IAS until the CAF is fully implemented.

⁹⁵ *Comprehensive USF Reform Recommended Decision*, ¶ 22.

⁹⁶ *Notices*, ¶ 57.

⁹⁷ *Id.*, ¶ 58.

A. IAS is Intended to Replace Lost Interstate Access Revenues, a Circumstance that Continues to Justify IAS Disbursements Today.

Pursuant to Section 254(e) of the Act, the FCC eliminated the implicit subsidies that ILECs were recovering in interstate access charges by creating two separate access replacement universal service funds: IAS for price cap carriers⁹⁸ and Interstate Common Line Support (“ICLS”) for rate-of-return carriers.⁹⁹ Although these two funds initially increased the size of the overall fund, the Act required their creation.¹⁰⁰ Since implementation, the size of these access replacement funds has remained relatively stable (other than from amounts distributed to CETCs under the identical support rule).¹⁰¹ The Act’s requirement that USF be “explicit” continues to be in force, and hence the legal reason for IAS has not disappeared. Therefore, it would be inconsistent with Section 254 to eliminate IAS.

B. IAS Support Should Be Treated Similarly to ICLS, Since Both Were Created for the Same Purpose.

Although created at separate times and formulated differently, both IAS and ICLS were created to eliminate subsidies as indicated previously. IAS was adopted to provide explicit funding where the price cap carrier was unable to recover interstate costs directly from customers because the price cap carrier had reached the limit on subscriber line charges.¹⁰² Although IAS was created pursuant to a settlement agreement involving price cap carriers and long distance

⁹⁸ 47 C.F.R. §§ 54.800, *et seq.*

⁹⁹ *Id.*, §§ 54.901, *et seq.*

¹⁰⁰ *Access Charge Reform*, Sixth Report and Order, 15 FCC Rcd 12962, ¶¶ 21-22, 185 (2000) (“*CALLS Order*”)(price caps); *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, Second Report & Order, 16 FCC Rcd 19613, ¶ 128 (2001)(“*MAG Order*”)(rate of return).

¹⁰¹ See Comments of Independent Telephone & Telecommunications Alliance, WC Docket No. 05-337, at 9-13 (May 31, 2007).

¹⁰² *CALLS Order*, ¶ 195.

carriers, it was created as a universal service mechanism for price cap ILECs in exchange for reducing access charges. The fact that the fund was created by settlement, rather than through cost showings required of ILEC recipients of ICLS, the Commission recognized that the two separate funds served the same purpose. There is no factual basis for now eliminating this support, which continues today.

The FCC cannot immediately eliminate the existing IAS support and transition this support to the CAF. The existing IAS support mechanism provides critical support in rural high cost areas, just as the ICLS support mechanism does. It is these rural high cost areas that need support to provide whatever services they are requested to provide, whether it be voice, broadband or both. Providers have used this legacy support to continue to upgrade their existing networks and by doing so also be better positioned to provide broadband services. The Balhoff and Rowe Texas Study provided exchange level financial results that showed that without Universal Service support the overall company-wide return on investment was negative and over 75 percent of the exchanges experienced a negative return on investment.¹⁰³ Without critical federal and state support these targeted high cost areas could not have continued to invest in the network and begin to make broadband services available. These areas will continue to need legacy support mechanisms for the existing network infrastructure, as well as needing support to implement broadband service.

The Commission recognized in the NPRM that ICLS payments should be maintained indefinitely, presumably because of the continuing need to support access services for rural ILECs receiving ICLS.¹⁰⁴ This is a wise policy result given the continuing need for access

¹⁰³ See note 12, *supra*.

¹⁰⁴ *Notices*, ¶ 56.

support. Because the two separate funds serve the same purpose, there is no policy reason justifying a different treatment of the two funds. Discriminatory treatment of two similar mechanisms without a factual basis to do so would be unlawful.¹⁰⁵

C. Eliminating IAS Immediately Will Undermine the Goal of Delivering Broadband Because Support is Used to Build Networks that Deploy Broadband Services.

IAS funding provides support to price cap carriers to build networks in rural and high cost areas that serve as the basis for providing high-speed broadband service. Those funds have been used by legacy Embarq properties that is an IAS recipient to build and maintain the network in its highest cost exchanges.

If IAS funding is terminated, inevitably the Commission risks delaying, if not ending, further network infrastructure development to provide broadband. Although the National Broadband Plan is seeking to create a CAF that would specifically focus on delivering broadband to areas that cannot economically support broadband service, it should not be created by eliminating support that is already serving that purpose. Not only would such a decision be inefficient because it would add administrative costs to making new USF decisions, it risks reallocating USF needed to build broadband infrastructure from one geographic area to another without reliable analysis or justification. Therefore, IAS funding should not be eliminated as suggested in the *NPRM*.

