Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 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
	)	
Establishing Just and Reasonable Rates for Local Exchange Carriers	))	WC Docket No. 07-135
High-Cost Universal Service Support		WC Docket No. 05-337
Developing an Unified Intercarrier Compensation Regime		CC Docket No. 01-92
Federal-State Joint Board on Universal Service		CC Docket 96-45
Life Line and Linked-Up		WC Docket No. 03-109

COMMENTS of COBANK, ACB

CoBank, ACB ("CoBank") hereby submits these comments in response to the Notice of Proposed Rulemaking (NPRM), released February 9, 2011.[1]

CoBank[2] is a cooperative bank with more than $3.5 billion in loan commitments to more than 200 rural communication companies nationwide. These commitments by sector are comprised of local exchange carriers (59%), wireless (19%), cable (15%), and competitive wired telecommunications (7%). In addition, CoBank has syndicated $750 million in communication loans to the Farm Credit System, a unique network of cooperative, borrower-owned lending institutions that are exclusively dedicated to serving as a critical source of debt capital to rural America and the vital industries that support rural America.

SERVING RURAL AMERICA

CoBank's mission is to serve rural America. CoBank's customers include local, regional and national agricultural cooperatives, rural communications, energy, water and waste disposal systems, Farm Credit associations and other businesses serving rural America. Our rural

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[1] Connect America Fund, WC Docket No. 10-90, A National Broadband Plan for Our Future, GN Docket No. 09-51, Establishing Just and Reasonable Rates for Local Exchange Carriers, WC Docket No. 07-135, High-Cost Universal Service Support, WC Docket No. 05-337, Developing an Unified Intercarrier Compensation Regime, CC Docket No. 01-92, Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Lifeline and Link-Up, WC Docket No. 03-109, Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, FCC 11-13 (rel. Feb. 9, 2011) (*NPRM*).

[2] CoBank is a $66 billion cooperative bank serving vital industries across rural America. We provide loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states.

CoBank is a member of the Farm Credit System, a $214 billion nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture and the nation's rural economy. In addition to serving its direct borrowers, the bank also provides wholesale loans and other financial services to affiliated Farm Credit associations and other partners across the country.

Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore. For more information about CoBank, visit the bank's web site at www.cobank.com.

customers' ability to thrive and compete in a world market depend on reliable and affordable basic, essential services – water, electric, telephone and now broadband.

For rural residents, farmers, and businesses that need broadband capacity to support the future demands of commerce, health care, education, energy and public safety, the cost of supporting a stable rural communications backbone to enable the use of wireless, voice and data applications should be shared by all those who benefit from America's rural, agricultural economy. Americans have prospered from the principle that universally available and affordable telephone service benefits rural, urban and suburban residents – it is now time to transition from universal telephone to universal broadband. The cost of not supporting universal service for broadband will far exceed the cost of providing it.

CoBank supports the mission of the National Broadband Plan (NBP): to create a high-performance America – a more productive, creative, and efficient America in which affordable broadband is available everywhere and everyone has the means and skills to use this valuable application. CoBank also supports the modernization of the Universal Service Fund (USF) and the intercarrier compensation (ICC) system to support universal broadband.

We urge the Federal Communications Commission (the Commission) to build on the successes of deploying ubiquitous telephone service. There is a troublesome tone in the NPRM that suggests the Commission believes that rural carriers that serve high-cost areas are intrinsically wasteful and inefficient. As a lender to this specific sector of the communications industry, we do not believe a fair assessment of the factual data bears this conclusion. The necessity for a strong rural communications backbone for national robust internet connectivity or wireless usage must not be underestimated. Wireless, voice and data applications do not work in rural areas without a stable, rural communications backbone.

The key challenge of ensuring that all people of the United State have access to affordable broadband is to recognize that the building and maintaining of networks to provide broadband to rural America is capital intensive. Rural broadband deployment costs more than 10 times than local connections and more than 20 times than transit and transport costs in urban areas. In high-cost rural areas, subscriber densities are rarely high enough to ensure the level of cash flow needed for a return on capital from the equity and debt associated with deployment and maintenance of broadband; therefore, a sufficient and sustainable cost recovery mechanism is imperative to support the financing of ubiquitous broadband. CoBank urges the Commission not to leave America's rural consumers behind while transitioning the telephone support programs to broadband support programs.

CoBank urges the Commission to understand that unless there is a sufficient and sustainable cost recovery mechanism, no financing method (e.g. loan, loan guarantee, revolving loan, or a one-time grant) will sustain a rural broadband network in the long term. The broadband network is a dynamic infrastructure, it is not static, and needs ongoing upgrades and maintenance. While the existing cost recovery mechanisms need revision to support broadband, do not discount the success of these tried and true mechanisms that have enabled many of our rural communications customers to successfully deploy broadband to rural areas via a variety of technologies and business plans.

