

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

REPLY COMMENTS OF FRONTIER COMMUNICATIONS CORPORATION

Frontier Communications Corporations (“Frontier”) hereby submits the following comments in reply to the Federal Communications Commission’s (“Commission”) request for comment on its Notice of Inquiry and Notice of Proposed Rulemaking addressing existing high-cost universal service support and the development of the Connect America Fund (“CAF”).¹

INTRODUCTION

Frontier shares the FCC’s goal of making broadband available to everyone, everywhere and supports efforts to reform the Universal Service Fund (“USF”) to help fund high-speed Internet connections to unserved and underserved communities, particularly those high-cost areas where it is uneconomical for private investment alone. Frontier has already made significant progress toward this goal. Frontier is the largest provider of communications services

¹ *Connect America Fund; A National Broadband Plan for our Future; High Cost Universal Service Support*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 05-337, respectively, Notice of Inquiry and Notice of Proposed Rulemaking (rel. April 21, 2010)(“*NOI and NPRM*”).

to rural America and has a best-in-class track record regarding broadband deployment in our nation's rural areas.

Even though the average home density in Frontier's legacy territories is just 13 homes per square mile, Frontier's high-speed broadband service is available to 92 percent of the homes and businesses in these territories. In addition, Frontier distributed more than 90,000 free PCs and Netbooks through various marketing programs to address a significant hurdle to broadband adoption in its customer base—the lack of a home computer. This impressive build out and the broadband adoption programs were privately funded by Frontier's shareholders and bondholders.

Frontier recently completed a transformational transaction with Verizon through which it added millions of new customers in rural America. Frontier now offers its full suite of communications services, including voice, high-speed Internet, wireless Internet data access, satellite video and fiber-to-the-home services to more than 4 million residential and business customers in 27 states. As with its legacy territory build out, Frontier will aggressively expand broadband service to these new customers. In fact, Frontier has formally committed to extending broadband service of 3 Mbps download speed to at least 85 percent of all homes and businesses in its expanded territory by 2013. Additionally, and consistent with the goals of the National Broadband Plan, Frontier has committed to bring download speeds of 4 Mbps to 85 percent of the households in its new territories by the end of 2015.²

Frontier agrees with the Commission that “the nearly \$9 billion Universal Service Fund (USF) and the intercarrier compensation (ICC) system should be comprehensively reformed to

² In addition to these commitments, Frontier will not increase residential rates for voice services in the acquired markets for 18 months from the date of closing and former Verizon residential customers can continue with their existing tariffed price plans if they do not wish to take advantage of the new pricing bundles that will be offered by Frontier.

increase accountability and efficiency, encourage targeted investment in broadband infrastructure, and emphasize the importance of broadband to the future of these programs.”³ And, Frontier supports the Commission’s goal to create a Connect America Fund to help extend broadband connectivity into those areas still unreached because they are uneconomic to serve. In order to achieve these goals, Frontier recommends that the Commission improve its ability both to target support on a more granular level, such as at the wire center or census block, and to enhance support to those areas where there is no private sector business case to provide broadband service by covering the ongoing costs of operating and maintaining such networks. The availability and level of such funding should be based on the cost conditions of serving the area and should not be skewed by the regulatory designation of a carrier as either a Rate of Return (“ROR”) or Price Cap carrier.⁴ Further, Frontier encourages the Commission to undertake USF and ICC reforms in a coordinated and measured way so that carriers that rely on these systems can transition, over a reasonable time period, to the new regulatory regime.

DISCUSSION

I. TARGETED SUPPORT THAT CONTEMPLATES REIMBURSEMENT OF ONGOING OPERATING AND MAINTENANCE COSTS IS ESSENTIAL TO EXTEND BROADBAND INTO UNSERVED AREAS THAT ARE OTHERWISE UNECONOMIC TO SERVE.

In its *NOI*, the Commission correctly recognizes that the current high-cost universal service support system was not designed to facilitate universal access to broadband.⁵ In fact, there is no mechanism to ensure that support is targeted to the specific geographic area that is

³ *Joint Statement on Broadband*, GN Docket No. 10-66, Joint Statement on Broadband, FCC 10-42, 2 (rel. Mar. 16, 2010)

⁴ In a letter to Chairman Genachowski dated August 2, 2010, Senator John D. Rockefeller, IV noted that a key failure in the current distribution of universal service funding, and a key reason the system has not provided ubiquitous service to date, is that the availability of support is “dependent on the size and regulatory classification of a carrier rather than the underlying characteristics of the area to which support is directed.”