¹⁰⁵ *Compare National Cable & Telecomms. Ass'n v. Brand X Internet Servs.*, 545 U.S. 967, 1000 (2005)(agency must justify any decision to treat services dissimilarly to avoid arbitrary and capricious decisionmaking).

D. In Any Event, the Commission Should Defer Elimination of IAS Over a Reasonable Period of Time and not until the CAF is Implemented.

If the FCC nevertheless decides to eliminate IAS, it should do so only by phasing out such support over a reasonable period of time. A reasonable phase out of five years would be required to allow carriers to adjust to the different amount of support and to reallocate resources. The Commission has recognized the need for reasonable transitions to adjust to changing rate levels.¹⁰⁶

In addition to a transition, the phase out should not begin until the permanent CAF is established and begins to distribute funding. Establishing the CAF will take some time, particularly one dependent on a new economic model. It would be an unwise administrative decision to create an immediate reduction in funding used to build critical broadband-capable networks, and then ramping up funding once the model is created. Such a financial see-saw will lead to customer confusion because of significant swings in rates, make USF funding more difficult to achieve, and make it more difficult for recipients to obtain stable and reliable financing to achieve the National Broadband Plan's private investment goals. The Commission can avoid these deleterious effects by timing the start of elimination of IAS with the beginning of the new CAF, stabilizing both USF revenues and contribution factors.¹⁰⁷

¹⁰⁶ *USF Ninth Report & Order*, ¶ 88 (non-rural high cost loop support). *See also* National Broadband Plan at 148 (intercarrier compensation).

¹⁰⁷ Another critical element of stabilizing rates would be to reform the USF contribution mechanism so that it would be more stable than at present by either basing contribution on telephone numbers or a broader base of revenues. *See* CenturyLink NBP # 19 Comments at 10-14.

V. THE FCC SHOULD IMMEDIATELY BEGIN PHASING OUT FUNDS PROVIDED TO COMPETITIVE ELIGIBLE TELECOMMUNICATIONS CARRIERS OVER A FIVE YEAR PERIOD.

The *NPRM* also seeks comment on the National Broadband Plan's proposal to eliminate CETC support, and reprogram the funds to support broadband.¹⁰⁸ The *NPRM* also indicates that the Commission plans to clarify how elimination of CETC support will be implemented to fulfill the condition contained in the Sprint and Verizon Wireless Mergers.¹⁰⁹ CenturyLink supports these actions and urges prompt adoption.

The FCC should eliminate the identical support rule, which has been endorsed by virtually all policymakers.¹¹⁰ There are significant costs associated with the current identical support regime, but there is no enforceable link between support and investment or the provision of service. Basing support on the same factors as those applicable to the ILEC would be completely consistent with competitive neutrality, and failing to do so sends the wrong economic signals to investors and markets. ILEC USF is based on the expenses and investment already incurred—including COLR obligations not imposed on wireless CETCs. Given that there are no effective obligations to build networks or provide service to unserved consumers, wireless competitive ETC support is effectively pure incremental revenue.¹¹¹ Rather than being

¹⁰⁸ *Notices*, ¶ 60.

¹⁰⁹ *Id.*, ¶ 59.

¹¹⁰ Indeed, the *Identical Support Rule NPRM* achieved unanimous support from the FCC. Commissioners, even though other *Notices* at that time stirred far more controversy among the Federal-State Joint Board and Federal Communications commissioners voting on these matters to date.

¹¹¹ Notwithstanding, CenturyLink recognizes that the Commission recently heavily implied that wireless support has impacted universal service in Puerto Rico. *High-Cost Universal Service Support*, Order & Notice of Proposed Rulemaking, WC Docket No. 05-337, FCC 10-57, ¶ 31 (rel. Apr. 16, 2010), *pet. for recon. pending*. Any such possible conclusion that wireless support has increased subscription rates is a *post hoc ergo propter hoc* logical fallacy since the Commission has never established a link between wireless USF and increased universal service.

competitively neutral, the identical support rule simply gives each carrier the same amount of money, regardless of their differing costs and obligations.

Moreover, there is absolutely no reason for permitting CETCs to receive access charge replacement support. Wireless CETCs never levied access charges in the first place.¹¹² In addition, no Congressional mandate ever required removal of implicit subsidies from CETC rates, the rationale for creating the access replacement funds.¹¹³ As such, competitive CETCs are not situated similarly to an ILEC. CenturyLink believes that the Commission's tentative conclusion in an earlier rulemaking, that competitive CETCs should no longer receive IAS and ICLS, is correct and that the removal of such support should be applied to mobile competitive CETCs as soon as possible.¹¹⁴ The FCC could significantly reduce the amount of universal service dollars needed in the fund through this one change alone.

