

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of:)
)
Federal-State Joint Board on)
Universal Service Seeks Comment) WC Docket No. 05-337
on the Merits of Using Auctions)
to Determine High Cost)
Universal Service Support)

Comments of the ICORE Companies

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TABLE OF CONTENTS

I. INTRODUCTION.....1

II. ETC STATUS MUST BE GOVERNED BY STRINGENT STANDARDS.....2

III. EMBEDDED COSTS MUST CONTINUE TO BE USED AS THE
BASIS FOR DETERMINING HIGH COST SUPPORT FOR RURAL
TELEPHONE COMPANIES.....6

IV. REVERSE AUCTIONS WILL BE ADMINISTRATIVELY AND
FINANCIALLY BURDENSOME FOR SMALL, RURAL ILECS.....9

V. CONCLUSION.....10

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The consulting firm of ICORE, Inc. (ICORE), on behalf of many small, rural incumbent local exchange carriers (ILECs)¹, offers these comments in the above-captioned proceeding. ICORE provides a variety of consulting, regulatory and network related services to a number of small ILECs serving rural and suburban America.

¹ ILECs participating in this filing include: Cooperative Telephone Company, Victor, IA; Dunbarton Telephone Company, Dunbarton, NH; Manti Telephone Company, Manti, UT; Palmerton Telephone Company, Palmerton, PA; Ronan Telephone Company, Ronan, MT; Sycamore Telephone Company, Sycamore, OH.

I. INTRODUCTION

The continuation of sufficient, fair, and reliable high cost universal service support is one of the most critical issues facing small, rural ILECs. The adoption of USF “auctions,” as proposed in this proceeding, will destroy the financial viability of these companies, which have long been the carriers of last resort – the standard bearers of universal service – in much of the vast rural, suburban and insular areas of our nation.

If these ILECs are threatened, the long-standing public policy of universal service at affordable rates will be equally threatened. This country would never have had – and will not have in the future – true universal service without the tireless efforts of those dedicated ILECs that serve non-urban America.

In any reasoned debate on high cost universal support mechanisms, the Commission must recognize and preserve the unbroken and unbreakable link between USF and rural ILECs. Any policy that weakens that link will weaken the Commission’s commitment to universal service. Thus, any changes to high-cost universal support procedures that threaten the only real providers of universal service – the ILECs – cannot possibly be in the public interest.

We have had universal service in this country for decades. The ILECs have been, and continue to be, the responsible parties for providing quality telephone service to every home and business in their service areas. Long standing Commission policies have appropriately recognized and affirmed the ILECs’ unique role in this effort.

While some changes in universal service rules and procedures are necessary, certain principles must be maintained. We seem to have an inherent need in this country to fix things that are not broken. The ICORE companies strongly urge the Commission,

when considering any reverse auction (competitive bidding) process, to resist this temptation.

Very simply, high cost universal service support should continue as a mechanism to allow eligible telecommunications carriers (ETCs) to provide ubiquitous, affordable telecommunications services in rural America. It should continue to recognize the actual, company-specific embedded costs of providing such services to each and every rural customer.

Universal service support should never be awarded to any carrier whose costs, services, or market coverage do not qualify for such support.

II. ETC STATUS MUST BE GOVERNED BY STRINGENT STANDARDS

A. The Granting of ETC Status to Any Competitive Entity Must Follow Rigorous Steps

In any discussion of current USF rules, or any new plan for “awarding” USF support, it is absolutely crucial to carefully define which carriers are eligible.

First, competitive carriers seeking ETC status must prove conclusively that they offer all services included in the definition of universal service, and to all customers in the ILEC’s study area. This is the baseline test, and it must be passed 100%.

Second, the competitive carrier must demonstrate that it is willing and able to serve as the carrier of last resort should the incumbent LEC choose to exit the market. The competitor must in no way be dependent on the services or facilities of the ILEC in providing any of the basic universal services, and it must be able to provide such services on an affordable basis everywhere in the study area.

Even when these first two criteria are satisfied, the grant of CETC status must pass a stringent public interest test. It must be determined, for each study area, whether the cost of providing support to the CETC in any rural area is in the public interest, since such support increases the size of the universal service fund.

B. Embedded Costs Must be Used to Determine High Cost Universal Support for Competitive ETCs

Clearly, wireless carriers (traditional cellular as well as VoIP providers) generally account for the most serious form of competition in areas served by small, rural ILECs. Wireline competition is less prevalent, for the very reasons that led this industry to implement universal service policies in the first place. That is, it is very costly to provide physical facilities to serve everyone, everywhere, particularly when the most costly to serve are often the least profitable to serve.

