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August 18, 2010

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

Re: Notice of Oral *Ex Parte* Communication
***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**
***Framework for Broadband Internet Service*, GN Docket No. 10-127**

Dear Ms. Dortch:

We submit this notice in compliance with Section 1.1206(b) of the Commission's rules.

On August 18, 2010, S. Derek Turner, Research Director of Free Press met with Amy Bender, Rebekah Goodheart and Patrick Halley of the Wireline Competition Bureau.

We discussed the Commission's open proceedings regarding reform of the Universal Service High Cost Fund. Free Press expressed our general endorsement of the reform framework proposed in the National Broadband Plan, subject to a few caveats discussed below. Consistent with our earlier filings, Free Press emphasized the following points:

1. Any reform framework must start by asking and answering the basic question: Where is high cost support needed to ensure services are made available at reasonably comparable quality and prices to those in urban areas? This basic level of accountability is not built into the current system, and has undermined confidence in this vital program. The Commission can better get a handle on this issue through comprehensive auditing and cost modeling.
2. The central focus of the modernization reform effort has to be recognition of the economies of scope that modern packet-switched broadband networks bring. Today, subsidies are awarded largely based on total network cost, but fail to account for all revenues earned from broadband networks. We recommend the modernized fund account for forward-looking network costs and all actual or potential revenues before determining subsidy needs.

3. Free Press expressed concern that the reform framework did not address the issue of affordability of services on future USF supported broadband networks. We suggested such issues could be worked out via a Request-for-Funding (RFP) process when determining CAF awards. Obviously, in the absence of a competitive funding process like RFP, (i.e. using instead cost-model determinations), the actual revenues must be accounted for so that subsidy recipients are not placing undue burdens on both their customers and the fund.

4. Free Press reiterated its skepticism about the likely success of reverse auctions, echoing the concerns filed in these proceedings by NASUCA.

5. Free Press reiterated our thoughts on the current lack of need for an explicit mobility fund within the Universal Service program. According to data in the record, it appears that subsidies are not required to maintain the current level of near ubiquitous availability of mobile voice services in populated areas, and that mobile data services do not yet meet the statutory bar for supported services.

6. Free Press urged the agency to conduct a rate census of basic telephony, IPTV and broadband Internet access services in rural areas, particularly those services offered by rural and non-rural supported carriers.

7. Free Press expressed support for Commission plans to cap the size of the high-cost fund; support for the elimination of CETC funding; support for enforcing Sprint and Verizon Wireless commitments on CETC funding; support for eliminating IAS; and support for freezing ICLS funding. We reiterated that these actions should occur regardless of the establishment of a CAF.

8. Free Press restated its position that the proper definition for "broadband" that reflects the requirements of Section 706 of the 1996 Telecommunications Act is a minimum of 5 megabits per second (Mbps) in the down and upstream directions. However, we acknowledged that the "4/1" Mbps standard proposed in the *Notice* does likely reflect the average level of services that are subscribed to today. We noted that Section 254(b)(3) of the Act speaks of reasonable comparability to "services *provided* in urban areas" [emphasis added]. We accept that a reasonable interpretation of the term "provided" is what is actually being subscribed to by consumers in the market, not necessarily what is "offered" to consumers. Thus a 4/1 definition is largely consistent today with the directives of the Act, despite the fact that services with a much higher capacity are currently being offered in urban areas (and also despite the fact that factoring out rural areas from the 4/1 calculation may result in a slightly higher standard). However, we also expressed to the Commission that while a 4/1 definition may be appropriate for today, by the time a CAF is established it will likely be an outdated standard. Thus we encouraged the Commission to establish a transparent method for continually updating this standard, and make a projection of what an acceptable reasonably comparable benchmark would be in the years ahead. While we agree with the notion that our national goals should be much higher than the minimum benchmark, we recognize that the law only requires reasonable comparability and that the fund cannot grow larger than its current size without placing undue burdens on the consumers who pay into the fund.

9. Finally, Free Press highlighted that because of the current information service designation of broadband connectivity, the USF reform proposal, which is centered on the CAF, will likely face substantial legal challenges. Thus we encouraged the agency to not only reassert its authority over these networks, but to prioritize the reform efforts mentioned above (auditing, accountability, elimination of certain support) in the event the CAF transition is delayed due to authority issues.

Very truly yours,

_____/s/_____

S. Derek Turner
Research Director
Free Press

cc: Amy Bender
Rebekah Goodheart
Patrick Halley