A. Existing Payments to CETCs Should Be Immediately Eliminated by Phasing Out Payments Over a Five-year Period.

CenturyLink agrees with the proposal in the NPRM to eliminate USF for CETCs under the identical support rule, freeze existing amounts by total dollar value in each state, and then phase-out such support over a five-year period. The Commission has already determined that CETC payments be frozen on an interim basis and has implemented this temporary solution to end the explosive growth in CETC payments.¹¹⁵ This freeze should be made permanent.

¹¹² See, e.g., *Petitions of Sprint PCS and AT&T Corp., For Declaratory Ruling Regarding CMRS Access Charges*, 17 FCC Rcd 13192, 13196, ¶ 9 (2002), *pet. for rev. dismissed*, *AT&T Corp. v. FCC*, 349 F.3d 692 (2003).

¹¹³ See note 97 *supra*. *MAG Order*, ¶ 130.

¹¹⁴ *Identical Support Rule NPRM*, ¶ 23.

¹¹⁵ *CETC Freeze Order*, ¶ 1.

The Federal-State Joint Board has previously sought comment on a whether CETC existing payments should be phased out over a five-year period.¹¹⁶ Such a phase out would be equitable to wireless carriers and give them a transition to accommodate the change. There is no justification for furthering this current windfall that is only funding duplicate networks, not universal service.¹¹⁷ Such a phase out would free significant funds for an interim broadband program since current CETC payments total about \$1.4 billion today.¹¹⁸

B. The FCC Should Immediately Implement Settlements Reached with Verizon Wireless to Reduce CETC Payments.

In 2008, Verizon Wireless voluntarily committed to eliminating the universal support that its newly acquired subsidiaries had been receiving prior to the merger with ALLTEL.¹¹⁹ Sprint made a similar commitment when it acquired Clearwire.¹²⁰ Since that time, there have been continuing issues about how best to implement that settlement.¹²¹ There is no justification any longer to delay fully implementing these voluntary commitments. Therefore, these amounts should be made available immediately to promote broadband support.¹²²

¹¹⁶ *Comprehensive USF Reform Recommended Decision*, ¶ 74.

¹¹⁷ *Id.*, ¶ 35.

¹¹⁸ National Broadband Plan at 147.

¹¹⁹ *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 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 & Order & Declaratory Ruling, 23 FCC Rcd 17444, ¶¶ 192–97 (2008).

¹²⁰ *Applications of Sprint Nextel Corporation and Clearwire Corporation for Consent to Transfer Control of Licenses, Leases and Authorizations*, WT Docket No. 08-94, Memorandum Opinion & Order & Declaratory Ruling, 23 FCC Rcd 17570, ¶ 108 (2008).

¹²¹ *See, e.g.*, Letter from David LaFuria, Counsel for Alliance of Rural CMRS Carriers to Marlene H. Dortch, WC Docket No. 08-95 (Jun. 3, 2010).

¹²² The funds received could be distributed on an interim basis as described in Section VII., *infra*.

**VI. THE NEW BROADBAND ASSESSMENT MODEL IS NOT DEFINED
SUFFICIENTLY TO PROVIDE DETAILED COMMENTS AT THIS TIME.**

**A. The Commission Must Settle on The Universal Service Mechanism and Costs
to Be Funded Before Soliciting Comments on a Model.**

The Commission has asked for comment concerning the National Broadband Plan model as part of its NPRM in this proceeding.¹²³ The model is touted as an economic model, not simply a cost model like the HCPM used to distribute non-rural high cost loop support.¹²⁴ CenturyLink applauds the Commission for its significant effort to develop a model that could serve as a way to estimate the size of the CAF. However, the model is based on what the FCC staff has described as a lack of quality data, and contains a number of assumptions about what it costs to deploy networks that can provide a minimum of 4 /1 Mbps service.¹²⁵

The model was developed to answer a single question: what is the support price tag to ensure broadband to all Americans?¹²⁶ The Broadband Availability Gap correctly calls attention to the risks and limitations of the modeled results. CenturyLink believes that the Commission is premature in seeking comments outside the single answer derived from the modeled results. Before expanding the model, the Commission needs to first determine the way the program is expected to operate, the geographic areas that will be the basis of distribution, the desired service and quality metrics, broadband speed requirements, and the expected deployment schedule for broadband. Only after these parameters are determined can the FCC realistically develop a model that can produce reliable results upon which deployment action can be based. It is for this

¹²³ *Notices*, ¶¶ 14, *et seq.*

¹²⁴ *Tenth Report & Order.*

¹²⁵ *E.g.*, Broadband Availability Gap at 1, 17. Also see note 54, *supra*, regarding the difficulty with providing 1 Mbps upstream on a network already providing some speed of broadband service.