We have focused our comments on the issues we find most important to foster private financing broadband deployment in high-cost areas and what policies would hinder private financing.

FINANCING THE RURAL BROADBAND BACKBONE

Capping the Connect America Fund (CAF) is counterintuitive.

CoBank believes that growth in the high-cost support fund is perfectly natural given the NBP's anticipated transition of universal service from voice telephony to broadband. Broadband networks are expensive to construct and the on-going expenses associated with maintaining those networks do not subside upon completion of the project. In order to deploy robust broadband to all rural Americans, it is quite natural to expect the CAF to grow. The Commission should not worry about growth in the CAF, but rather, concentrate on widening the contribution base to include companies who use rural networks to generate income, yet do not pay into the fund to support those networks. CoBank believes that the CAF should be uncapped and per-line support should not be frozen. Only by allowing the CAF to grow as needed to support investments in rural broadband networks will the goal of ubiquitous broadband at speeds and rates reasonably equivalent to urban subscribers be achieved.

Access to the CAF should be limited to one fixed broadband network with both voice and broadband carrier of last resort (COLR) obligations, and one mobile broadband network in each high-cost area.

CoBank shares the Commission's goal of providing broadband service to areas that are not served, in addition to maintaining the existing voice and broadband service in rural areas. If private financing is expected to assist in deploying broadband to high-cost areas, then the Commission should tie the receipt of the CAF with the obligation of being the COLR for broadband and voice and continue the cost recovery mechanism based on rate-of-return (RoR) regulation.

CoBank is concerned about shifting RoR carriers to incentive regulation because incentive regulation only works for companies that are serving a large number of subscribers. RoR carriers tend to be small companies with relatively few subscribers, located in high-cost areas. Incentive regulation would result in higher costs to rural consumers, for traditional voice as well as broadband services that are well above the average for communication services in urban areas. Incentive regulation rewards profit taking, it does not reward serving high-cost rural areas. Should RoR be phased out, it is imperative that existing incentive regulation be modified to provide carriers in high-cost, low subscriber areas with incentives to invest in the network, and the ability to repay debt. RoR carriers have been successfully deploying broadband, why would the Commission dismantle a successful, efficient method of deploying broadband to high-cost areas?

One only has to review the track record of broadband deployment to high-cost areas by carriers that only have access to high-cost model support to understand that the high-cost model does not encourage building out broadband services. Absent mandatory COLR obligations to provide broadband service, large "non-rural" incumbents (Bell operating companies and mid-size telcos) will not voluntarily deploy broadband if they cannot recover their costs. It is just a basic fact of business. A one-size fits all cost model will not provide the certainty communications providers require to recover their costs to deploy broadband.

The public interest obligation to be the COLR in high-cost areas should be coupled with the regulatory oversight of a rate-of-return carrier in order to qualify for the CAF. CoBank views RoR regulation as an important component of CoBank's lending practices. If the Commission eliminates RoR regulation, CoBank would view that as a serious threat to an RLEC's ability to continue to obtain access to debt capital. The vast majority of RLECs are too small and operate in areas where subscriber density is too low for price-cap or other incentive regulation to sufficiently recover costs and provide for a reasonable return on invested capital.

CoBank is also very concerned about the Commission's premise that legacy networks no longer need support. They do, because much of the existing cooper infrastructure is used to deliver broadband. RoR regulation should be preserved. If regulators and/or Congress feel that the statutory rate of return is too high, then they should consider lowering it, rather than scuttling the whole system. There is a troublesome tone in the recent Notice of Proposed Rulemaking that suggests the FCC believes that RLECs are intrinsically wasteful and inefficient. Again, we do not believe a fair assessment of the factual data bears this conclusion. However, if regulators are concerned that there is some inefficiency, then we think it would be better to address that on a case-by-case basis through regular oversight and auditing, rather than the elimination of RoR regulation.

Eliminate the identical support rule.

CoBank supports the elimination of Competitive Eligible Telecommunications Carriers (CETCs) High-Cost Support. The criteria for receiving CAF should be tied to the obligation of supporting the rural broadband backbone and being the COLR.

Auctions to determine award support.

CoBank has previously expressed our reservations about reverse auctions due to concerns about the ability to finance and maintain the rural broadband backbone without a stable, consistent source of cost recovery.

CONCULSION

A Connect America Fund that ensures that all people of the United States have access to affordable broadband capability must recognize the need for a long term, sufficient, stable cost recovery mechanism for high-cost rural areas. In high-cost rural areas, subscriber densities are rarely high enough to ensure the level of cash flow needed to provide a return on capital (equity and debt) associated with deployment and maintenance of broadband; therefore, a sufficient and sustainable cost recovery mechanism is imperative to support the financing of ubiquitous broadband. CoBank would immediately be able to increase our rural incumbent local exchange carrier's access to capital by 30-40% if the Connect America Fund is structured in a similar fashion to the USF model to support broadband.

Respectfully submitted,

CoBank, ACB

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