

**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**  
**Rock Hill Telephone Company d/b/a Comporium, Lancaster**  
**Telephone Company d/b/a Comporium, Fort Mill Telephone**  
**Company d/b/a Comporium and Citizens Telephone Company d/b/a**  
**Comporium (Comporium)**

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## SUMMARY

The National Broadband Plan must be developed from a framework providing certainty that rural carriers will recover to recover the billions of dollars spent extending and enhancing their voice and broadband networks. Rural carriers must also have an incentive to continue investing in their networks and bringing advanced services to rural communities. For these reasons, Comporium believes the Federal Communications Commission (“FCC” or “Commission”) must reject the proposals made in its Notice of Inquiry (“NOI”) and Notice of Proposed Rulemaking (“NPRM”). As requested by the Commission, Comporium will provide the specific data points relevant to the impact of the NOI/NPRM proposals on our companies.

Because it would create uncertainty among rural carriers as they continue to honor their carrier-of-last-resort obligations, replacing the current high cost funding mechanism with a forward-looking cost model to close the availability gap should not be considered.

Caps and cuts to existing high cost support wrongfully assumes a cap is needed, creates an uncertain future for recovery of future broadband investment costs by rural carriers, and harms the public interest by threatening the viability of carrier of last resort obligations.

Rate-of-return regulation has been the core mechanism behind the extremely high level of broadband availability among rural carriers. Voluntary transition to price regulation should continue to be available as an option for rate-of-return companies, but a mandatory conversion would be disruptive to many rural carriers.

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**I. INTRODUCTION**

Rock Hill Telephone Company d/b/a Comporium, Lancaster Telephone Company d/b/a Comporium, Fort Mill Telephone Company d/b/a Comporium and Citizens Telephone Company d/b/a Comporium (collectively “Comporium”) hereby respond to the invitation of the Federal Communications Commission (“FCC” or “Commission”) to comment on whether the FCC should use a model to determine universal service support levels in areas where there is no private sector business case to provide voice and broadband services (“Notice of Inquiry” or “NOI”) and on proposals to reform the high-cost universal service program (“Notice of Proposed Rulemaking” or “NPRM”).<sup>1</sup>

The Comporium companies are rural local exchange carriers (“RLECs”) that serve approximately 110,000 access lines in Transylvania County, North Carolina and portions of York, Lancaster, Chester and Kershaw counties in the South Carolina Piedmont region. The

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<sup>1</sup>In the Matter of Connect America Fund; A National Broadband Plan for Our Future; High Cost Universal Service Support; WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 05-337, Notice of Inquiry and Notice of Proposed Rulemaking, FCC 10-58 (rel. Apr. 21, 2010) (“NOI/NPRM”)

Comporium companies are rural telephone companies as defined in 47 U.S.C. § 153(37). The Comporium companies and their affiliates provide a wide array of services, including high-speed Internet, wireless service, long distance, and video services to their rural consumers in addition to traditional telephone service.

Like many commenters in the proceeding, Comporium is concerned with the size and scope of the proposed changes, both in the NOI and the NPRM.<sup>2</sup> However, we are in agreement with numerous commenters on the principles that should guide the Commission's National Broadband Plan development efforts.<sup>3</sup> Rural carriers have invested millions of dollars bringing broadband to their customers. The elimination of current cost support mechanisms without ensuring the recovery of broadband investments already made creates a significant degree of uncertainty for rural carriers. The record also strongly indicates the use of cost modeling to determine the appropriate levels of universal service support may replace a system that has succeeded in bringing broadband to millions of rural Americans with an unknown, unsure and possibly harmful alternative.<sup>4</sup> The use of market-based mechanisms to determine the amount of high cost support rural providers receive will not produce predictable and sufficient universal

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<sup>2</sup> Comments of CoBank, ACB at 2, Comments of John Staurulakis, Inc. at iii, Comments of Guam Telecom LLC at 1-2, Comments of Millry Telephone Company at 2, Comments of the National Exchange Carrier Association, Inc. at ii, 4, 5, Comments of the Rural Telecommunications Group, Inc. at 3, Comments of TDS Telecommunications Corp. at iii, Comments of Wariner, Gesinger & Associates, LLC at 2-3, Comments of Blooston Rural Carriers at ii-iii, Comments of TCA, Inc. at 12 and 18, Comments of Home Telephone Company at 2.

<sup>3</sup> *Id.* Generally.

<sup>4</sup> Comments of CoBank, ACB at 4-5, Comments of John Staurulakis, Inc. at 7, Comments of Home Telephone Company at 3-4., Comments of the National Exchange Carrier Association, Inc. at 59, Comments of TDS Telecommunications Corp. at 17, Comments of Wariner, Gesinger & Associates, LLC at 9, Comments of TCA, Inc. at 13-14.

service support as the Communications Act requires.<sup>5</sup> Mandatory transition to some form of incentive regulation would be harmful to high cost, rural carriers and not in the public interest.

