BEFORE THE

FEDERAL COMMUNICATIONS COMMISSION

WASHINGTON, D.C. 20554

In the Matter of

Connect America Fund)

ETC Annual Report and Certification)

Establishing Just and Reasonable Rates for Local Exchange Carriers)

Developing a Unified Intercarrier Compensation Regime)

COMMENTS OF ICORE CONSULTING LLC

EXECUTIVE SUMMARY

The Commission, in its deliberations and decisions regarding the Notice of Proposed Rulemaking (NPRM) in this proceeding, must first and foremost recognize its long-standing principle of Universal Service. The Communications Act of 1934, as expanded by the Telecommunications Act of 1996, requires that all people in the United States have access to universal communications service with adequate facilities at reasonable charges.

This goal is as valid and vital now as it was over eighty years ago when first promulgated. It is still key to providing advanced services to all areas of America, from large metropolitan urban centers, to each and every small village, isolated town, rural hamlet, Native American reservation, remote Alaskan trading post, distant farm, and forgotten rural wayside in America.

To assure compliance with established law, the Commission must provide Universal Service support to high cost, low revenue rural areas that is consistent, predictable and fully sufficient to allow for the growth and deployment of advanced, high speed broadband services. It must not be bound by any rigid budget control mechanism, but rather be flexible enough to adapt to changing circumstances and conditions.

In these brief comments, ICORE Consulting LLC addresses the absolute necessity of increasing USF support for Rural Local Exchange Carriers (RLECs) to levels that will allow them to provide high speed, advanced universal broadband service at reasonable rates, and to be able to adopt the interstate settlement method – Rate of Return or A-CAM -- which best fits each companies' specific situation.

I. ICORE Consulting LLC Comments on Four Key Issues in the NPRM

The NPRM concerning the Connect America Fund Support Available for Rate-of-Return Carriers addresses four areas of critical importance to all RLECs, including those represented by ICORE Consulting LLC. A brief discussion of each follows.

1. Revision of the High Cost Budget for Rate of Return Carriers

It is essential that the budget for Rate of Return RLECs within the high cost program be sized to cover all existing revenue requirements associated with RLEC broadband services, and to account for inflation, as well as the additional costs to deploy advanced, higher speed broadband services to meet the goal of universally available, modern services to rural America.

The Commission should develop a separate and discrete budget for HCLS and CAF BLS, to spare it from the arbitrary limitations inherent in choosing a preset amount, and then deducting funding requirements for the Alaska Plan, CAF ICC support and A-CAM carriers, particularly if the per location amount is increased, as it should be, to $200 per location for the original participants.

A reasonable starting point for this budget would be the total 2017 HCLS/CAF BLS-related costs/revenue requirements of all Rate of Return carriers. It could then be adjusted to 2018 levels with both an inflation factor and an estimate of the total 2018 costs for additional high speed, advanced broadband services. This would move the budget forward by some seven years, and be far more reflective of current costs/revenue requirements underlying HCLF and CAF BLS.

This methodology would assure that Rate of Return RLECs properly recover their total costs, plus the statutory rate of return on investment, for providing advanced broadband services to rural Americans.

Without such assurance, the goals of universal communications services at reasonable rates throughout our country will be put at considerable risk.

2. A New Model Offer

The Commission would be wise to extend a new A-CAM offer to carriers that chose to remain on a Rate of Return basis during the initial model offer. The model should be adjusted to include a Tribal Broadband Factor to appropriately recognize the unique challenges and conditions that exist in many Tribal areas.

While it is questionable as to whether carriers will choose an A-CAM model that produces less in support than legacy, Rate of Return based support, there very well may be carriers willing to trade current higher support levels for future levels that are more certain and predictable. In particular, Rate of Return carriers may be willing to accept slightly smaller losses in return for larger gains in certainty.

It would be even more fair and equitable to allow every Rate of Return carrier the opportunity to choose the A-CAM model, regardless of resultant settlement level. It was open to every eligible carrier initially, without regard to whether its revenue would increase or decrease. Both the Commission and its subject rural carriers have gained considerable knowledge and experience since the initial A-CAM offer. Rate of Return carriers are now far more capable of assessing their options and making reasoned decisions.

The Commission should thus provide them at least one more opportunity to make this very critical choice on high cost support for advanced broadband services.