¹²⁶ *Id.* at 1.

reason that CenturyLink has indicated at length the way it envisions an effective CAF to operate that will meet the Commission's goals.¹²⁷

CenturyLink also finds the model to be too narrow to allow development of costs that would encourage the necessary investment to expand broadband. If the CAF is expected to replace the current high-cost support, the FCC must consider the total costs of existing networks in order to accurately predict the incremental costs associated with upgrading the network to provide broadband at the mandated speed. Without considering these actual costs, the Commission is not truly defining incremental costs of bringing broadband at the mandated speeds to an area.

B. Parties Cannot Usefully Comment on the Broadband Assessment Model without Having Direct Access to the Model.

Notwithstanding the foregoing, the next significant issue with evaluating the model at this time is that the model itself has not been made available to the public. Although the staff has conducted a workshop and has otherwise made itself freely available to interested parties to answer questions concerning the model, interested parties still only have general written documentation about the assumptions and methodology used to develop the model. A useful, granular analysis of the model can only take place if interested parties are provided direct access to the model and permitted to test the system. CenturyLink understands that there are a huge number of data tables that feed input into the model's formulae. The model itself contains complicated interactions and relational instructions. A real understanding about the way the model functions can only occur if interested parties are permitted to test these data and

¹²⁷ See Section II., *supra*.

relationships. Direct access will permit a party to identify any flaws in the model, to suggest ways to improve it, and to ensure that the assumptions match those found in the real world.

CenturyLink appreciates the difficulties of allowing access to a model that only runs on a main frame and contains a number of software licensing and proprietary issues. Nevertheless, these same types of problems existed, although perhaps on a smaller scale, with the HCPM and other competing models proposed at the time the FCC explored use of a model for distributing high cost loop support. The FCC was able to figure out how to provide full access to the HCPM in order to obtain timely and instructive comment.¹²⁸ Prior to the time that this full access is afforded, however, there is simply no way to provide final comments on the model.

C. The Model As Formulated Cannot Serve as the Basis for the CAF.

Notwithstanding the foregoing, there are a number of general issues that are apparent, even with the limited access provided to the model to date.

1. Providers are Unfairly Treated in Different Manners, Undermining the Usefulness of the Model.

The FCC's implementation to date of the USF program has been based on competitive neutrality.¹²⁹ Although identical treatment is not required to achieve competitive neutrality, the fundamental policy decisions used to distribute USF support must be the same. The model, to the extent that its workings are known, demonstrates several areas in which wireline and wireless costs are calculated based on fundamentally different market and deployment assumptions, without explanation or justification.

¹²⁸ See, e.g., Public Notice, *Common Carrier Bureau Announces Release of HCPM Version 2.0*, CC Docket No. 96-45, 13 FCC Rcd 75 (Com. Car. Bur., 1997).

¹²⁹ *USF First Report & Order*, ¶ 47.

For instance, the staff's decision is flawed when it assumes that all new wireless broadband subscriptions will also lead to a new voice service subscription from the same customer.¹³⁰ Wireline broadband providers are expected to receive no incremental voice customers from a new broadband subscription.¹³¹ It will be imperative that the measurement and cost of broadband performance across all technologies be treated in the same manner. Until the staff releases its paper regarding broadband performance, it remains unclear exactly what the network requirements for any technology actually is. These disparate decisions do not make any sense in terms of how the market actually works, and certainly are not explained in the staff description of the model.

Such discriminatory treatment of network costs of different types of providers fundamentally undermines the usefulness of the model. FCC staff should justify the decisions it has made and create a model that makes valid apples to apples comparison based on the same market and deployment principles.

2. The Model Appears to Underestimate the Expected Cost of Providing Broadband to Rural America.

Another important defect appears to be that the incremental \$23.5 billion of required capital expenditures likely underestimates the cost of providing broadband to unserved areas for three reasons.

First, the number of unserved customers appears to be understated. As the staff states, it has taken at face value the cable TV provider representations that all the housing units located in a franchise area are broadband capable.¹³² From CenturyLink's experience, customers at the

¹³⁰ Broadband Availability Gap at 36.