Quite frankly, rural America is not the most attractive market for wireline competition. Wireless providers, with their lower cost structures, are far better suited to serve rural areas. In the past, wireless service was more often a complement to, rather than a replacement for, the ILEC's wireline service. This left the rural ILEC with its traditional responsibility for universal service in rural America.

Increasingly, however, wireless lines – cellular and VoIP – are actually replacing ILEC primary lines. This is due in large part to the pricing schemes of wireless providers, which generally bundle minutes and services into extremely attractive flat monthly rates. Such pricing packages are absolute proof that wireless carriers have far lower costs than the small, rural ILECs with whom they compete.

Wireless providers have no physical loop costs, while availing themselves of economies of scale and scope that dwarf those of small, rural ILECs. Because of these advantages, wireless companies can offer bundled pricing plans which ILECs - - because of their much higher costs - - cannot possibly match.

This constitutes a major competitive disadvantage for small, rural ILECs. A competitive bidding process for high cost support will make it worse. The lower costs of wireless ETCs give them a huge pricing advantage over small ILECs, allowing the wireless companies to sell new lines or to take existing lines from the wireline incumbent. They will parlay this advantage into winning the reverse auctions - - receiving high cost support because of their lower costs and pricing programs.

First and foremost, any serious analysis of universal service support calculation and distribution must begin with cost. High cost universal support for small, rural ILECs is predicated on the fact that they have higher than average costs. They receive high cost support, dependent on the level of their cost per loop; and local switching support (LSS) is dependent on the number of lines served, which is a surrogate for their per line switching costs.

It is not competitively neutral to award high cost support to ETCs on the same per line basis as the ILEC or worse, by reverse auctions. Wireless ETCs do not provide physical loops, whereas ILECs generally have per loop costs of several hundred dollars. Where wireless switches can serve large portions, or all, of a state, only those ILECs with fewer than 50,000 lines receive LSS - - and the bulk of that goes to very small ILECs with fewer than 10,000 lines.

Thus, for rural ILECs, high cost support is cost-dependent. Only those whose loop costs exceed a certain threshold receive high cost loop support. Only those which serve relatively small quantities of lines have high enough per line or per minute switching costs to warrant receipt of LSS. Wireless ETCs have no cost-related tests to pass. In fact, they use their low costs to underwrite pricing schemes that allow them to obtain lines in high cost ILEC territories, and then are awarded per line support as if they, too, were high cost companies.

Small, rural ILECs need, and are deserving of, high cost support. They must build expensive loop plant, often miles and miles from their central office, to serve the very last customer in their service areas. They must provide state-of-the-art switching, with CLASS and custom calling features, SS7, and all other functions required by our nationwide, integrated network, to serve - - in many cases - - a few hundred or a few thousand customers.

Wireless providers, on the other hand, use a technology which avoids most of the substantial costs associated with physical loop plant. They also enjoy economies of scale and scope in switching and other areas that are unknown to small, rural ILECs. They are not, in general, according to the standards and definitions which apply to ILECs, high cost companies.

If the purpose of high cost universal support is to assure ubiquitous telephone service at affordable rates, it is difficult to understand how wireless carriers can qualify for any such support, even if “won” on a low bid basis. High cost support does not give ILECs a competitive advantage. It simply helps level the playing field with competitors

that use new, low cost technologies to create pricing schemes against which ILECs cannot reasonably compete.

Auctions are totally contrary to the public interest, in that they will provide high cost support to companies that would not otherwise qualify for such support, while penalizing truly high cost companies. Wireless carriers enjoy other forms of regulatory relief as well, including multi-state MTAs and exemption from access charges. They should not, via any bidding process, be given the high cost support which has heretofore been carefully designed to help offset the unavoidable high costs of small, rural ILECs.

If a wireless or wireline competitor meets each and every duty, obligation and responsibility that the ILEC must fulfill in providing universal service; and if the Commission deems it in the public interest to grant ETC status to that carrier, then any high cost support it receives must be based on its costs, not the ILEC's, and definitely not on competitive bidding.

It is neither just, reasonable, equitable nor in the public interest to award high cost assistance to any carrier, based either on the cost of another, or on an auction. Wireless and wireline ETCs must be made to submit their specific loop costs, and their number of lines served, in order to prove their high costs and to receive high cost loop support and local switching support, just as the ILECs must report their specific data. Auctions, obviously, do not come close to this standard.

