Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Rate of Return Represcription	)	WC Docket No. 10-90
Staff Report	)	

Comments of the ICORE Companies

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I. INTRODUCTION

The Commission's proposal to drastically reduce its authorized interstate rate of return (RoR), as outlined in its request for Comment on Rate of Return Represcription Staff Report, will have profound, adverse effects on the small, rural Incumbent Local Exchange Carriers (RLECs) that depend on RoR-driven interstate access revenues.

These RLECs, which generally operate in high cost, low revenue areas, are mandated to provide broadband service to their customers on "reasonable request." ICORE and its companies[1] believe that it is difficult to offer comparable services to those found in more urban low cost, high revenue areas, without allowing RLECs the benefit of a robust rate of return.

Planning and purchasing decisions for broadband deployment have been based on the long standing, predictable 11.25% return. To now change the authorized RoR to something much lower will have the greatest negative effect on the most recent investments, which include broadband facilities, and will threaten current and future revenue streams. RLECs will be hard pressed to continue their current high level of broadband development.

Other recent Commission decisions have significantly impacted small RLECs' interstate revenue streams in a negative way via reductions to traditional support mechanisms and

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[1] For purposes of this filing, the ICORE Companies include: Adak Eagle Enterprises, LLC, Bloomingdale Home Telephone Company (Bloomingdale, IN), Doylestown Telephone Company (Doylestown, OH), Dunbarton Telephone Company (Dunbarton, NH), Ironton Telephone Company (Coplay, PA), Killduff Telephone Company (Killduff, IA), Lynnville Telephone Company (Lynnville, IA), The North-Eastern Pennsylvania Telephone Company (Forest City, PA), Palmerton Telephone Company (Palmerton, PA), Pattersonville Telephone Company (Pattersonville, OH), Pennsylvania Telephone Company (Oval, PA), Readlyn Telephone Company (Readlyn, IA), Reasnor Telephone Company (Reasnor, IA), Searsboro Telephone Company (Searsboro, IA) Sully Telephone Company (Sully, IA), and Summit Telephone Company (Summit, AK).

intercarrier revenues. These revenue streams coupled with the current RoR of 11.25% have made it possible for RLECs to meet their COLR obligations and to deploy broadband services at levels that in many cases exceed their larger ILEC counterparts. Further revenue reductions resulting from a reduction to the authorized RoR may threaten the ability of many RLECs to continue to meet their basic service obligations and the Commission's newly created broadband deployment goals.

II. RLECS WILL SUFFER SIGNIFICANT REVENUE REDUCTIONS FROM THE PROPOSED RoR CHANGES

A major decrease in the RoR will cause substantial revenue losses for affected RLECs. Based on data from ICORE clients using an individual cost basis of settlement, and assuming a 3 basis point reduction, one small company will lose nearly 10% of its total interstate Common Line (CL) revenue, and another more than 7%. Another two will experience reductions of more than 7% of their total interstate Special Access (SA) revenue.

On a composite basis, using the assumption of a 3 basis point RoR decrease, ICORE's cost clients will lose about 5.2% of their total interstate CL revenue, and about 4.5% of their total interstate SA revenue. We would assume companies settling on interstate average schedules would experience similar reductions. It will be very difficult for RLECs, with small customer bases, relatively low demand, and few if any large business customers, to recover these lost revenues.

III. RLECS NEED A ROBUST RoR TO MEET THEIR BROADBAND OBLIGATIONS

The Commission has set the broadband bar very high for small RLECs, with its mandates to 1) deploy broadband-capable infrastructure as a condition for receiving traditional high cost support; and 2) offer broadband services, comparable in price and quality to those in non-rural areas, upon reasonable request. These are difficult requirements for companies with small customer bases, few or no large users, and low revenues.

Just as high cost support for standalone broadband loops is necessary to help RLECs meet this burden (see ICORE Comments, in the Matter of Options to Promote Rural Broadband in Rate of Return Areas, WC Docket No. 10-90, June 17, 2013), a robust Rate of Return is key to their continued ability to deploy and offer broadband infrastructure and services.

Reductions in the currently authorized RoR, as with any such reductions, penalize most heavily new investments. Yet these investments contain the critical broadband facilities which the Commission is trying to promote, and with their largely undepreciated life, will therefore produce smaller returns over a longer period. If the Commission truly desires to promote and support long term rural broadband service that is comparable to that found in non-rural areas, it should reconsider the drastic RoR cuts suggested in its staff report.

The existing RoR has provided a crucial incentive for RLECs to purchase and install broadband equipment in their high cost, low revenue territories. Their planning has been predicated on a stable and predictable 11.25% return. If the rug is pulled out from under them now, causing significant and immediate revenue losses, they will be left with no way to make up such shortfalls.

IV. RLECS HAVE A DIFFERENT COST OF CAPITAL THAN LARGER ILECS, WHICH MUST BE RECOGNIZED IN ANY REVISED RoR

The Commission staff report on represcribing the authorized rate of return is based on an analysis of 16 publicly traded ILECs. Yet most ICORE companies are small, privately owned ventures, many with fewer than 1,000 access lines, with some serving fewer than 500 lines, in a single exchange. Their similarity with large, publicly traded ILECs begins and ends with their being in the same general business. Most small RLECS are facing significant competition and their operations do not reflect the size and diversity in terms of lines of business as their larger ILEC counterparts. This results in a greater level of risk facing smaller RLECS that the Commission must properly weigh when considering the appropriate RoR. Greater risk coupled with significant decreases in traditional revenues results in an increased cost of capital for small RoR LECs and the Commission's authorized RoR should reflect this reality accordingly. A decrease in the current authorized RoR is not warranted and if implemented would threaten the Commission's stated goal of universal broadband availability.

When the Commission states that its preliminary analysis suggests that the new rate of return should be no more than 9%, and then presents its staff report estimates of 7.39% to 8.72%, and revised estimates of 8.06% to 8.72%, it is surely not considering the significant differences in the cost of capital between big, publicly traded corporations, and tiny, family-owned operations.

Before any changes are made to the existing, long standing RoR, studies should be undertaken to quantify these dissimilarities.. The results should be used either to establish separate RoRs for large ILECs versus small RLECs, or develop a component to be added by RLECs to the large ILEC-based RoR, in order to recognize the substantial differences between these two groups of carriers.

V. ANY REDUCTIONS IN THE RoR MUST BE PHASED IN GRADUALLY

Regardless of whether either recommendation in Section IV., above, is adopted, any Commission decision that reduces the interstate rate of return should be implemented in the most gradual and least disruptive manner possible. The revenue reductions cited in Section II., above, will cause drastic, immediate shortfalls which will be impossible for many RLECs to absorb.

A phased approach over a number of years will accomplish two very important goals: 1) mitigate the immediate shock of large, one time revenue reductions and 2) allow the RoR to move down gradually as the cost of capital moves up, with the phase down being completed when they meet, rather than at some predetermined point.

VI. CONCLUSION

The current authorized rate of return has helped small RLECs meet both their traditional universal service obligations as well as their mandates for broadband deployment. It has served as an incentive for investment in expensive and risky technologies for companies whose costs are high and revenues low.

Any reductions to the long standing, stable and predictable existing interstate RoR should be carefully considered, in light of the negative effect on RLEC revenues, and their resultant inability to continue providing advanced broadband services. The RLECs' higher cost of capital must be factored into any RoR revisions, and reductions, if deemed necessary, must be as gradual as possible.

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