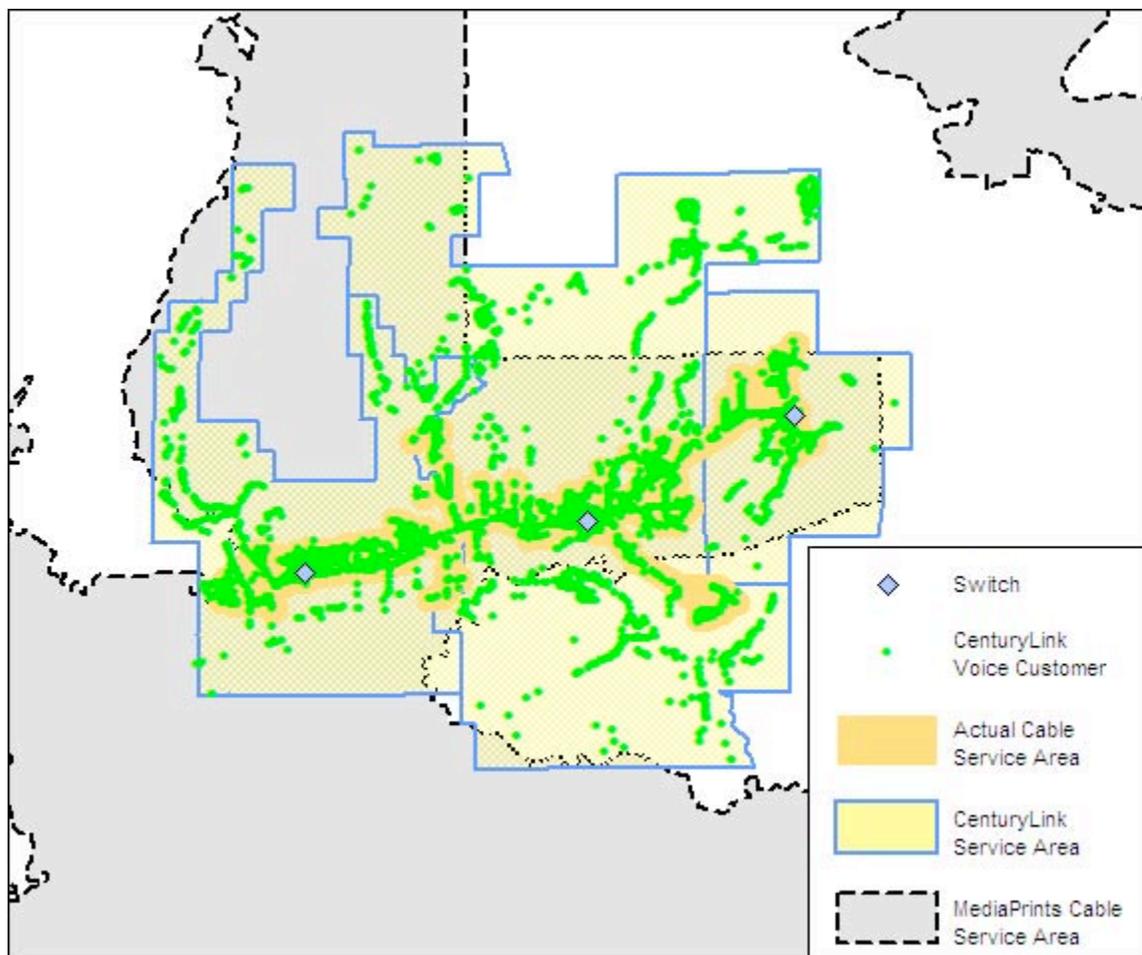
¹³¹ *Id.*

¹³² *Id.* at 21-22.

edges of franchise areas often cannot receive broadband either because their particular street has not been passed with cable TV infrastructure or customers may not have coaxial cable drops to their housing units in order to receive service. Serving these additional households will cost money and such housing units should be considered unserved. Notwithstanding, the model assumes that these housing units are capable of receiving broadband service. The model's analysis must be honed to include these effectively unserved households as part of the costs of meeting national broadband availability goals.

The MediaPrints data set used by the FCC staff contains geographic information that represents franchise boundaries for cable operators throughout the United States. These boundaries contain information specific to cable operators. The MediaPrints data is only as good as the information provided by individual cable operators. As such, there are many instances where the franchise boundaries are not placed in accordance with actual service capabilities. The only genuine conclusion drawn by looking at the franchise boundaries is that cable companies operate within the franchise footprint but not to the entire area. The map below demonstrates the problem. The grey boundary is the cable franchise area as defined by MediaPrints, the yellow area indicates the ILEC wire center boundaries. Within the ILEC areas an orange boundary identifies areas where ILEC customers have ported their number to or from a cable operator and green dots represent current ILEC voice customers. From this picture it is obvious that there are large areas outside the orange cable serving areas with ILEC customers that do not have access to broadband service from the cable operator, since the voice customers porting to cable must have broadband services in order to receive cable-provided voice services. The MediaPrints data grossly over estimates the area where cable provides broadband service. This overestimation

causes the National Broadband Plan to consider all the green dots within the grey area as "served by cable" when in fact, they are not.¹³³



Second, the cost development for fixed wireless access is questionable at best and highly speculative at worst. A basic tenet of a total network model is that the modeled technology must be commercially available. The Broadband Availability Gap acknowledges that this is a basic tenet of the study.¹³⁴ Despite this tenet, the fixed wireless access solution is no where close to being commercially deployable and rests entirely on an announced 4G network build-out that

¹³³ The fact that cable operators do not serve rural areas that are typically covered by ILECs also dictates that the FCC should reject any suggestion that USF be terminated if 75 percent of an ILEC's territory is served by a competitor. *See* Comments of CenturyLink, GN Docket No. 09-51, RM-11584, 18 (Jan. 7, 2010).

