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
	)	
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

Comments of ICORE, Inc.

ICORE, Inc. (ICORE), a consulting firm providing a variety of services to many small, rural telecommunications carriers, offers these brief comments in the above-captioned proceeding.

I. INTRODUCTION

The Commission, in its Further Inquiry of August 3, 2011, rightfully recognizes, and differentiates between, rate-of-return and price cap carriers “that operate in rural areas that are uneconomic to serve.” ICORE’s comments are written on behalf of those rural, rate-of-return carriers that serve uneconomic areas, i.e., parts of our country where there is really no business case for investing large amounts of money to provide service to small, scattered, and/or economically disadvantaged customer bases.

Despite these handicaps, rural local exchange carriers (RLECs) have managed to provide high quality, moderately priced universal telecommunications to their customers. They have also been, and continue to be, deeply involved in the process of bringing advanced broadband services to their rural areas. Good management, hard work, and a real knowledge of their customers’ needs, coupled with enlightened FCC policies, are responsible for their considerable success.

Now, however, some of the key Commission policies that have helped foster modern, advanced services in the “uneconomic to serve” areas of our country, are threatened. The FCC should never adopt rules and regulations that could severely harm RLEC efforts to provide and maintain first class telecommunications and broadband services in the areas of our nation that are most difficult to serve.

At the very least, any new plan for broadband deployment must: retain rate-of-return regulation, at a fair return level, for these carriers; not impose caps on total industry or individual company amounts of high-cost support; not eliminate or unreasonably limit the amounts of corporate operations expenses that may be recovered through high-cost support mechanisms; and retain reasonable, cost-based rates for switched access.

II. RATE-OF-RETURN REGULATION, AT REASONABLE RETURN LEVELS, MUST BE RETAINED

Rate-of-return regulation has long served RLECs and their customers well. Modeling does not work nearly as well for areas with diverse and often unique conditions. Rate-of return regulation allows carriers a level of certainty in their planning for new and advanced services that could not otherwise be offered. It can be difficult to borrow money in uneconomic to serve areas, and the best way for carriers to reassure lenders of their ability to repay funds is to demonstrate that they have the opportunity to earn a reasonable return on their investment.

Any proposed reductions to the currently authorized 11.25% interstate rate-of-return will, to some degree, affect RLEC revenues, as well as their payment of existing loans and the ability to obtain new funding. The prescribed interstate rate-of-return must be kept at a level that will encourage new RLEC investment, and assure lenders that their loans are secure.

Any lowering of the interstate return, similar to many other aspects of the FCC’s proposals on USF and Intercarrier Compensation reform, should be carefully monitored for any serious adverse effects. Quick and nimble mechanisms should exist to relieve any such negative results, including individual company waivers, activation of other measures to counter serious revenue shortfalls, or industry-wide changes if the effects of a reduced return have broader and more far reaching repercussions.

III. ARBITRARY CAPS SHOULD NOT BE IMPOSED ON EITHER INDIVIDUAL CARRIER OR TOTAL INDUSTRY HIGH-COST SUPPORT

It is difficult to imagine how the goals of universal, advanced broadband deployment, coupled with on-going universal telecommunications service requirements, can be fully realized if constrained by artificial caps on high cost support. Such caps would seem to limit these very important goals by the imposition of “ifs” and “buts” on their achievement, and could in fact make it impossible to allow them, in certain very high cost areas, to reach fruition.

This is certainly the case with the proposed high cost support limit of $3000 annually per access line. This level of support per loop is indicative of the most absolutely extreme “uneconomic to serve areas,” in terms of density, terrain, weather or other unique circumstances. Since the number of customers served by RLECs receiving this level of funding is miniscule, the proposed cap would have virtually no impact on the total size of industry support. But cutting high-cost support to the few, small, rural carriers serving these extremely uneconomic areas would certainly place a high risk on the continued -- and proposed -- provision of advanced services at affordable rates to their customers.