3. Full Funding of Carriers that Previously Accepted A-CAM Support

The original A-CAM offer resulted in an inadvertent, but still unfair, "bait and switch," due to unanticipated interest in the model. So many carriers chose A-CAM, in fact, that the per location support amount was substantially reduced to stay within budget.

Now is the time to restore the $200 figure to the original participants, the ones that chose, in good faith, a basically new and untested high cost support model. The return to $200 would further the cause of universal broadband service in rural America, and would be the right thing to do, providing it is done without reducing the high cost support of other rural carriers that choose to stay on legacy support.

4. Adoption of Changes to the Budget Control Mechanism

The current budget control mechanism is arbitrary and capricious, as its imposition often prevents Rate of Return carriers from receiving support that they have been promised, and on which they have based critical management and investment decisions. Further, it denies them the opportunity to recover their full costs, including the authorized Rate of Return on investment, for the provision of broadband services. It acts as a deterrent to the key universal service goal of extending rapid, advanced and affordable broadband service to every American.

The problem has been crystalized in a recent statement of the Universal Service Administrative Company (USAC): "As required by the FCC Rate of Return Reform Order, USAC is required to calculate total support available to distribute to Rate of Return carriers. In order to remain within the annual rate of return budget, USAC will apply the FCC Budget Control Mechanism methodology to reduce support for carriers subject to HCLS (including SNA and SVS) and or CAF BLS support." As a result, universal service support for the smallest rural carriers will be reduced by a whopping and unacceptable 15.52% over the course of the next year.

FCC Chairman Pai responded with a positive message for these carriers: "The prior Administration's budget control mechanism has created constant uncertainty for small, rural carriers, endangering their ability to make long-term investment decisions to bring high-speed broadband to the millions of Americans who still lack it. That's why earlier this year we allocated $180 million to such carriers as a stop-gap measure to avert budget cuts for the current funding year."

The Chairman went on to say, "But now small carriers are facing even more severe cuts in the coming years, which will only exacerbate the digital divide in rural America."

ICORE cannot stress strongly enough that any budget control mechanism that interferes with universal service at affordable rates in rural America must be changed to one that encourages the attainment of universal service goals. Any budget control mechanism that requires stop-gap measures every year to overcome its deleterious effects must be changed to one that provides constant and sufficient support to the nation's smallest carriers. And any budget control mechanism that prevents small carriers from recovering their true and valid costs of providing advanced, high speed broadband services in those high cost, low revenue-opportunity areas of rural America, must be changed or completely abandoned.

Recent FCC actions have already put substantial limitations on the amounts of carriers' opex and capex expenses eligible for reimbursement, outright prohibited several classes of expenses from universal service support reimbursement, and significantly reduced the authorized rate of return. These changes have seriously eroded support levels for small, rural Rate of Return carriers. Further overall reductions in support, resulting from an arbitrary and capricious budget control mechanism imposed on top of FCC rules prescribing individual company reductions, is not just unnecessary, but patently unfair. Imposition of the current budget control mechanism has absolutely nothing to do with any individual company's costs, efficiency, quality of service, good management, sound decision making, or adherence to universal service goals.

With the above individual carrier expense limitations/prohibitions, there is virtually no opportunity for small, rural carriers to “pad” their costs or “game the system.” The reduced authorized rate of return also guards against the “over-recovery” of small carrier costs. It seems to us that a rigid, inelastic budget control mechanism – one that does nothing to promote universal service in rural America – is no longer necessary.

The Commission should continually review all other universal service programs – rural health care, schools and libraries. and lifeline -- to determine whether there are areas of waste, fraud, abuse, non-compliance, or obvious anomalies. In fact, thorough review and investigation of wrongdoing, followed by swift, effective corrective action and strong and consistent enforcement, is likely the most effective method for controlling costs that the Commission could possibly implement. Over-management of communications services by punitive budget constraints will never further the cause of universal service in rural America.

After all, the real goal here is not adhering to, or staying under, some arbitrary budget level. The goal is to provide universal, advanced, high-speed broadband service, at affordable prices, to all Americans.

II. Conclusion

For the reasons presented above, the Commission should revamp and update its high cost support budget for Rate of Return carriers; provide a new A-CAM offer to ALL Rate of Return carriers; fully fund every A-CAM carrier; and change to a budget control mechanism that works in concert with the goals of universal, affordable, high speed and advanced broadband services, or eliminate completely the budget control mechanism. The principles of universal service in all areas of rural America demand these measures.

Respectfully Submitted,

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