Before the
Federal Communications Commission
Washington, DC 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

REPLY COMMENTS OF THE FIBER-TO-THE-HOME COUNCIL

The Fiber-to-the-Home Council[1] ("FTTH Council" or "Council") hereby respectfully submits its reply comments to the Federal Communications Commission ("Commission") in response to the Commission's Further Notice of Proposed Rulemaking in the above captioned proceeding.[2] The Council's membership includes a large number of smaller, rural private and public sector local providers using FTTH infrastructure to offer, among other things, high-performance broadband Internet access services. In its comments, the FTTH Council stated that it supports the Commission's objective to reform the Universal Service Fund ("USF")

1 The FTTH Council's mission is to accelerate deployment of all-fiber access networks by demonstrating how fiber-enabled applications and solutions create value for service providers and their customers, promote economic development and enhance quality of life. The FTTH Council's members represent all areas of the broadband access industry, including telecommunications, computing, networking, system integration, engineering, and content-provider companies, as well as traditional service providers, utilities, and municipalities. As of today, the FTTH Council has more than 200 entities as members. A complete list of FTTH Council members can be found on the organization's website: http://www.ftthcouncil.org.

2 *Universal Service Contribution Methodology, A National Broadband Plan For Our Future*, WC Docket No. 06-122, GN Docket No. 09-51, Further Notice of Proposed Rulemaking, FCC 12-46 (rel. Apr. 30, 2012) ("*Further Notice*").

contributions system, but cautioned the Commission against imposing a fee on broadband Internet access service, especially one that would increase with greater performance capabilities.[3]

Many commenters, including those that provide high-speed broadband service to residential customers, agree that the imposition of any fee on broadband Internet access service would deter demand, thereby harming the business case and chilling investment in high-speed networks. The opposing conclusion that demand for broadband is not greatly affected by price is based on outdated and inconclusive economic studies. The parties that provide high-speed broadband service or network equipment also agree that the Commission should not impose any fee that would increase with greater broadband performance capabilities (capacity/speed) because that would discourage plant and service upgrades and hinder network expansion. Therefore, the FTTH Council reiterates that, if the Commission decides to impose USF contribution obligations on broadband Internet access services, it should impose a low, flat assessment per broadband connection.

I. COMMENTERS AGREE THAT USF CONTRIBUTIONS OBLIGATIONS ON BROADBAND INTERNET SERVICES WOULD HINDER BROADBAND ADOPTION AND DETER DEPLOYMENT

In its comments, the FTTH Council observed that growth in broadband adoption has stagnated since 2010 with lower-income households reluctant to subscribe because the price of the service is viewed as significant.[4] Therefore, the Commission needs to be concerned that any increase in price for broadband Internet service due to USF contribution obligations will act as a deterrent to broadband adoption.[5] Verizon agrees and cites the National Broadband Plan's

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3 *See* Comments of the Fiber-to-the-Home Council, WC Docket No. 06-122, GN Docket No. 09-51 (July 9, 2012) ("FTTH Council Comments").

4 *See id*.

5 *See id*.

statement that "some 36 percent of non-adopters cite a financial reason as the main reason they do not have broadband service at home."[6] It is clear from the Commission's own analyses that price greatly impacts broadband adoption, and, as discussed further below, opposing studies are not conclusive to demonstrate otherwise.

The FTTH Council further noted that USF contribution obligations would have the same impact on broadband adoption and use of higher-speed tiers as a tax, and a tax on services like broadband with fixed costs can have significant negative effects on the business case by deterring demand for the service and making investment for new and enhanced plant commercially unviable.[7] According to Verizon, "imposing USF contribution requirements on broadband would run counter to many of the Commission's policy goals, including specifically its goals of achieving increased broadband adoption and promoting broadband deployment."[8]

The National Cable and Telecommunications Association ("NTCA"), which represents most of the largest high-speed broadband providers in the nation, agreed that "universal service contribution has the same effect as a tax"[9] and that "[a] new contribution regime could discourage people from buying broadband service or upgrading to a faster tier of service, which would conflict with the Commission's stated policy goal of reducing consumers' costs of buying or upgrading broadband service."[10] For the same reason, NCTA opposes a tiered contribution assessment – "a regime that imposed a larger contribution burden on faster tiers of residential service (e.g., through a revenue-based or capacity-based assessment) would be of great

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6 Comments of Verizon, WC Docket No. 06-122, GN Docket No. 09-51 at n.53 (July 9, 2012) ("Verizon Comments") (citing National Broadband Plan at 171).

7 *See* FTTH Council Comments at 5-6.

8 Verizon Comments at 41.

9 Comments of the National Cable and Telecommunications Association, WC Docket No. 06-122, GN Docket No. 09-51 at 4 (July 9, 2012) ("NCTA Comments").

