

Frontier’s pending Petition for Reconsideration,⁴ which seeks the ability to utilize statewide rate averaging in certain situations. Additionally, the Commission should adopt the ITTA/USTelecom proposal to phase in the local rate floor increases by instituting an annual cap of \$2 on any increases.⁵

I. The FCC Should Freeze the Rate Floor at \$14

In the USF/ICC Transformation Order, the Commission implemented the rate floor in order to stop “subsidiz[ing] artificially low local rates in rural areas,” noting that “there are local rates . . . as low as \$5 in some areas of the country.”⁶ The current rate floor level of \$14 has achieved this goal. Mandating additional local rate increases accelerates the line-loss of local exchange carriers by ignoring the need to compete with other lower-priced voice alternatives from wireline, wireless and Internet-based carriers, and unduly interferes with the local ratemaking authority of the states. By adopting a rate floor of \$20.46 (which includes only certain state charges and disregards numerous other components that contribute to a typical consumer’s total bill), the Commission forces upward pricing on consumers who value the reliability of a landline phone. While the initial increase in the rate floor to ensure that rates were not artificially low may have made sense, the problem has been addressed with the rate floor increases already implemented. Any further adjustment in the rate floor interferes with competitive pricing decisions, unreasonably increases prices to customers, and contributes to the ongoing lack of regulatory parity among various providers.

⁴ Frontier Communications, Petition for Reconsideration of Action Taken Pursuant to Delegated Authority, WC Dkt. No. 10-90 (filed Jul. 31, 2013) (“Frontier Petition”).

⁵ See Reply Comments of ITTA and USTelecom, WC Dkt. No. 10-90 (filed Mar. 31, 2014) (ITTA/USTelecom Reply Comments). The cap therefore would be \$16 as of January 2, 2015, \$18 as of January 2, 2016, \$20 as of January 2, 2017, and a number to be determined for January 2, 2018.

⁶ USF/ICC Transformation Order at ¶ 235.

Commissioner Pai has aptly questioned “[w]hy should the FCC saddle rural Americans with rate increases when doing so may not save the Universal Service Fund a dime and may in fact divert scarce funds away from broadband deployment?”⁷ Changes in local rates do not impact the size of the high-cost fund, nor do they affect in any way the universal service fund contribution factor. Changes in rates do, however, accelerate access line loss of incumbent landline providers, thereby removing a revenue stream that often is used to advance broadband deployment. Furthermore, rural Americans have come to depend on the safety and reliability of wireline infrastructure but, like anyone, significant rate increases will eventually drive them to less reliable, lower priced alternatives.

Adoption of an increase in the local rate floor does not impact payment into the universal service fund or the budget of the fund, but it does affect consumer choice, penalizes incumbent wireline providers and ultimately broadband deployment. The Commission should freeze the rate floor at \$14.

II. The Commission Should Grant Frontier’s Pending Petition for Reconsideration on the Rate Floor

One way in which the Commission could lessen the impact of the rate floor increase is by granting Frontier’s pending Petition for Reconsideration.⁸ The Frontier Petition seeks review of a Bureau Order⁹ that declined to adopt a waiver of section 54.318(i) of the Commission’s rules.

⁷ See Statement by FCC Commissioner Ajit Pai Opposing FCC-Initiated Increase in Rural Americans’ Phone Bills (rel. Mar. 20, 2014).

⁸ Frontier Communications, Petition for Reconsideration of Action Taken Pursuant to Delegated Authority, WC Dkt. No. 10-90 (filed Jul. 31, 2013) (“Frontier Petition”)

⁹ See *Connect America Fund; High-Cost Universal Service Support*, Order, WC Docket Nos. 10-90 and 05-337 (Wireline Comp. Bur. rel. Jul. 1, 2013).

The waiver would allow Frontier and other petitioners¹⁰ to use a weighted average of local rates for purposes of determining whether local rates meet the rate floor requirement.¹¹

As Frontier explained, the unique rate structure in West Virginia allows customers to choose from four different calling plan options that allow customers to choose the local calling plan that best suits each customer's needs. All customers in West Virginia enjoy a very large local calling area¹² and have the choice of the same four optional calling plans, regardless of whether they live in urban or rural areas. While some customers choose the lowest cost plan, in which all calls are measured (Plan 1), most Frontier customers in West Virginia choose the most expensive calling plan (Plan 4), in which all calls are flat-rated, thereby eliminating charges for individual calls. The average weighted rate across the state is nearly \$25, well above the current rate floor of \$14, and well above the proposed rate floor of \$20.46.

As the Frontier Petition explains:

In setting the rates for its four rate plans, the West Virginia Public Service Commission (“WVPSC”) has not intentionally or unintentionally implemented cross-subsidies that would violate Congressional intent or Commission implementation of the universal service requirements of the Communications Act. Rather, the WVPSC has established calling plans at correspondingly appropriate rates to meet the needs of West Virginia customers – higher rates for more comprehensive services, lower rates for more basic services.¹³

¹⁰ The Bureau also addresses in the Order petitions filed by Armstrong Telephone Company – Northern Division, Armstrong Telephone Company – West Virginia, Hardy Telecommunications, Inc., and Spruce Knob Seneca Rocks Telephone, Inc. seeking effectively the same relief as that requested by Frontier. *See* Rate Floor Order at ¶ 7.

¹¹ *See* Rate Floor Order at ¶ 9. The Bureau waived the application of section 54.318(i) for lines of Lifeline customers. *See id.*

¹² The local calling area in West Virginia is defined as all wire centers with central offices within 22 air miles of the central office of the customer's home wire center. As a result, most local calling areas in West Virginia are 50 to 60 miles in diameter and provide access to the nearest urban area as a local call. This type of local calling access is very important in a rural state like West Virginia.

¹³ Frontier Petition at 3.

Under the Commission's proposed rate floor increase, West Virginia Plans 1 and 2 would cease to exist because both plans are under the new urban rate floor. This would result in a decrease in choices for West Virginia customers with no corresponding benefit to West Virginia residents or universal service rate payers. If the Commission decides it must raise the rate floor dramatically it should avoid further penalizing West Virginians by granting Frontier's Petition for Reconsideration.

III. If the Commission Must Increase the Rate Floor, the Bureau Should Immediately Adopt the January 2, 2015 Implementation Date and a \$2 Annual Cap on Rate Floor Increases

Frontier believes the Commission should freeze the rate floor at its current \$14 level. In the event the Commission mandates rate increases that are harmful to competition and consumers, then it should immediately grant the Joint Associations' Petition and also implement the \$2 annual cap on rate floor increases, as proposed by ITTA and USTelecom.¹⁴ While this is not Frontier's preferred response, an implementation delay is absolutely necessary in order complete rate proceedings in the relevant states in an attempt to ameliorate the negative impacts of the proposed increase in the rate floor. And while a \$2 increase annually is still likely to price some consumers out of wireline voice service, it is preferable to an immediate \$6 per month increase.

IV. Conclusion

In light of proposed changes since the rate floor was adopted, the Bureau should immediately freeze the rate floor at \$14. If the Bureau insists on continuing a policy that is detrimental to consumers and competition, then it should grant Frontier's pending Petition for

¹⁴ See generally ITTA/USTelecom Reply Comments.

Reconsideration, which would justifiably protect choice for West Virginia consumers. It should also adopt the timing and rate cap proposals of the Joint Associations and ITTA/USTelecom.

Respectfully submitted,

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