



NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION

*The Voice of Rural Telecommunications*

[www.ntca.org](http://www.ntca.org)

October 15, 2010

Ms. Marlene H. Dortch, Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, S.W.  
Washington, D.C. 20554

***Ex Parte Notice***

***A National Broadband Plan for Our Future, GN Docket No. 09-51; Connect America Fund, WC Docket No. 10-90; High-Cost Universal Service Support, WC Docket No. 05-337; Developing a Unified Intercarrier Compensation Regime, CC Docket 01-92***

Dear Ms. Dortch:

On Friday, October 15, 2010, Shirley Bloomfield, Chief Executive Officer of the National Telecommunications Cooperative Association (“NTCA”), and the undersigned met with Chairman Julius Genachowski, Sharon Gillett, Carol Matthey, Zac Katz, and Michael Steffen to discuss NTCA member companies’ operations and the rural nature of the areas they serve. We discussed the substantial achievements of these companies to date in deploying broadband services in such remote areas. We also spoke about the need for continuing federal support to sustain, upgrade, and expand these operations and to promote both the adoption and continuing availability of high-quality broadband services in rural areas. NTCA urged the Commission to undertake intercarrier compensation and universal service reform consistent with its prior filings in the above-referenced proceedings, and we provided copies of the attached materials to all attendees.

Pursuant to Section 1.1206 of the Commission’s rules, a copy of this letter is being filed via ECFS with your office. If you have any questions, please do not hesitate to contact me at (703) 351-2016 or [mromano@ntca.org](mailto:mromano@ntca.org).

Sincerely,

/s/ Michael R. Romano

Michael R. Romano

Senior Vice President - Policy

MRR:rhb  
Enclosures

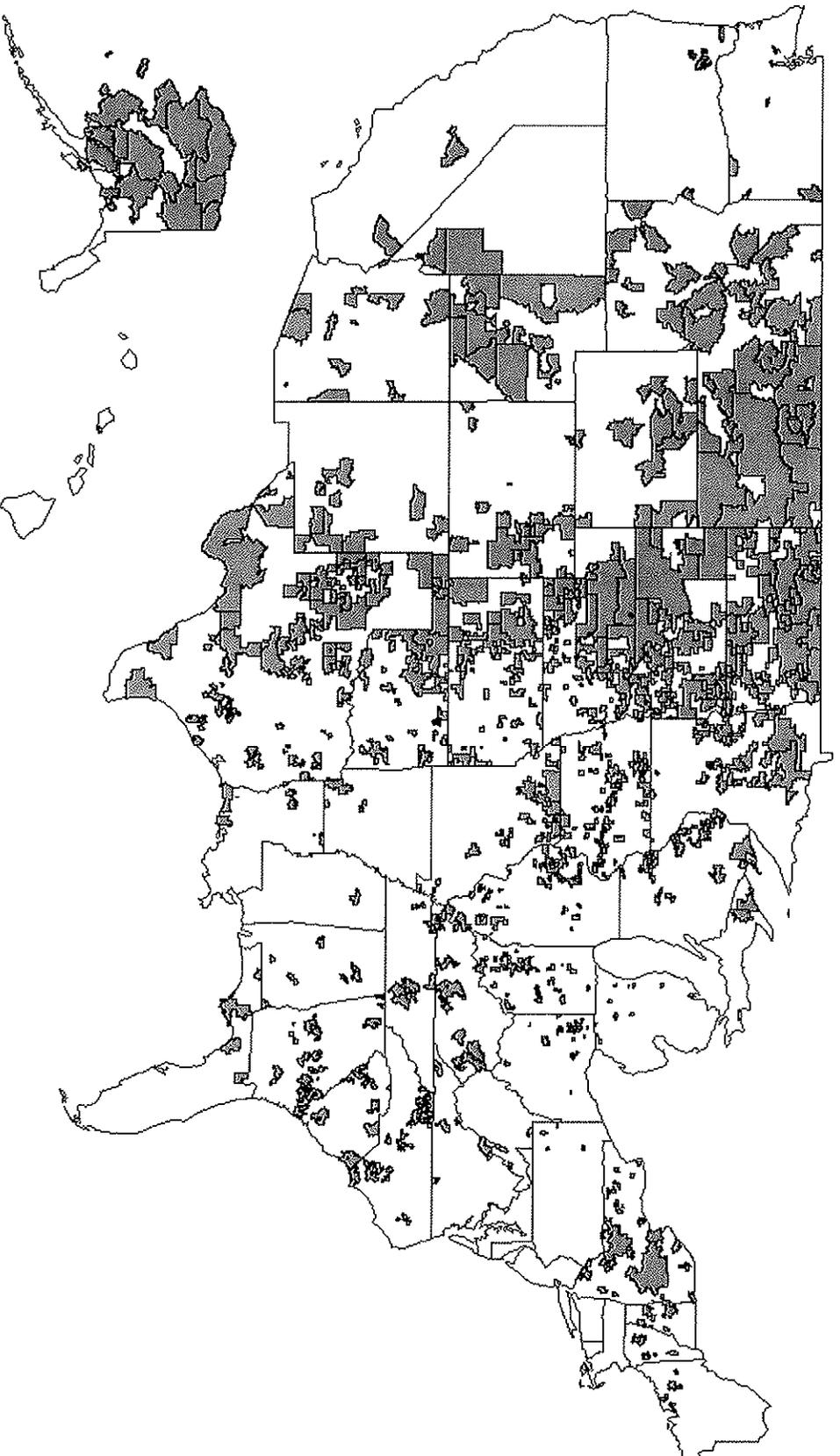
cc: Chairman Julius Genachowski  
Sharon Gillett  
Carol Matthey  
Zac Katz  
Michael Steffen

