

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Universal Service Contribution Methodology	)	WC Docket No. 06-122
	)	
A National Broadband Plan for Our Future	)	GN Docket No. 09-51
	)	

**COMMENTS OF FRONTIER COMMUNICATIONS CORPORATION**

**I. INTRODUCTION**

Frontier Communications Corporation (“Frontier”) hereby submits the following comments in response to the Federal Communications Commission’s (“Commission” or “FCC”) request for comment on its *Further Notice of Proposed Rulemaking* addressing reforms of the Universal Service Fund (“USF”) contribution methodology.<sup>1</sup>

Frontier, which operates a telecommunications network across 27 states, is the largest provider of communications services focused on rural America. Accordingly, Frontier is committed to doing its part to meet the Commission’s broadband deployment goals in its territories.<sup>2</sup> Frontier is investing hundreds of millions of dollars to deploy broadband in

---

<sup>1</sup> *In re*: Universal Service Contribution Methodology; A National Broadband Plan for Our Future, WC Dkt. No. 06-122, GN Dkt. No. 09-51, *Further Notice of Proposed Rulemaking*, FCC 12-46 (rel. Apr. 30, 2012) (“*FNPRM*”).

<sup>2</sup> *Id.* at ¶ 51 (“All Americans in all parts of the nation, including those in rural, insular, and high-cost areas, should have access to affordable modern communications networks capable of supporting the necessary applications that empower them to learn, work, create, and innovate.”).

predominantly rural areas; areas that the Commission has found are most likely to lack broadband service.<sup>3</sup>

The Commission, through the *USF/ICC Transformation Order* establishing the Connect America Fund,<sup>4</sup> has recognized the value of providing direct universal service support for broadband to high cost areas, including those areas served by Frontier. The Commission stated that the “universal service challenge of our time is to ensure that all Americans are served by networks that support high-speed Internet access—in addition to basic voice service—where they live, work, and travel.”<sup>5</sup> Accordingly, the Connect America Fund “focuses on costly-to-serve communities where even with [the Commission’s] actions to lower barriers to investment nationwide, private sector economics still do not add up, and therefore the immediate prospect for stand-alone private sector action is limited.”<sup>6</sup>

While the Commission establishes broadband service for all Americans as a national goal, the burden of paying to achieve this goal is not shared in a unified and rational manner under the current universal service contribution methodology. Indeed the Commission’s 21<sup>st</sup> Century goals are being pinned to the backs of 20<sup>th</sup> Century concepts in the communications market. Frontier supports the Commission’s efforts to reform the universal service contributions system that undergirds the Commission’s ambitious vision to make broadband ubiquitous across the nation.

---

<sup>3</sup> *In re: Inquiry Concerning the Deployment of Advanced Telecommunications Capability to All Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996, as Amended by the Broadband Data Improvement Act; A National Broadband Plan for Our Future*, GN Docket Nos. 10-159; 09-51, *Sixth Broadband Deployment Report*, FCC 10-129 at ¶ 28 (rel. July 20, 2010) (“*Sixth Broadband Deployment Report*”) (“Based on our analysis, we conclude that broadband is not being deployed to all Americans in a reasonable and timely fashion. Our analysis shows . . . approximately 14 to 24 million Americans do not have access to broadband today. [This] group appears to be disproportionately lower-income Americans and Americans who live in rural areas.”).

<sup>4</sup> *In re: Connect America Fund et al.*, WC Dkt. 10-90, *Report and Order and Further Notice of Proposed Rulemaking*, 26 FCC Rcd. 17663 (rel. Nov. 18, 2011) (“*USF/ICC Transformation Order*”).

<sup>5</sup> *Id.* at ¶ 5.

<sup>6</sup> *Id.*

As these comments detail, Frontier believes that the Commission must reform the current contribution methodology by: (1) expanding the base of contributors as widely as possible, and including broadband Internet access service for the first time; (2) removing the false distinctions created by a focus on legacy service uses while ensuring that contributions are equally assessed so as not to tilt the competitive communications marketplace in favor of any particular technology or competitor. Undoubtedly there are many possible permutations of a revised contributions formula but adhering to the principles noted above will allow the Commission to reform the Universal Service system in a sustainable manner that reflects the Commission's laudable broadband goals.

## **II. THE CURRENT CONTRIBUTION BASE RELIES TOO HEAVILY ON DECLINING TECHNOLOGIES AND MUST BE REFORMED TO INCORPORATE MODERN SERVICES**

Simply put, the current base of contributors cannot support the Commission's broadband deployment goals and expansion is necessary for the continued viability of the USF program. Frontier supports expanding the base of contributing providers and technologies as widely as possible in order to minimize the burden on any one service. Now that the Commission has concluded that explicit broadband support is appropriate under its Universal Service rules,<sup>7</sup> it is only logical that customers of that service should contribute to the funding broadband expansion.

