April 15, 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

Dear Ms. Dortch:

Public Knowledge, the National Consumer Law Center, on behalf of its low-income clients, the Center for Media Justice, Common Cause, the Center for Rural Strategies, and the Rural Broadband Policy Group join together in seeking prompt action from the Commission regarding the impending implementation of a 46% increase in the basic voice service "rate floor" from $14.00 to $20.46[1] which will harm access to service for some of the most vulnerable consumers in rural America. As currently structured, 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. We urge the Commission to hit the pause button, 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. The Commission should phase the rate floor increase in more slowly or postpone the increase entirely while taking the time to carefully examine the underlying issues.

The Commission has the responsibility to be a good steward of the universal service funds and we are supportive of the goals of avoiding unnecessary over-subsidization of carriers in the balance of ensuring affordability and build-out challenges are met through the high cost funding mechanism. While they are worthy goals, the Commission must determine whether the current plans for implementing the rate floor best serve those goals.

In the USF/ICC Transformation Order, the Commission limited high-cost support for ETCs where end-user rates do not meet an urban rate floor representing the national average of local rates plus state regulated fees.[2] However, the current methodology for determining the

[1] *See Connect America Fund*, WC Docket No. 10-90, Public Notice (Mar. 20, 2014).
[2] *See Connect America Fund*, WC Docket No. 10-90, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC 17663, 18212-13, App. A, Section 54.318 (2011).

Public Knowledge, 1818 N Street NW, Suite 410, Washington DC 20036

urban rate floor should be reexamined. In addition, the Commission should also weigh the benefits of allowing some flexibility so states can preserve affordable service to low-income and fixed-income consumers, especially those not receiving Lifeline support.

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. To adequately respond to this, the Commission must learn more about how the rates are set and how rate increase in one area impact uses 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" theory?[3] 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?[4]

Similarly, the Commission should further review whether more localized survey data would better serve the goal of ensuring reasonably comparable service at reasonably comparable rates, and what flexibility the states need to serve users under the particular circumstances of each state. The current application of the rate floor is having perverse effects on the ability of a state to preserve universal access for its most vulnerable low-income consumers. For example, in West Virginia, Frontier and a several West Virginia rural companies had requested a waiver from the Commission so that they could preserve their low-cost service option while ensuring the weighted average revenue for their local rates was above the rate floor.[5] These companies offer four local service options, with the first plan set as a low fixed-rate with very modest measured service and each subsequent plan offering more calling capabilities with the fourth plan providing unlimited calling in the local calling area (which is what many in urban areas would consider basic local voice service). The West Virginia Public Service Commission supports the waiver request because without the waiver there is "an incentive to increase rates on lower tier telephone packages for a segment of essentially captive customers without competitive alternatives, many of whom are the elderly and low income customers."[6] The Commission declined to grant the waiver to allow the use of a weighted average.[7]

In the West Virginia Order, the Commission did grant an exception for the lines of Lifeline customers. Carriers could maintain service for these customers at rates below the rate floor without losing High Cost support.[8] At a minimum, we request the Commission extend this consideration for Lifeline customers for all affected ETCs. However, we note that this move

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[3] *See* Harold Feld, *The Economics of Telco Deregulation: California 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/.

[4] *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.

[5] *See* Frontier Communications Corporation Petition for Waiver, WC Docket Nos. 10-90, 05-337 (filed Dec. 7, 2012) and Petition for Waiver filed by the West Virginia Rural Companies, WC Docket Nos. 10-90, 05-337 (filed Feb., 5 2013).

[6] *See* West Virginia Public Service Commission Comments (filed Feb. 27, 2013) at 7; West Virginia Public Service Commission Comments (filed Feb. 5, 2013) at 6.

[7] *See Connect America Fund High-Cost, Universal Service Support*, WC Docket Nos. 10-90, 05-337, DA 13-1485, Order (rel. July 1, 2013).

[8] *Id* at para 9.

would still leave many customers who are not eligible for Lifeline benefits but who would still feel the sting of a 46% rate hike. We urge the Commission to provide the states the flexibility of preserving a low-cost basic tier of service to protect access to voice service for low-income and fixed income consumers. Hampering a state's ability to protect its most vulnerable consumers erodes a key foundation of the network compact.

Finally, the Commission must 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 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 are the "edge" of the network. And because this is basic communications service at issue, 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.

Respectfully submitted,

Jodie Griffin
Senior Staff Attorney
PUBLIC KNOWLEDGE

Olivia Wein
Staff Attorney
NATIONAL CONSUMER LAW CENTER, ON BEHALF OF ITS LOW-INCOME CLIENTS

amalia deloney
Associate Director
THE CENTER FOR MEDIA JUSTIC

Todd O'Boyle
Program Director for Media and Democracy
COMMON CAUSE

Edyael Casaperalta
Program Associate
CENTER FOR RURAL STRATEGIES

RURAL BROADBAND POLICY GROUP