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# NTCA Service Areas



■ Territories served by NTCA members



We are the National Telecommunications Cooperative Association. Since 1954, the voice of small, rural telecommunications carriers. We are community based, locally-owned companies, dedicated to providing vital telecommunications services—ensuring the economic future of rural America.

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*Connecting the Heartland of America to the World*



The National Telecommunications Cooperative Association (NTCA), "the voice of rural telecommunications," is the premier non-profit association representing more than 570 small and rural telephone cooperatives and locally-owned and controlled commercial companies.

### **Connecting America's Heartland to the World**

- ❖ NTCA members deliver high-quality communications services in the most sparsely-populated, highest cost rural areas of the country. As "carriers of last resort" NTCA members provide reliable voice data, and broadband communications services in the nation's most economically challenging markets.
- ❖ America's independent telephone systems serve more than 40% of the nation's land mass—but less than 5% of the nation's telephone subscribers. NTCA members' highest customer density, approximately seven subscribers per line mile, is in the rural Southeast. One Texas company serves, on average, one person per 10 line miles. By contrast, the Bell operating companies, on average, serve 130 customers per line mile.
- ❖ NTCA members vary tremendously in size: The average telco has approximately 5,344 subscribers, 31 employees, and an annual revenue base of between \$1 million and \$5 million. Many also own cable TV and cellular subsidiaries and offer other enhanced services such as home security and data storage.
- ❖ The customer bases of NTCA members range from less than 100 subscribers to more than 50,000 (only four members are this size). NTCA members serve an average of 4,800 access lines. The smallest member telco employs a staff of two, and the largest more than 400. Annual operating revenues range from less than \$100,000 to more than \$40 million.
- ❖ As locally-based small businesses, NTCA members have a vested interest in their communities and often partner with local schools, hospitals, and other civic entities to provide affordable, high-quality services that improve the lives of rural residents.

### **Delivering the Broadband Future**

- ❖ Despite enormous challenges, NTCA members have made tremendous strides in deploying broadband networks throughout rural America. Ninety-eight percent of respondents to NTCA's most recent broadband availability survey offer broadband to some part of their customer base.
- ❖ NTCA members rely on a proven cost recovery system of Rate-of-Return regulation, universal service support and intercarrier compensation to support the investments necessary for deployment of multi-use networks capable of providing both traditional voice and advanced broadband services.
- ❖ A continued commitment to ensuring rural Americans have access to communications services that are comparable in price and scope to those available in urban areas is critical to NTCA members' ability to sustain their investments in broadband-capable infrastructure and to deliver the services rural communities rely on to fully participate in the digital world.



## Intercarrier Compensation Reform: A Streamlined Approach for a Solid Foundation

Rural rate-of-return (RoR) carriers have relied upon intercarrier compensation (ICC) and universal service cost recovery mechanisms to deliver high-quality services in hard-to-serve high-cost areas. The economic and civic livelihood of rural communities will depend on affordable access to and the continued deployment and operation of advanced networks.