Frontier, as a legacy voice carrier, has contributed substantially to USF. As Frontier's most recent annual report shows, "[a]pproximately \$104.5 million, or 2%, of Frontier's total revenues in 2011 and approximately \$73.8 million, or 2% in 2010, represent a surcharge to customers (local, long distance and interconnection) to recover universal service fund contribution fees

---

<sup>7</sup> *Id.* at ¶ 65 (“[W]e will exercise our authority under section 254 to require that carriers receiving support – both CAF support, including Mobility Fund support, and support under our existing high-cost support mechanisms – offer broadband capabilities to consumers.”).

which are remitted to the FCC. . . .<sup>8</sup> Funding the expansion and maintenance of voice networks through contributions from voice services made sense at a time when voice was the primary method of communication. It is not today.

Technology has advanced so that voice communications is merely one application that customers use over their broadband networks. This is reflected in the fact that voice access line subscribership has annually declined sharply, a trend that Frontier has also experienced. In 2011 Frontier's access line subscribership dropped by 8.3%, which follows an 8.8% loss for the second half of 2010.<sup>9</sup> A chart that AT&T has submitted into the record more acutely describes the problem, showing that in the decade between 2000 and 2010, the number of households in its territory has increased by 16.3% while the number of residential switched access lines in its territory have declined by 52.3%.<sup>10</sup> AT&T predicts that by the end of 2012 only 25% of residential housing units will subscribe to switched access lines.<sup>11</sup> While some of the line loss can undoubtedly be attributed to wireless substitution, the switch to broadband platforms and over-the-top voice applications has also contributed significantly to access line loss. The Commission acknowledges that "changes to the marketplace also have led to a decline in the contribution base at the same time the communications market has grown."<sup>12</sup> This in turn has led to a staggering growth in the contribution factor. To the extent a company passes through a

---

<sup>8</sup> Frontier Communications Corp., Annual Report (Form 10-K), at 21 (Feb. 23, 2012). Frontier contributed \$35.5M to USF in 2009. *Id.* at F-9. The discrepancies in Frontier's total contributions are explained by Frontier's purchase of 4.8 million access lines from Verizon, which was finalized in July 2010. This purchase roughly tripled Frontier's previous size.

<sup>9</sup> *Id.* at 3.

<sup>10</sup> Comments of AT&T; WC Dkt. No. 10-90 *et al.*, at Appendix B. (filed Feb. 24, 2012).

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

<sup>12</sup> *FNPRM* at ¶ 20.

Universal Service charge to the consumer, this increases the customer's overall service cost and further accelerates access line loss. This is not a sustainable contribution model.

Accordingly, Frontier supports expanding the base of USF contributors to include broadband Internet access.<sup>13</sup> Opponents of expanding the contribution base to broadband have warned against its expansion “because this would lead to a net decrease in broadband adoption.”<sup>14</sup> Yet opponents of such expansion underestimate the crumbling base of contributors to the Connect America Fund—the very fund that fuels the broadband deployment necessary for consumers to adopt broadband in the first place. While much work remains to convince all Americans of the benefits of broadband, there is an undeniable trend of increasing broadband subscribership. As the Commission's own June 2012 report on broadband subscribership shows, “[G]rowth is particularly high in mobile Internet subscriptions, but fixed-location connections also continue to increase. The number of mobile subscriptions grew to nearly 120 million – up 59% from June 2010. The number of fixed-location connections increased by 6% year-over-year, to nearly 87 million.”<sup>15</sup> These increasing figures stand in sharp contrast to the declines in traditional access line subscribership shown above.

Also, while opponents of expanding the contributions base argue that increased cost of broadband service resulting from a USF contribution would decrease adoption,<sup>16</sup> they do not take into account that many current and potential broadband subscribers also subscribe to other services—wired and wireless—that are already subject to very high USF contribution rates that

---

<sup>13</sup> *Id.* at ¶ 67.

<sup>14</sup> Letter from Matthew F. Wood, Free Press, to Marlene H. Dortch, Fed. Commc'ns Comm'n, WC Dkt No., 06-122, at 2 (filed May 31, 2012).

<sup>15</sup> FCC, Internet Access Services: Status as of June 30, 2011, at 1 (rel. June 2012), *available at* [http://transition.fcc.gov/Daily\\_Releases/Daily\\_Business/2012/db0614/DOC-314630A1.pdf](http://transition.fcc.gov/Daily_Releases/Daily_Business/2012/db0614/DOC-314630A1.pdf).

