

**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

**REPLY COMMENTS OF THE
NATIONAL CABLE & TELECOMMUNICATIONS ASSOCIATION**

The National Cable & Telecommunications Association (NCTA) hereby submits these reply comments in response to the *Further Notice* adopted by the Commission in the above-referenced matter.¹ While the commenters responding to the *Further Notice* agree that the current universal service contribution method is flawed and in need of reform, there is no consensus on how best to achieve this reform. Instead, the comments demonstrate that, while some immediate fixes to the current contribution regime may be accomplished in the short term, there is a need for further discussions between the Commission and all affected parties before major changes to the current system should be enacted. We look forward to participating in this process to reach comprehensive contribution reform.

We would like to address one important issue raised in the first round of comments – the effect that assessing contributions on broadband services might have on broadband adoption. As several commenters, including NCTA, explained, imposing additional costs in the form of universal service fees could make the difficult task of persuading non-subscribers to adopt

¹ *Universal Service Contribution Methodology*, WC Docket No. 06-122, Further Notice of Proposed Rulemaking, FCC 12-46 (rel. Apr. 30, 2012) (*Further Notice*).

broadband even more difficult.² This may counter important efforts the Commission is encouraging, such as the Connect2Compete initiative, which is a non-profit organization designed to increase broadband adoption in America by offering free digital literacy training, discounted high-speed Internet, and low-cost computers to eligible consumers.³ As Chairman Genachowski recognized, Connect2Compete, through the participation of cable companies offering low-cost broadband, is “taking on the difficult challenge of cost – the primary obstacle to adoption for tens of millions of Americans, especially minorities and those hardest pressed in these challenging economic times.”⁴ Thus, the Commission should proceed with caution as it considers whether and how to expand the contribution base to include broadband services.

In its comments, one proponent of including broadband services in the contribution base asserts that changing the contribution method to impose a new fee on broadband services would not adversely affect demand for these services.⁵ This assertion appears to be based on an outdated study from 2008 and the proposition that demand for broadband services is inelastic.⁶ The commenter argues that the fact that broadband prices have increased over time and people still subscribe to the services confirms this theory.⁷

The argument that imposing additional charges on broadband service will not affect adoption is flawed. As an initial matter, the three-page “study” upon which this argument relies is based on only 28 observations (one observation of price and adoption for each of 28 countries)

² See, e.g., ADTRAN Comments at 6; Clearwire Comments at 3-4; Comcast Comments at 16; NCTA Comments at 4-5; RCA Comments at 8; Time Warner Cable Comments at 9-10.

³ Connect2Compete at <http://www.connect2compete.org/about-us> (last visited July 30, 2012).

⁴ Chairman Genachowski Remarks on Broadband Adoption, <http://www.fcc.gov/document/chairman-genachowski-remarks-broadband-adoption>, at 5 (Nov. 9, 2011).

⁵ AARP Comments at 27.

⁶ *Id.* at 27 (citing Richard Cadman and Chris Dineen, Price and Income Elasticity of Demand for Broadband Subscriptions: A Cross-Sectional Model of OECD Countries, http://spcnetwork.eu/uploads/Broadband_Price_Elasticity.pdf (2008) (Cadman-Dineen Paper)).

⁷ AARP Comments at 26-27.

at a single point in time (October 2007). Its authors acknowledge that it “is a first and early examination of the price and income elasticity of demand for broadband.”⁸ Given all the subsequent developments in the broadband marketplace, this study would seem to be of limited value to the Commission in this proceeding.

More importantly, numerous studies have demonstrated that a fairly significant portion of the population has access to broadband services yet chooses not to subscribe.⁹ These non-subscribers give several different reasons for choosing not to purchase broadband, including not finding the service relevant to their lives, not understanding how to use the service, not having broadband service available in their area, and not wanting to pay the full price for broadband.¹⁰ This is the group of people that the Commission and others are specifically trying to target with broadband adoption campaigns, and contrary to AARP’s assertion, broadband price has been identified as a factor that this group considers when assessing whether to adopt broadband.

We share AARP’s frustration with the size of the contribution burden imposed on consumers under the current regime. The contribution factor has risen exponentially over time, from 5.5 percent in 2000 to a high of 17.9 percent earlier this year.¹¹ The Commission

⁸ Cadman-Dineen Paper at ¶ 6.

⁹ Pew Internet & American Life Project, Home Broadband Report 2010, <http://pewinternet.org/Reports/2010/Home-Broadband-2010.aspx>, at 5 (Aug. 11, 2010) (Pew 2010 Broadband Report) (finding that as of May 2010, 34 percent of American adults do not have a home broadband connection); Economics and Statistics Administration and National Telecommunications and Information Administration, Exploring the Digital Nation; Computer and Internet Use at Home, http://www.ntia.doc.gov/files/ntia/publications/exploring_the_digital_nation_computer_and_internet_use_at_home_11092011.pdf, at 5-6 (Nov. 2011) (finding that as of October 2010, 32 percent of U.S. households did not utilize broadband Internet access services); Prepared Remarks of FCC Chairman Julius Genachowski, Connect2Compete and U.S. Department of Labor American Job Centers Announcement Event, <http://www.fcc.gov/document/chairmans-remarks-american-job-centers-announcement-event>, at 1 (July 16, 2012) (“Roughly 1 in 3 Americans – nearly 100 million – still haven’t adopted broadband at home.”).

¹⁰ Pew 2010 Broadband Report at 11.

¹¹ *Proposed Third Quarter 2000 Universal Service Contribution Factor*, CC Docket No. 96-45, Public Notice, 15 FCC Rcd 25370 (Comm. Carr. Bur. 2000); *Proposed First Quarter 2012 Universal Service Contribution Factor*, CC Docket No. 96-45, Public Notice, 26 FCC Rcd 16814 (Off. of Man. Dir. 2011).

recognized the importance of limiting the contribution burden on consumers when it enacted reform of universal service high-cost support last year, by establishing “for the first time, a firm and comprehensive budget for the high-cost programs within USF.”¹² The Commission also adopted a performance goal for universal service high-cost support “to minimize the overall burden of universal service contributions on American consumers and businesses.”¹³ We applaud these steps by the Commission and urge it to move forward with reforms that meet this goal, such as quickly eliminating high-cost support in areas that are served by unsubsidized competitors and continuing to enforce the cost-cutting measures it enacted in the *CAF Order*. To further reduce the contribution burden on consumers, the Commission should ensure that contribution obligations are imposed fairly among similarly-situated service providers and eliminate current opportunities for arbitrage and gamesmanship by clearly defining the services upon which contributions are assessed.

Respectfully submitted,

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¹² *Connect America Fund, et al.*, WC Docket Nos. 10-90, 07-135, 05-337, 03-109, GN Docket No. 09-51, CC Docket Nos. 01-92, 96-45, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663, 17672, ¶18 (2011) (*CAF Order*).

¹³ *Id.* at 17682-83, ¶ 57.