¹³⁴ Broadband Availability Gap at 2.

may or may not include unserved areas or provision of reliable service at the mandated speeds. The wireless build-out plan that the FCC staff appeared to rely on came from comments made in a CITI Broadband Report, which quoted an article in The Tech Herald, which in turn quoted a Verizon regional president who said “The plan is still 30 markets and 100 million people by next year,” and “...the goal is to have LTE across our entire footprint by 2013.”¹³⁵ This vague announcement to the financial markets is a far cry from establishing an achievable, deployed network. In addition, wireless carriers have definable cost constraints in low density areas, which is evidenced today by the fact that many rural customers must find a hill top location or stand in their driveway to receive or make wireless calls. Some major wireless carriers have recently backed off their claims of unlimited wireless data and are moving customers to tiered, usage-based pricing, opening substantial questions concerning the capacity and achievable speed of 4G networks. The model makes expansive assumptions about the availability of advanced wireless technologies in these same rural areas. In addition, the NOI seeks comment on the need to take into account the propagation characteristics of wireless in order fully capture the costs for the wireless solution.¹³⁶ CenturyLink submits that once more rigor is exercised surrounding the propagation and capacity characteristics of wireless cell sites the cost results will be higher.

Third, the Broadband Availability Gap did not, by design, attempt to quantify the costs of the existing network that was actually built, continues to be maintained, is continually being upgraded, and is required to provide broadband services. These actual existing and future costs should be recognized in order to determine the true total amount that is required to bring

¹³⁵ R. Atkinson & I. Schultz, *Broadband in America: Where it is and Where it is Going (According to Broadband Services Providers)*, at 57 (Columbia Institute for Tele-Information; 2009), available at <http://www4.gsb.columbia.edu/citi/>.

¹³⁶ *Notices*, ¶ 28.

broadband to all Americans. To ignore this baseline and only estimate the incremental costs of bringing broadband at the mandate speeds to a particular area understates the total.

Fourth, middle-mile costs appear to be underestimated. There are several assumptions used in the model that indicate middle-mile costs are low. The model assumes that the total cost of the middle-mile investment is allocated one-third for voice services, one-third for wholesale and enterprise services, and one-third for consumer broadband services. The assumption that one-third of the costs will be for wholesale and enterprise services is overly optimistic. These exchanges and central offices that do not yet have connections for broadband services are in very rural unserved areas of the country. There is very little or no wholesale or enterprise services being currently provided in those rural locations. The allocation of the middle-mile investment should be closer to one-half voice services and one-half broadband services.

CenturyLink agrees with the statement in the Broadband Availability Gap that in exchanges where fiber is not available, the following reasons typically exist for lack of fiber deployment. These same statements are reasons why the middle-mile investment to reach these exchanges will be much greater than average.

- The exchange is an island exchange (i.e., isolated from other exchanges in the LEC footprint) or part of a small, isolated grouping of exchanges. CenturyLink has more than a third of its existing exchanges that fall into this “island exchange” category.
- Fewer than 1,000 access lines fall within the exchange. Using 2009 census data projections, 59 percent of CenturyLink’s exchanges have less than 1,000 occupied housing units per exchange.
- The closest point of traffic aggregation is more than 50 miles away from a central office. More than half of CenturyLink’s exchanges are more than 50 miles from a CenturyLink point of aggregation.

The combination of a small customer base and long transport distances results in very expensive per unit costs and can make it impossible to build an economic case for fiber middle-mile deployment. These instances definitely need support funds to provide broadband services

to these unserved customers. However, CenturyLink believes the total investment needed for middle-mile fiber may be significantly underestimated based upon review of the available data.

Fifth, the cross-subsidization that takes place within the modeled county results are a concern in terms of both the influence it has on the final gap results and the selection of a county territory. The staff states “the highest-gap 250,000 housing units account for \$13.4 billion of the total \$23.5 billion investment gap.”¹³⁷ This statement is misleading because \$13.4 billion is not appropriately compared to the \$23.5 billion overall gap figure. Census block gap dollars for unserved areas can be both positive (economic) or negative (uneconomic). When aggregated to the county level, the uneconomic housing units within the county are offset by the economic housing units in the same county to obtain the \$23.5 billion. On the other hand, when determining the gap associated with most expensive housing units (\$13.4 billion), the analysis was performed at the census block level with no attempt to reprocess the figures at the county level. A \$13.4 billion figure based on aggregation at the county level (which includes offsets for economic housing units) results in 1.1 million housing units, as opposed to the 250,000 figure cited by staff. This implies that the level of cross-subsidization may be high. Moreover, since most counties are currently served by more than one provider, the division of who serves economic and uneconomic housing units becomes critical in evaluating the possibility that either provider would attempt to build to serve the entire county.