III. EMBEDDED COSTS MUST CONTINUE TO BE USED AS THE BASIS FOR DETERMINING HIGH COST SUPPORT FOR RURAL TELEPHONE COMPANIES

Reverse auctions have now joined several other proposals for distributing or calculating high cost support for rural ILECs. Forward Looking Economic Costs (FLEC) have previously been discussed, along with cost models, aggregate state costs, and other surrogates.

But small, rural ILECs do not provide universal service using hypothetical networks nor do they write theoretical checks to pay for forward looking economic costs.

In other words, small, rural ILECs have never had the luxury of being the cherry pickers or one trick ponies that are so prevalent in the industry today, the ones that would benefit from reverse auctions. They have never had the good fortune of being solely wireless carriers, or VoIP providers, or business suppliers. They have been telephone companies, or in more contemporary terms, telecommunications carriers, offering a variety of services to each and every person and entity in their service area, using a combination of technologies to get this critical task accomplished.

To ignore, as competitive bidding would, the real, actual, embedded costs – including all joint and common costs – of rural ILECs in determining their high cost universal support would thus be unfair and unjust. The proposed auctions would deny their long history of providing universal service at affordable rates, and totally undercut the vital role they have played in building the PSTN.

Rural ILECs have borne the very real costs of providing universal service in their unique and specific franchised areas. These costs are known and verifiable. To use auctions, or any other method that ignores their company-specific embedded costs, puts rural ILEC high cost universal support at serious risk.

Rural ILECs, decade after decade, have built the infrastructure to make universal service a reality, hard earned – and often hard to come by – United States currency. They have tirelessly invested in whatever equipment, facilities and services were required, at any particular time, to meet their social and regulatory obligations.

These traditional wireline ILECs, who have incurred the tremendous costs of providing the most reliable and advanced services in rural America, will no longer have an economic incentive to invest in the infrastructure necessary to continue such services. Reverse auctions will simply make infrastructure costs a burden in attempting to win high cost support through low cost bidding.

It is ironic that in building this universal wireline infrastructure – which has resulted in the public switched telephone network (PSTN) – rural ILECs have allowed their competitors to claim to offer universal service, too. That is, the new market entrants – the wireless carriers, the CLECs, the VoIP providers and others – all use the PSTN in some way for switching, transport, and origination or termination of calls.

Without the rural ILEC infrastructure, the services of these new technology providers would have far less value, and could certainly not be offered as universal. Yet many of these new competitors – the same ones who clamor for the benefits of universal high cost support but not the attending regulatory responsibilities – want either the same level of support as their incumbent ILEC, the ILEC's support to be cut by the introduction of surrogate cost estimation methods, or the awarding of support by totally non-cost based auctions.

It is difficult to imagine how small, rural wireline LECs – with their high embedded infrastructure costs – could win low cost bidding contests against wireless or

VoIP providers. It is equally difficult to imagine how these same small LECs, serving high cost rural America, could survive without much needed – and appropriate – universal service support.

Reverse auctions, then, will almost certainly make large portions of rural Americans totally dependent on far less reliable, stable and secure wireless technology for their telecommunications needs.

IV. REVERSE AUCTIONS WILL BE ADMINISTRATIVELY AND FINANCIALLY BURDENSOME FOR SMALL, RURAL ILECS

As stated above, the use of low cost bidding to award high cost support is totally inappropriate. It will ignore the actual, embedded costs of the rural ILECs that have served rural America so long and so well, while providing undeserved support to carriers that have had the luxury of choosing their favored technology, markets, and pricing strategies.

The awarding of high cost support on a low bid basis will also provide disincentives for small, rural ILECs to further invest in the infrastructure that has for so long provided reliable and advanced telecommunications services in rural America.

Instead, small ILECs will have to devote their limited resources to the auction process. While no one can say exactly what the costs of such auctions will be, the Commission must ask: Is the public interest better served by small, rural ILECs' spending their scarce time and money on USF auctions, or on building the infrastructure to provide universal service?

V. CONCLUSION

High cost universal service funding should help support the high costs of ILECs and any other carriers meeting stringent ETC standards. USF should be based on the actual, embedded costs of qualifying ETCs, not on competitive auctions or other vehicles which ignore the actual high costs of providing universal service in rural America.

Respectfully submitted,
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