⁵ See *NOI* at ¶ 3.

unserved and set at the actual cost of providing service. The areas that remain unserved by broadband are largely areas where no private sector business case to provide broadband exists; either because the capital investment to deploy is too high and/or the costs of ongoing operation and maintenance of the network are unsustainable.

To facilitate broadband availability in these communities, precisely the areas most in need of universal service support, the Commission must take steps to ensure that both the funded area and the funding level are appropriately defined. Frontier recommends that the Commission target funding at a more granular level than exists today and that the Commission provide universal service support for the operation and maintenance of networks that would otherwise be uneconomic.

The National Broadband Plan contemplates estimating costs at the county level.⁶ Frontier encourages the Commission to use a more granular geographic unit, which will more accurately determine the deployment and operating costs in a given area. Specifically, Frontier recommends using a wire center or a suitably close approximation of a wire center, such as a census block.

A wire center or census block approach allows the Commission to estimate the costs of reaching unserved areas with the right degree of specificity, thus better targeting support to those areas that are truly high-cost. Further, the Commission is experienced with using wire centers for cost estimates. For example, the Commission's Hybrid Cost Proxy Model focuses on the wire center. By selecting the wire center as the geographic unit for cost assessment, the Commission can leverage its modeling experience and more confidently allocate its future universal service funding resources.

⁶ See Federal Communications Commission, *Connecting America: The National Broadband Plan For our Future* (rel. March 16, 2010) ("National Broadband Plan") at 37.

In addition to geographically targeting support, Frontier encourages the Commission to provide adequate support to sustain service in these areas. One-time grants have the appeal of streamlined administration, but as the Commission rightly observes, one-time grants may not be suitable for areas where the operating costs exceed revenues.⁷ Broadband will only reach such areas if carriers can be assured that they will be able to economically operate and maintain their networks in these areas. Accordingly, Frontier urges the Commission to take ongoing costs into consideration when reformulating the universal service mechanisms aimed at extending broadband to unserved areas.

As the Commission undertakes efforts to reform universal service to more precisely target support, Frontier further urges the Commission to address the imbalances that occur today in the allocation of support to high-cost areas based on whether a carrier is a ROR or Price Cap carrier. As Chairman Genachowski recently recognized, a “rural-rural” divide has developed due, in part, to the uneven distribution of subsidies to the different carriers serving rural America.⁸ For this reason, Frontier recommends that any new funding be based on the costs to deliver broadband to rural and high-cost households and not on the legacy regulatory classification of the recipient.

II. THE COMMISSION SHOULD COORDINATE ITS REBALANCING OF THE UNIVERSAL SERVICE AND INTERCARRIER COMPENSATION SYSTEMS AND PROVIDE A MEASURED TRANSITION OF THESE SYSTEMS.

Universal service funding is just one mechanism by which carriers support the extension of their networks to high-cost, hard to economically serve areas. Carriers also rely on

⁷ See *NOI* at ¶ 45.

⁸ See Prepared Remarks of Chairman Julius Genachowski, Federal Communications Commission at the 47th Annual OPASTCO Summer Convention and Trade Show, Seattle, Washington, July 28, 2010.

intercarrier compensation rates to assist in keeping end-user rates in high-cost areas affordable and comparable to those in urban areas. These two mechanisms interrelate, and implicate carriers' revenues and cash flows. For this reason, Frontier recommends that the Commission look to reform universal service and intercarrier compensation in a coordinated effort.

A coordinated reform of USF and ICC is essential because a change in one mechanism without full analysis of its impact in conjunction with a change in the other could result in an unintended hardship for carriers and their customers. In addition, because changing USF and ICC rules could dramatically affect carriers' revenue streams, Frontier urges the Commission to follow the National Broadband Plan's recommendation that reforms be phased in gradually.⁹ A measured implementation of USF and ICC reforms will provide carriers a reasonable opportunity to adjust to a new regulatory regime. Ensuring the stability of carriers as they transition to changed regulatory conditions is in the public interest and critical to the successful implementation of new funding programs.

CONCLUSION

Based on the foregoing, Frontier Communications Corporation urges the Commission to reform its universal service support mechanisms to: 1) target support on a more granular level, such as at the wire center or census block, to those areas where there is no private sector business case to provide broadband service; and 2) cover the ongoing costs of operating and maintaining such networks. Further, Frontier encourages the Commission to undertake these reforms in a measured way so that carriers that rely on USF and the ICC system can transition, over a reasonable time period, to a new distribution methodology and new ICC rates. In this way, the

⁹ See National Broadband Plan at ¶ 143, 148.

Commission can ensure that broadband support is targeted to those areas that are still unserved in a timely and efficient manner that takes into account the impacts that reform will invariably have on carriers and their customers.

Respectfully submitted,

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