



April 28, 2010

Dear OPASTCO Member,

Last week, the Federal Communications Commission (FCC) delivered its first Notice of Inquiry (NOI) and Notice of Proposed Rulemaking (NPRM) on the recommendations concerning the high-cost universal service program contained in the National Broadband Plan. This NOI and NPRM gives us a better understanding of what the FCC is recommending with respect to universal service. To sum up the FCC's proposal, we need only look at Chairman Genachowski's own words regarding his goals for Universal Service Fund (USF) reform, "Cut, Cap and Transform."

Before I outline the reasons why the National Broadband Plan's universal service proposals are fundamentally flawed, I want you to know that OPASTCO, the National Telecommunications Cooperative Association (NTCA), the National Exchange Carrier Association (NECA), the Western Telecommunications Alliance (WTA) and the Rural Alliance all share the same basic opinion about the proposal and already have begun working together to fight the Chairman's plans for universal service. This is the biggest fight the rural industry has ever faced, and it is a fight that requires unified resources and a unified voice.

#### The Plan Engineers a Digital Divide

The Plan sets a goal of 100 Mbps download speed for 100 million U.S. homes, which is different than the paltry 4 Mbps download speed that it establishes to guide the use of universal service funding. In its NOI and NPRM, the FCC has not bothered to ask for public comment on the 4 Mbps download target. The FCC cites 4 Mbps as comparable to what the typical broadband subscriber receives today, but the data provided on this is questionable. More importantly, 4 Mbps does not address the future needs of rural consumers and certainly is not sufficient to accommodate the plethora of bandwidth-intensive applications and services. The 1996 Act says that rural areas should have access to services that are reasonably comparable to those provided in urban areas; however if the goal for 100 million households is 100 Mbps, areas reliant on high-cost support will not be receiving comparable services at 4 Mbps.

#### The Plan Eliminates Rate-of-Return Regulation in Order to Maintain the Existing Size of the USF

Rather than basing its universal broadband proposal on the goal of "reasonably comparable" broadband service throughout rural America, the FCC's plan is built around the goal of keeping the USF at roughly its current size. In an effort to achieve this goal, the Plan recommends eliminating rate-of-return regulation. This is done by imposing a per-line freeze on carriers' interstate common line support (ICLS), which will cause their support to decline as customers drop voice lines. By taking funds from rural carriers, the FCC is jeopardizing broadband progress that has been made in rural territories. Moreover, while the FCC proposes upfront to

cut rural ILEC funding to maintain the Fund's current size, it delays addressing the need to expand the base of USF contributors until later this year.

The Plan Shifts Funding Away From Rural ILEC Service Areas and Their Broadband Networks

The Plan redistributes universal service funds to areas identified as being unable to provide 4 Mbps. Redistribution of universal service funds will occur among rate of return and price cap carriers. Although 70 percent of rate of return ILEC service areas contain areas that do not have 4 Mbps today, it is anticipated that two-thirds of the redistributed funds will go to price cap areas.

The Plan Does Not Make Robust Rural Networks a Priority

The new broadband-targeted funding will initially only address portions of a carrier's area that does not currently meet the 4 Mbps goal. Additionally, it is proposed that the level of new funding for achieving the 4 Mbps standard will be determined by a forward-looking cost model and/or reverse auction. This places the long-term viability of rural service area networks at risk.

The Plan is Vague About Intercarrier Compensation Reform

Given all the other fundamental flaws of the Plan, the FCC's unwillingness to allow the size of the Fund to grow makes it unlikely that there will be sufficient funds for access replacement.

Under rate-of-return regulation, ILECs' future revenues were predictable and lenders were comfortable lending money. We've already heard that some rural lenders are considering putting a halt to their financing of rural carriers due to the increased uncertainty. The proposals may also put payment of RUS loans at risk. These are red flags that should indicate to the FCC and Congress that the USF proposals in the National Broadband Plan are fundamentally flawed and should be reworked.

Our goal is to find a constructive alternative to the current plans the FCC has for the USF. We must convince policymakers that rural consumers will be harmed under these proposals. To do this, we will need the active help and support of our members—both here in Washington, D.C. and at home in your service areas.

Three weeks ago, I wrote to you regarding the pending Comcast/NBC Universal merger and our efforts to win concessions on access to video content. That effort continues.

Never before has our industry faced so big a challenge. If we stand idly by as the National Broadband Plan is implemented, we risk all that we and previous generations have built across our country.

Sincerely,



John N. Rose  
President