The model also identifies over 650,000 lines that are currently unserved but, since a larger portion of the county has been determined to be economic, there would be no dollars available from the CAF for those 650,000 lines. This further demonstrates that the data lack

¹³⁷ Broadband Availability Gap at 5.

sufficient granularity, which would require adjustments if county-level aggregation were deployed.

The degree to which the model results understate the Broadband Availability Gap is not known. However, the answer to this question is critical since, even a 10 percent understatement equates to billions of dollars of needed investment. An understatement of the gap estimate of course will risk insufficient funding to achieve the Commission's broadband goals.

D. The Model Should Carefully Match Revenues to Modeled Network Capabilities and Cost.

An accurate model that develops costs for supported services should only take into account the expected revenue from the supported broadband and voice services, but not from any services that cannot be provided over the network. The Commission has never before effectively mandated that carriers deploy multiple services over a USF-supported network. As important, the Commission must determine an affordable rate for these services.

1. Revenues from voice and broadband services should be included in the economic model.

It is of course reasonable to expect that recipients of universal service be required to account for expected revenues from supported services because receipt of support would be dependent on providing such supported services. The Commission can also include an estimate of broadband revenues, adjusted for the present value of any expected ramp-up in broadband take rates and pricing. Such ramp-up pricing and take rates should be carefully considered based on the experience of carriers in deploying broadband for the first time in other rural markets.¹³⁸

¹³⁸ Urban pricing and take rates will differ based on market and demographic characteristics, such as the existence of competition, average age of households, average income levels, and other factors. The Broadband Availability Gap indicates that it takes such demographic factors into account, but given that lack of transparency in the model, it is not possible to evaluate whether such inclusion would be accurate. *Id.* at 45.

It is reasonable for the FCC to take into account that pricing will often occur in a bundle, which will decrease the amount of revenues from each of the included services in the bundle.¹³⁹

Because the lower pricing will benefit subscribers and increase adoption rates, the FCC's disbursement policies should include such lowered pricing.

2. The model must also factor in the level of any intercarrier compensation used to support the network that will provide broadband and voice services.

Given that broadband and voice USF, as voice-only USF does now, can be expected to support in large part the capital costs of constructing a network capable of delivering voice and broadband services, other revenues derived from the provision of such services, such as subscriber line charges, should also be considered as part of the economic model. The Project-based funding should recognize any changes, either decreases or increases, associated with intercarrier compensation that today supports universal service.

3. The ability to market additional services will vary significantly from market to market and therefore should not be included.

Providing broadband services at the mandated speed and voice services are part of the obligation associated when a carrier accepts USF support. Because no other services are part of the obligation, it would be inappropriate and distortive to include other theoretical services in this mix of risks and rewards. Furthermore, the ability to offer other services on a broadband-capable line will vary significantly from market to market. Such deployment depends on considerations that go far beyond a particular geographic area that would be targeted to deploy broadband.

¹³⁹ The staff recognizes that sales of products in bundles will impact the level of revenues to be projected. *Id.* at 49. It is unknown whether the staff's assumptions about bundled pricing are realistic because it does not have the data relied on by the staff in reaching its conclusion.

Considering other possible revenues in determining broadband USF support in essence would also force the recipient to cross-subsidize its regulated telecommunications offerings, such as for voice or broadband service provided in a rural area, with competitive revenues. This unusual approach would actually be the opposite of the traditional regulatory policy: preventing regulated revenue from cross-subsidizing unregulated products and services.¹⁴⁰ This result should not be achieved for four reasons.

First, the FCC has never before required that a carrier cross-subsidize regulated services with unregulated revenues, and the staff descriptions of the model does not explain why it should establish such a policy now. For instance, low end adjustments in price cap regulations were always permitted based on revenues received from regulated telecommunications services, not revenues from unregulated products.¹⁴¹ Second, such a cross-subsidy is economically unsustainable and therefore makes no sense. The market dictates the price of competitive products and services. Cross-subsidizing the price of a regulated service would therefore not affect the price of the unregulated product or service, but would simply decrease revenues. Artificially allocating funds for regulated products would make uneconomic the unregulated service and eventually drive the carrier out of the market for the unregulated product. Such a result would be bad public policy. The FCC has already stated that such cross subsidies are uneconomic in another area and declared them to be inappropriate public policy.¹⁴² Third, because the cross-subsidy would be uneconomic, the ability to actually recover those revenues would be ultimately unsuccessful, and therefore unworkable. Fourth, inclusion of additional

¹⁴⁰ See, e.g., *Amendment of Section 64.702 of the Commission's Rules and Regulations (Computer II)*, 77 FCC 2d 384, ¶ 221 (1980) (“*Computer II*”).