<sup>16</sup> Letter from S. Derek Turner, Free Press, to Marlene H. Dortch, Fed. Commc'ns Comm'n, WC Dkt No., 06-122 (filed Aug. 10, 2010).

are passed through to consumers. If the contributions base was expanded to include broadband Internet access service, these same customers may see their current USF charges reduced on the other bills, which would in turn offset any additional charges to broadband services.

Further, the principle of network effects—that all users of a network benefit from expanding the network’s reach—is readily apparent in the broadband world. Urban broadband users benefit from the economic and social innovations of rural broadband users and vice versa. It is therefore logical that as the entire Internet community benefits from extended broadband reach, the service supported should also be a contributor. For the Connect America Fund to achieve its goals, the Commission must expand the base as broadly as possible; to do so, including contributions from broadband Internet access service is a necessity.

### **III. A REVISED CONTRIBUTION METHODOLOGY MUST ACCOUNT FOR A CHANGED MARKETPLACE—AND WORK SO AS TO AVOID DISTORTING IT**

Frontier supports contribution reform that recognizes the changed communications marketplace that lacks clear divisions between supported services. The Commission acknowledges that “[o]ver the last fifteen years, cable companies have entered the voice market, local exchange carriers have entered the long-distance broadband, and video markets, and most telecommunications providers are marketing services in bundles, whether of fixed voice, broadband, and video, or mobile wireless voice, text messaging, and data.”<sup>17</sup> Frontier supports the Commission’s analysis that “[b]undling of intrastate and interstate voice calling with data services and equipment has further complicated the Commission’s and providers’ ability to identify the revenues that should be included in the contribution base.”<sup>18</sup> Given the growing difficulty in separating which revenue streams are subject to contribution requirements,

---

<sup>17</sup> *FNPRM* at ¶ 18.

<sup>18</sup> *Id.* at ¶ 19.

switching from a revenues-based system would greatly simplify the contributions methodology. This is also in line with the Commission's goals of efficiency, fairness, and sustainability.<sup>19</sup>

Just as the number of access lines have decreased, so have the interstate access revenues upon which federal universal service is collected.<sup>20</sup> This is not surprising as very few customers today recognize jurisdictional differences in their communications—either because of their “call anywhere” bundles or the use of broadband, which seamlessly connects users with intrastate, interstate and international end points of which the consumer is often has no knowledge. Any reform mechanism cannot be tied onto false distinctions between intrastate, interstate, and international communications boundaries. The current revenue-based methodology clings to such distinctions due to the necessity of compartmentalizing interstate and international revenues.

Revenue-based assessments also have the potential to distort the market in a competitive world—something that any reform mechanism must not do. An unregulated competitor with pricing flexibility to undercut the market leader would also carry less of a contributions burden, making the market leader's pricing even higher in comparison for the same product. At the same time, this could lead to instability in the contributions base with greater fluctuations amongst revenue returns driven by pricing shifts.

Another fundamental tenet of reform is that it must be competitively and technology neutral; functionally equivalent products need to be assessed in the same manner so as not to encourage technology substitution strictly on the basis of which services are subject to increased contributions burdens. USTelecom identified this problem in a recent letter, stating that “voice service providers such as Google Voice, Skype, and Magic Jack do not contribute to the fund

---

<sup>19</sup> *Id.* at ¶¶ 23-25.

<sup>20</sup> *See id.* at Chart 2, showing a \$15B drop in interstate/international access revenues from 2004-2011.

directly. . . . These services, however, compete directly with traditional voice services offered by providers that must contribute to the fund.”<sup>21</sup> As the USTelcom letter notes, these examples are particularly jarring given that these “services also use and benefit from the same network to complete calls and generate revenue” without sharing any contribution burden for the underlying network.<sup>22</sup> Whichever method of non-revenues-based reform the Commission chooses should eliminate these inequities amongst functionally equivalent services. It is only through reform based upon sound principles that the Commission will be able to achieve a sustainable base with a fair and efficient process to achieve its broadband goals.

#### **IV. CONCLUSION**

For the foregoing reasons Frontier respectfully requests the Commission to adopt the USF contribution reform in a manner that expands the base of contributors but does so in a manner that creates a level marketplace where functionally equivalent services are assessed equally.

Respectfully submitted,

**Frontier Communications Corporation**

By:

/s/

Michael D. Saperstein, Jr.

Director of Federal Regulatory Affairs

Frontier Communications Corporation

2300 N St. NW, Suite 710

Washington, DC 20037

Telephone: (202) 223-6807

July 9, 2012

---

<sup>21</sup> Letter from David Cohen, USTelecom, to Marlene H. Dortch, Fed. Commc’ns Comm’n, at 3 (filed Mar. 28, 2012).

<sup>22</sup> *Id.*