## **II. COMMENTS ON THE NOI - USE OF A MODEL IN THE CONNECT AMERICA FUND**

In the NOI, the Commission seeks comment on the use of a model employing forward-looking cost projections to determine the level of support needed to close the broadband availability gap identified in the Connect America Fund (CAF)<sup>6</sup>. We are in agreement with several commenters that this proposition will be difficult, if not impossible, to implement in a consistent manner due to the unique characteristics of each rural provider's network<sup>7</sup>. We also agree with several commenters that this proposal supposes an assumed inefficiency in the current system<sup>8</sup>, but there is a dearth of information in the record to support this presupposition.

The nature of models is to paint with a broad brush.<sup>9</sup> Development of a model with enough flexibility to account for each rural company's characteristics would be to essentially recreate an already well-functioning system with countless input variables. Rural broadband network deployment costs will vary depending on several factors, such as terrain, population density and demographics. There are an overwhelming number of possibilities involved in incorporating a sufficient number of variables to accurately predict future network cost in rural America. Our own service areas are good examples. In North Carolina, our carrier-of-last-resort

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<sup>5</sup> 47 U.S.C. §254(b)(5)

<sup>6</sup> NOI/NPRM at para. 9.

<sup>7</sup> Comments of Home Telephone Company (Home) at 3-4, Comments of the National Exchange Carrier Association, Inc. at 53-54, Comments of CoBank, ACB at 4-5.

<sup>8</sup> Comments of John Staurulakis, Inc. at 5, Comments of Independent Telephone & Telecommunications Alliance at 21.

<sup>9</sup> Comments of Home Telephone Company at 3.

obligations extend over rocky, mountainous terrain, where heavy rainfall may mean flash-flooding or rock slides. The significant amount of minerals in the soil also increases the potential for lightning strikes. On the other hand our service areas in the South Carolina Piedmont consist of rolling hills with pine forests, farmlands and river systems. Magnify Comporium's various environments by the number of carriers across the country that would require support from the CAF and the variables become overwhelming. We struggle to understand how support for rural companies would remain predictable and sufficient given the large number of environmental factors alone.

In the NOI, there appears to be a belief that the current system is fatally flawed or must be replaced with a model. Comporium agrees with JSI<sup>10</sup> that the current support systems have done an excellent job in assisting rural carriers in building and maintaining voice networks that indirectly support broadband services. Quite simply, Comporium is doubtful a forward-looking cost model can be developed that will provide accurate and sufficient support for the many rural carriers requiring support. Comporium concurs with JSI<sup>11</sup> and urges the Commission to consider the success of the imbedded cost methodology and its continued use for rural companies as the CAF support mechanism rules are developed.

### **III. COMMENTS ON THE NPRM - CAPS ON HIGH COST SUPPORT**

In the NOI/NPRM, the Commission seeks comment on several proposals to control, cap, and cut the size of the existing high cost support mechanisms while the Commission determines a method to distribute funds in a more efficient manner to those areas of the country where

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<sup>10</sup> Comments of John Staurulakis, Inc. at 2.

<sup>11</sup> *Id.* At 7.

support is necessary to allow private enterprise to operate profitably<sup>12</sup>. Comporium agrees with numerous commenters that the unintended consequences of these proposals will be to significantly increase the cost of local service and possible jeopardize the continued deployment of broadband in rural communities.

These proposals clearly indicate the Commission believes it is working from a mandate to reduce the size of the high cost fund. However, as the National Exchange Carrier Association, Inc. observed in their initial comments, neither the 1996 Act nor the Recovery Act directing the Commission to prepare the NBP describe capping the USF.<sup>13</sup> By starting from this flawed premise, we believe capping and cutting universal service funding begins the journey down a road that will place the Commission at odds with the well-established Congressional objective of providing access to advanced telecommunications and information services for rural consumers.

As demonstrated by semi-annual Form 477 reports available to the Commission and comments filed in the instant proceeding,<sup>14</sup> rural carriers have done a tremendous job in providing their customers access to high-speed broadband and other advanced services. This was made possible through the specific, predictable and sufficient funding of universal service support. The billions of dollars invested in rural community networks will continue to need stable and predictable support for ongoing maintenance and upgrades. For example, the Comporium companies have budgeted over \$8 million alone for further network investments

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<sup>12</sup> NOI/NPRM at para. 51 and 53.

<sup>13</sup> Comments of NECA at 34.

<sup>14</sup> Comments of CoBank, ACB at 6, Comments of Farmers Telecommunications Cooperative Inc. at 3-4, Comments of JSI at 3 and 19, Comments of Guam Telecom LLC at 3-4, Comments of Madison Telephone, LLC at 2, Comments of Millry Telephone Company at 3, Comments of the National Exchange Carrier Association, Inc. at 3, Comments of Wariner, Gesinger & Associates, LLC at 6, Comments of Blooston Rural Carriers at 16, Comments of TCA, Inc. at 6, Comments of Home Telephone Company at 1-2.

supporting broadband services for 2010-2012. The proposals outlined in the NPRM must give us pause to evaluate whether or not we should continue with our planned expansion and upgrades given the uncertainty of how we will recoup our future investment and continue to maintain the existing network.