At a time when IP-enabled services are expanding and support of broadband availability is a national objective, it is hard to predict how future developments will affect interconnection and the exchange of traffic between carriers. Efforts at “comprehensive” reform have become so complex that they repeatedly collapse.

**NTCA, OPASTCO, WTA (“Rural Associations”) have collaboratively established an action plan for promoting broadband availability, beginning with simple and sensible ICC reform.**

### **The Solution—Rural Associations’ ICC Reform Proposal:**

- The FCC’s efforts to reform universal service are best served by taking simple steps to ensure ICC is not a “moving target.”
- Rather than trying to predict what ICC should look like in a decade and chasing overly complex “comprehensive” reform, the FCC should undertake several straightforward and sensible near-term reforms:
  1. Each RoR regulated carrier should be given the option to unify its interstate and intrastate access rates.
  2. Those RoR regulated carriers opting for unified rates would recover the resulting reductions in ICC through a combination of reasonable end user rates and incremental federal universal service support.
  3. Reasonable end user rates would be identified via a federal benchmark that includes actual rates, interstate and intrastate subscriber line charges, intrastate universal service support, and mandatory extended area charges.
  4. The FCC should also immediately: (a) clarify that *all* providers who use the public switched telephone network to originate and/or terminate calls must pay the applicable intercarrier compensation rates regardless of technology; and (b) strengthen call signaling rules to address “phantom traffic.”
- Through such steps, the FCC can establish a firm near-term foundation for intercarrier compensation, and use that as both an input and a springboard for universal service reform to support broadband networks.
- The FCC could revisit this streamlined ICC regime once a new universal service system is developed and implemented to determine whether further ICC changes are needed to achieve longer-term universal service objectives.

**Taking these straightforward, near-term steps will establish a solid foundation for a streamlined intercarrier compensation regime which will set the stage for the necessary broader ICC and universal service reforms that are essential to making universal broadband a reality in rural America.**



## Rate of Return Regulation: A Broadband Success Story

Rate-of-return (RoR) regulation represents a significant broadband deployment success story. This regulatory framework has enabled carriers operating in hard-to-serve high-cost areas to install and maintain critical high-speed connections between rural communities and the world. The economic and civic livelihood of rural communities will depend on affordable access to broadband services and the continued deployment and operation of advanced networks – regulators and policy-makers should replicate this broadband success story rather than replace it.

NTCA, OPASTCO, and WTA (“Rural Associations”) have been working together to ensure recognition of the essential role that RoR regulation plays in the deployment and provisioning of broadband in rural areas. At a time when broadband deployment has been identified as a priority national objective, the Rural Associations are actively urging decision makers to preserve this proven framework.

### *The Case for RoR Regulation – an Effective Model for Broadband Deployment:*

- RoR regulation offers carriers in high-cost rural areas a degree of stability and predictability in the cost recovery they need to invest in networks.
- RoR regulation keeps rates fair and affordable by providing limited returns on investment at levels set by regulators. It also ensures that carriers have sufficient revenues to meet quality-of-service obligations and customer demands.
- RoR regulation does not guarantee a specified level of return on investment – it only provides carriers with an opportunity to recover their expenses and taxes and to earn an authorized return on capital investments.
- There are procedural and structural safeguards under RoR regulation to constrain waste and preclude excessive earnings. Where a carrier exceeds the authorized rate of return, it may be required to refund the excess and/or lower its rates. Other constraints include quality-of-service commitments and extensive financial reporting requirements under governmental oversight, as well as review and audit by lenders and other entities.
- RoR promotes investment throughout areas where it might likely otherwise be uneconomical to do so. RoR regulation has helped carriers to deliver on the promise of broadband for rural America – those areas that rely most heavily upon broadband to access essential economic, civic, educational, and medical resources.
- As of 2009, RoR-regulated carriers had deployed DSL to over 92% of their subscribers (up from 79% in 2005), and many are investing in innovative broadband technologies. Such forward-looking installations represent prudent investment; for example, deploying scalable technologies such as fiber will reduce the ongoing cost of operating plant while also increasing speeds for consumers.
- Price cap regulation on the other hand tends to drive investment where risk is least and the likelihood of recovery is greatest and quickest. It often provides little, if any, incentive to invest in many parts of rural America where the costs to deploy are highest and the potential customer base is small.

**Rate-of-return regulation has enabled small, community-based communications providers in rural America to build and maintain the networks necessary to bring essential broadband services to rural communities. Preserving this proven effective cost-recovery framework is critical to continued broadband deployment.**