10 *Id*. at 5.

concern."[11] NCTA correctly concludes that "[a] regime that imposes a greater contribution burden on services provided by companies that invest in broadband upgrades than it does on services provided by competitors that choose not to upgrade their networks creates all the wrong incentives for investment."[12]

ADTRAN, a leading global manufacturer of networking and communications equipment, confirmed that "a significant 'per connection' fee assessed on broadband connections would adversely affect demand, thus negating the Commission's goals of expanding broadband deployment and adoption" and "a tiered, connection-based system…is likely to produce contribution requirements that will stifle broadband adoption, particularly for higher-speed services."[13] ADTRAN also agreed with the FTTH Council and NCTA that "such a 'tax' is likely to have a dampening effect on demand for broadband connections."[14] ADTRAN, like the FTTH Council, further concluded that "[a] contribution methodology that discourages broadband adoption would also reduce carriers' incentives to deploy broadband."[15] It is clear from representatives of the high-speed broadband providing community that imposing USF contribution requirements on broadband, especially a tiered assessment based on speed/capacity, would reduce demand for high-speed broadband services and discourage deployment.

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11 *Id*. at 4.

12 *Id*.

13 Comments of ADTRAN, Inc., WC Docket No. 06-122, GN Docket No. 09-51 at 6 (July 9, 2012) ("ADTRAN Comments").

14 *Id*.

15 *Id*. at 4.

II. AARP'S CLAIM THAT INCREASED PRICES FOR HIGH-SPEED BROADBAND SERVICES DUE TO A USF CONTRIBUTION REQUIREMENT WOULD NOT DAMPEN DEMAND IS BASED ON OUTDATED AND INCONCLUSIVE ECONOMIC STUDIES

To support its claim that broadband demand is inelastic (*i.e.*, not greatly affected by price increases), AARP cites to outdated and inconclusive economic studies. Further, it minimizes the impact price increases would have on adoption by lower-income households.[16] AARP first cites to a 2008 "brief paper" exploring broadband adoption in thirty OECD member countries[17] that states that it was only able to obtain data for a single month in 2007.[18] The "brief paper" concludes that "[d]emand does not appear to be strongly influenced by price. However, this elasticity is towards the top end of the typical price elasticity of demand for telephone line rental and local and long distance calling found in developed countries."[19] Therefore, while the study found demand inelasticity based on a review in thirty member countries with varying levels of development, it also found fairly high elasticity for a communications service in a developed country, like the United States. In addition, the "brief paper" states that it is a "first and early examination of the price and income elasticity of demand for broadband" and that "[t]o develop more robust models we need to develop a longer time series of prices in each country together with other data, such as the price of substitutes, which might explain changes in demand for broadband."[20]

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16 *See* Comments of AARP, WC Docket No. 06-122, GN Docket No. 09-51 at 27 (July 9, 2012) ("AARP Comments").

17 *See id*. (citing Price and Income Elasticity of Demand for Broadband Subscriptions: A Cross-Sectional Model of OECD Countries, Richard Cadman and Chris Deneen, February 2008. http://spcnetwork.edu/uploads/Broadband_Price_Elasticity.pdf ("Cadman Paper")).

18 *See* Cadman Paper at 48.

19 *See id*. at 50.

20 *Id*.

AARP then states that the conclusions of Cadman's "brief paper" are supported by a 2002 paper, which it says found cable-based broadband to be inelastic across most price ranges.[21] That 2002 Rappoport Paper used "survey-based information that uses self-reported [willingness to pay] to derive the underlying market demand" for broadband service.[22] It concludes that its examples illustrate the "potential applicability" of this study approach and states that its results "should be viewed as suggestive."[23] The paper further concludes that, "[w]hile these examples appear to 'work', prudence suggests that more tests are required. In particular the wording of the WTP question requires more assessment. For the analysis of broadband services, availability is clearly a limiting factor that needs to be incorporated into the analysis."[24]

A "brief paper" analyzing data for thirty different countries using data for a single month in 2007 and an outdated preliminary paper from 2002 are not sufficiently conclusory to support AARP's assertion that demand for broadband in the United States in 2012 would not be affected by price increases. Moreover, these papers and AARP's comments do not account for the fact that increased growth in broadband adoption must come from low-income consumers that are most impacted by price, as demonstrated in the FTTH Council comments, based on statistics from the National Broadband Plan, a 2011 analysis by the National Telecommunications and Information Administration and a 2010 study conducted by the Pew Internet & American Life Project.[25]

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21 *See* AARP Comments at 27 (citing Willingness to Pay and the Demand for Broadband Service, Paul Rappoport, Lestor D. Taylor, and Donald J. Kridel, Mimeo, 2002. http://www.economics.smu.edu.sg/events/Paper/Rappoport_3.pdf ("Rappoport Paper")).

22 Rappoport Paper at 1.

23 *Id*. at 11.

24 *Id*.

25 *See* FTTH Council Comments at 3-5.

III. CONCLUSION

Many commenters with a close connection to providing high-speed broadband service to enterprise and residential customers agree that the imposition of any fee on broadband Internet access service would deter demand, and alter the business case and chill investment in high-speed networks. The opposing conclusion that demand for broadband is not greatly affected by price is based on outdated and inconclusive economic studies. The parties that provide high-speed broadband service or network equipment further agree that the Commission should not impose a fee that increases with greater performance capabilities (capacity/speed) because that would discourage plant and service upgrades and hinder the expansion of critically important high-speed broadband services. Therefore, the FTTH Council reiterates that, if the Commission decides to impose USF contribution obligations on broadband Internet access services, it should impose a low, flat assessment per broadband connection.

Respectfully submitted,

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