¹⁴¹ 47 C.F.R. § 61.45(d)(vii).

¹⁴² *USF First Report & Order*, ¶ 17.

revenues must also include related costs, the net result of which could actually lead to negative results if the additional services are not profitable in a particular geographic areas. For all of these reasons, the FCC should refuse to consider other revenues in its economic model.

VII. PENDING ADOPTION OF A PERMANENT CAF, THE COMMISSION SHOULD CREATE A FAST TRACK PROGRAM TO SUPPORT BROADBAND DEVELOPMENT IN THE INTERIM.

The Commission can take an important interim step to increase broadband availability by utilizing the money recovered from CETC programs to begin distributing money for broadband infrastructure development.¹⁴³ In order for such a quick-start, interim step to work, it would need to be simple in concept and quick to implement. One additional characteristic of the interim program should be that it quickly achieve broadband goals with little opportunity for controversy or misspending. Otherwise, the FCC might as well wait until the full program is developed and implemented.¹⁴⁴

One example of such a simple program would be to focus on rural areas served by price cap companies. The Commission recognized in the National Broadband Plan that one of the most significantly underfunded regions of the country were rural areas of price cap companies.¹⁴⁵ As demonstrated previously in these comments, such areas are improperly cross-subsidized by

¹⁴³ *Notices*, ¶ 43.

¹⁴⁴ The NOI asks whether a “competitive procurement auction” or “reverse auction” should be established as a “mechanistic” means of awarding broadband support before a permanent economic model is established. *Notices*, ¶¶ 44-45. There are serious flaws in any reverse auction system for awarding USF. While a reverse auction can keep disbursements low, it is not designed to award sufficient money that is necessary to deploy broadband, the main goal of the National Broadband Plan. These flaws are also true to a certain extent with the comments of 71 Economists which are attached to the *Notices*. *Id.*, Appendix B (“71 Economists”). Notwithstanding, a competitive process, including using some of the proposals in the 71 Economist procurement auction proposal, can form the basis of an appropriate selection system if it rectifies the problems with reverse auctions, provides sufficient funding for broadband service, and protects existing customers and network investment.

¹⁴⁵ National Broadband Plan at 141.

the urban areas of a study area.¹⁴⁶ Broadband penetration in these regions have fallen far behind even rural telephone companies because of the FCC's failure to fund the carriers that serve these rural areas. Therefore, during the interim the Commission could begin a small program to disburse broadband USF to the price cap carriers with the highest density of unserved households. Identification of these high density unserved households could be derived from the FCC's Form 477 database, and verified by the carriers submitting the data. The FCC could publish a list of the top wire centers with the highest percentage of unserved households. Carriers would receive a specific dollar amount per line in a target wire center based on available support dollars in exchange for a commitment to deploy the mandated level of service within a specified period of time. If the carrier did not want to participate, it would not be required to do so.

Another example of such a quick-start program would be to support upgrades to existing older analog switches that are not now ready to accept DSL services because they are older technology. Upgrading these switches has been delayed because there is not an economic case to support providing DSL in areas served by these switches. By providing support to carriers to install IP-capable switches, the FCC could not only quickly expand network development to more widely deploy broadband, but also be much further along in promoting the future transition to IP networks.¹⁴⁷ Simple interim solutions would truly be a jump start to the CAF with demonstrable achievements.

¹⁴⁶ See Section III.C. *supra*.

¹⁴⁷ National Broadband Plan at 59.

VIII. CONCLUSION

CenturyLink applauds the Commission's efforts to move forward with fundamental universal service and intercarrier compensation reform to implement the goals of the National Broadband Plan. Many of the proposals made in the Plan can be expected to achieve those goals. Notwithstanding, the Commission should adopt a framework along the lines suggested in these comments, in order to more finely tune its efforts. The FCC should promptly phase out CETC support, but should not eliminate IAS, particularly not before fully replacing existing high cost USF with broadband and voice USF support. CenturyLink has concerns with the model, although final comments cannot be provided unless CenturyLink receives access to the model. If the proposed changes can be made, the Commission has a real hope of "ensure[ing] that all people of the United States have access to broadband capability. . . ." ¹⁴⁸

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July 12, 2010

¹⁴⁸ ARRA, § 6001(k)(2).