Similarly, the proposed capping of total industry high-cost support at current levels threatens the Commission's universal service requirements and broadband deployment goals. It is totally unknown at this point whether existing levels of high-cost support are at all sufficient both to maintain and enhance universal telecommunications service and to deploy broadband to millions of currently unserved Americans at the same time. To shackle this process, the core goal of which is to extend broadband to the nation's most difficult and expensive service areas, with a fixed budget is, at its outset, premature. Costs should be monitored, but hard caps should not act as barriers to the achievement of a very worthwhile effort.

IV. CORPORATE OPERATIONS EXPENSES FOR HIGH COST SUPPORT CALCULATIONS SHOULD NOT BE ELIMINATED OR UNREASONABLY LIMITED

Any proposals to eliminate, or severely limit, the recovery of corporate operations expenses from high-cost support mechanisms, ignore the fact that these costs are absolutely necessary, and totally unavoidable, in the successful operation of any RLEC. They are not only essential to the provision of high quality, reasonably priced telecommunications and broadband services in rural areas, but in many cases, the smaller the RLEC, the larger is the amount of corporate operating expenses as a percentage of total expenses.

Because corporate operations expenses are an integral part of the provision of universal service, and because the smallest RLECs are most likely to be the most seriously harmed by their complete elimination or severe limitation in high-cost support calculations, the Commission should carefully weigh any proposal to restrict their full inclusion. The very most that should even be considered, as suggested by the Rural Associations, is the application of the existing HCLS corporate operations expense cap to LSS and ICLS. But ICORE believes that because these expenses are valid, necessary and unavoidable in the provision of RLEC services, that no cap is really appropriate.

V. RLEC SWITCHED ACCESS RATES MUST REFLECT THE COST OF THE SERVICE

The FCC should not adopt any bill and keep regime, or any uniform national rate, for RLEC switched access services. Neither mechanism recognizes actual costs, or cost differences among companies, or the unique cost characteristics of providing access in high-cost rural America.

RLEC interstate access rates are generally higher than the larger price cap carriers, and vary substantially from RLEC to RLEC, as they are cost-based. Because access rates account for a higher percentage of RLEC revenues compared to price cap carriers, any Commission mandated lower, non cost-based, uniform rates would reduce RLEC revenues far more significantly than other carriers, and would cause severe economic harm.

The proposal of a uniform terminating switched access rate of $0.0007, for instance, is not only confiscatory, but so low that the costs of billing and collecting it would probably be higher than the actual rate. Such an artificially low rate, or no rate at all (bill and keep), would place the bulk of access costs squarely on the shoulders of the RLEC’s small and limited customer base. Local rates would increase dramatically, customers would cancel service, and the RLEC would have little incentive – or means – to continue investing in advanced services.

Only toll carriers and other providers, plus their end users, benefit from a system where they use RLEC facilities to originate, transport and terminate calls, but pay little or nothing in return for that use. To mandate that small RLECs and their individual customers pay costs caused by huge toll and other corporate carriers, seems to fly in the face of the fairness and reasonability the Commission is seeking.

At the outset, the FCC should prescribe no plan for uniform, non cost-based access rates or accompanying transitions plans. Instead, it should 1.) enact proposed rules and regulations for interconnected VoIP services, including strict call signaling and non-payment requirements; 2.) order the application of all ICC and access rules and regulations to interconnected VoIP service providers; and 3.) begin the process of bringing intrastate access rates to interstate levels. The combination of these steps will likely have large impacts in both the state and interstate jurisdictions.

Once data on the results of these efforts are analyzed, the Commission should be in a much stronger position to investigate and determine whether, and to what extent, interstate access rates and rate structures might require further changes.

VI. CONCLUSION

The FCC must proceed slowly and carefully on the proposals discussed above, so that the deployment of broadband services in rural areas is not threatened, but rather advanced.

Since RLECs are unavoidably constrained by the nature of their service territories, they need no further impediments that would drastically reduce or limit high-cost support. Such lost support would drive up local rates, force customers off their local networks, and unnecessarily impair their ability to provide quality service, secure loans, and repay borrowed funds. The Commission's goals in these proceedings would not be furthered.

If any of these harmful proposals are implemented, they must be done so with gradual transitions and other mechanisms that will preclude extreme revenue reductions and allow RLECs to continue providing advanced telecommunications and broadband services in their rural, difficult to serve areas.

Respectfully Submitted,
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