Comporium believes transitioning high cost funding to more directly support rural carrier broadband deployment is a worthy goal. However, the pathway proposed in the NPRM will not accomplish the mission. The inherently “common” nature of the common voice and broadband loop network means that capping the growth in Interstate Common Line Support (ICLS) currently supporting only voice services will also mean capping broadband deployment as well. ICLS is currently approximately \$10.6 million for Comporium and represents almost 69% of Comporium’s total high cost support. ICLS is over 11% of total regulated revenue and represents 60% of Comporium’s Net Operating Income. Without this continued support, future investments become economically unsustainable and, if the full amount of lost ICLS were recovered from end users, Comporium’s local rates would increase an average of \$8 per access line per month. Further, Comporium’s interstate high cost support in all forms is \$15.5 million and represents 16.5% of Comporium’s total regulated revenue.

A capped and reduced USF high cost program would also mean rural providers would necessarily require revenue from other sources in order to maintain and sustain their carrier of last resort obligations. Although there are other revenue streams available, none of them either collectively or singularly will replace lost high cost support. It is important to recognize the National Broadband Plan contemplates the eventual elimination of universal service funding and both state and federal intercarrier compensation.

Intercarrier compensation revenue is at best in slow decline and governed by both state and federal tariff requirements, or subject to negotiated arrangements controlled by the marketplace. Comporium has acknowledged in prior comments that increasing the costs for basic local service or subscriber line charges may be a part of any reform efforts.<sup>15</sup> However, when comparing Comporium's current support levels with the prospect of shifting this entire cost to either local or other end user charges, the resulting impact to the customer is staggering.

Although the Plan anticipates that funding for broadband services will be available, whether or not existing providers will receive any of that funding is not assured. For Comporium, total USF/ICC is over \$39 million and represents 46% of Comporium's regulated revenue. USF/ICC also represents approximately 220% of Comporium's Net Operating Income. If Comporium were to recover this shortfall entirely from end user customers, local service rates would increase by about \$29 per month. Considering competitive pressures and local service alternatives from wireless substitution and VoIP, a shift in cost of this size directly to end users would make Comporium's basic service unaffordable and harm those who can least afford it.

#### **IV. TRANSITION FROM RATE-OF-RETURN REGULATION TO PRICE REGULATION**

As one of the specific steps designed to reduce the size of USF, the Commission has asked for comment on the mandatory transition of rate-of-return carriers to some type of incentive regulation<sup>16</sup>. Comporium strongly urges the Commission to continue to allow rate-of-return carriers to voluntarily petition for price regulation and not to force a transition.

Comporium agrees with TDS that there is no need to dismantle a working and highly successful

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<sup>15</sup> Comments of Comporium, In the Matter of Developing a Unified Intercarrier Compensation Regime, CC Docket 01-92, May 23, 2005.

<sup>16</sup> NOI/NPRM at para. 55.

method of regulation until after the CAF support program regulations are fully developed.<sup>17</sup> It is highly likely that forcing a change to incentive regulation would be highly disruptive and introduce uncertainty to many rural carriers who have already invested billions of dollars in broadband networks. These investments in high cost areas of the nation would not have been viable without rate-of-return regulation and other support.

Incentive regulation works best for larger carriers who can leverage efficiencies and lower costs through the reassignment and redirection of operating costs, thereby creating opportunities to respond to dynamic and changing markets. Many rural carriers simply do not have the degree of opportunity and size or scope of operations to make cost reductions and incentive regulation viable. Rate-of-return LECs are also obligated to adhere to state carrier-of-last resort obligations and make basic service available throughout their entire serving area. At times this means building long loop extensions to the edge of their network, which are costly to build, yet serve relatively few customers. Small, rural carriers must have a cost recovery mechanism in place that continues to ensure these universal service and public interest obligations are met. Comporium believes having both rate-of-return regulation and incentive regulation available for carriers to utilize as regulatory frameworks has been and will continue to be the best option to meet these goals.

## **V. CONCLUSION**

Comporium appreciates the opportunity to comment in this proceeding and believes the Commission has a daunting task before it in developing a comprehensive plan to ensure all Americans have access to broadband Internet service. This evolution must be done in a manner that will ensure these same Americans continue to have access to a carrier of last resort for both

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<sup>17</sup> Comments of TDS Telecommunications Corp. at 13.

advanced and basic services. The Commission has asked for data as it develops the record and Comporium has supplied specific points relevant to the impact of the NOI/NPRM proposals. Replacing the current high cost funding mechanism to close the availability gap with a forward-looking cost model would create uncertainty among rural carriers as they continue to honor their carrier-of-last-resort obligations. Similarly, caps and cuts to existing high cost support assumes a cap is needed would create an uncertain future for recovery of future broadband investment costs by rural carriers. Rate-of-return regulation has been the core mechanism behind the extremely high level of broadband availability among rural carriers. Voluntary transition to price regulation should continue to be available as an option for rate-of-return companies, but a mandatory conversion would be disruptive to many rural carriers.

Respectfully submitted,

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