April 14, 2014

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: WC Docket No. 10-90, Connect America Fund; WC Docket No. 05-337, High-Cost Universal Service Support; GN Docket No. 12-353, Comment Sought on the Technological Transition of the Nation's Communications Infrastructure; GN Docket No. 13-5, Technology Transitions Policy Task Force
Notice of *Ex Parte* Meeting

Dear Ms. Dortch:

On April 10, 2014, Harold Feld, Senior Vice President, Jodie Griffin, Senior Staff Attorney, and Clarissa Ramon, Government Affairs and Outreach Associate, of Public Knowledge (PK) met with Daniel Alvarez from Chairman Wheeler's office.

Public Knowledge expressed concern about the impending implementation of a 46% increase in the basic voice service rate floor from $14.00 to $20.46.[1] A price increase this dramatic imposed this quickly would disproportionately burden low-income rural customers and could lead to some customers losing affordable access to basic service entirely.

In addition to concern over the immediate impact on rural subscribers, the dramatic rise raises significant concerns with predictions as to the IP Transition and its overall impact on low income and rural subscribers. Despite the now common sentiment that deregulation and technological innovation inevitably lead to more choices and lower prices, the Wireline Competition Bureau's survey of urban rates indicates that prices for basic service are increasing at an alarming rate in many areas. Although the initial CAF Order anticipated an overall increase in rural rates as compared to urban rates, the $20.46 rate floor exceeds the previous rate floor prediction. However, if the presence of more competitive offerings – combined with the broad wave of deregulation in the states – is bringing prices down (as consistently alleged), it makes no sense that the rate floor survey shows an even higher rate of increase from that anticipated in 2011. If conventional wisdom about urban pricing based on competition is correct, the rate floor should have come in lower than projected, not higher.

To adequately respond to this, the Commission must learn more about how the rates are set and how a rate increase in one area impact users across the network. For example, do providers in deregulated urban areas now have the incentive to impose price hikes on standalone service to push users into bundled packages through a kind of "Reverse Ramsey Pricing"

[1] *See Connect America Fund*, WC Docket No. 10-90, Public Notice (Mar. 20, 2014).

theory?[2] How does this affect the Commission's strategy to ensure reasonably comparable pricing and service without punishing states that have chosen to maintain rate regulation because other states have deregulated and allowed basic standalone rates to increase?[3]

In particular, the Commission should consider whether more localized survey data and comparisons, rather than national survey data, would better serve the goal of ensuring reasonably comparable service at reasonably comparable rates. Customers in rural West Virginia, for example, should be expected to pay rates comparable to what urban subscribers in West Virginia pay, rather than what residents of Washington D.C. or New York City pay.

Public Knowledge therefore urged the Commission to step back and examine whether the proposed rate floor changes and implementation plan serve the underlying reasons for creating a rate floor in the first place. While the goals of avoiding unnecessary over-subsidization and ensuring affordability and build-out challenges are met by the most appropriate funding mechanism are worthy goals, the Commission must determine whether the current plans for implementing the rate floor best serve those goals.

To ameliorate the immediate impact, the Commission should phase the rate floor increase in more slowly or postpone the increase entirely and take the time to examine the underlying issues here. Nobody wants to see customers who can ill afford dramatic price increases face an immediate 46% increase for basic phone service. The Commission should therefore take the time to fully understand how this came about and how it can best achieve responsible and effective universal service funding.

Further, the Commission should consider what flexibility the states need to serve users under the particular circumstances of each state. While some states may be prepared to fully deregulate service, resulting in higher rates, other states may determine that such an approach does not adequately protect their local communities. The Commission should not penalize those states that have continued to regulate the basic rate based on local conditions because states with larger urban populations and more competitive environments have deregulated.

Additionally, granting an exemption to rate floor increases for Lifeline customers would be helpful to a certain extent, although this move would still leave many customers who are not eligible for Lifeline benefits but who would still feel the sting of a 46% rate hike. Carriers should also be reminded of their responsibility to assist customers that qualify for Lifeline to apply for the program to help address any hardship caused by the rate increase.

Finally, the Commission should consider how issues with implementing a rate floor here are emblematic of issues that can arise in the network transition to IP-based technology. In both

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[2] *See* Harold Feld, *The Economics of Telco Deregulation: Califronia Dreaming, Economic Realities, and the "Reverse Ramsey" Pricing Model*, TALES OF THE SAUSAGE FACTORY (Feb. 5, 2008), http://www.wetmachine.com/tales-of-the-sausage-factory/the-economics-of-telco-deregulation-califronia-dreaming-economic-realities-and-the-reverse-ramsey-pricing-model/.

[3] *See* James Temple, *AT&T Rates Skyrocket Since Deregulation*, SAN FRANCISCO CHRONICLE (Jan. 18, 2013), http://www.sfgate.com/technology/dotcommentary/article/AT-amp-T-rates-skyrocket-since-deregulation-4204388.php.

situations, rural communities are all too often the canary in the coalmine. Just as rural call completion problems called into question the idea that nothing could go wrong with the phone network transition to IP, rural problems with a rate floor increase call into question the assumption that basic voice prices are so assuredly decreasing policymakers can safely deregulate. In both the rate floor issues and IP transition issues, broad assumptions about the entire network based on national numbers will not actually work for many of the users on the "edge" of the network. And because the issue here involves basic communications service, what happens on the edges of the network actually matters. The United States has made a national commitment to care about making reliable, affordable, basic service available to everyone, regardless of income or geographical location. This means that when problems arise that affect users at the margins of the network, the Commission must stop to take stock of the issue and its causes and implications.

As the Commission moves forward with the network transition, the pieces of the network must all work together. As we see in the context of the proposed rate floor increase, network benefits in some urban areas may not always translate to rural areas, or even to all urban residents. The Commission must take the time to understand the implications of these issues and arrive at solutions that serve everyone, both now and as we move forward in the IP transition.

In accordance with Section 1.1206(b) of the Commission's rules, this letter is being filed with your office. If you have any further questions, please contact me at (202) 861-0020.

Respectfully submitted,

/s/ Jodie Griffin
Senior Staff Attorney
PUBLIC KNOWLEDGE