Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Options To Promote Rural Broadband	)	WC Docket No. 10-90
In Rate of Return Areas	)	

Comments of the ICORE Companies

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I. INTRODUCTION

In its Public Notice, the Commission asks questions of critical importance to the deployment of broadband in rural areas served by small, incumbent ILECs: Should steps be taken to “make universal service fund support available to support (standalone) broadband lines,” i.e., lines where “customers choose not to purchase voice telephony service?” And further the Commission asks: Would the development of an explicit voluntary pathway for Rate of Return ("RoR") carriers to receive CAF II model based support enhance the deployment of broadband in their service territories?

The ICORE companies[1] believe strongly that successful implementation of broadband service in rural America, if it is to be reasonably comparable in price and quality to that in non-rural areas, would be greatly enhanced through the provision of support for standalone broadband lines. Further, the provision of alternatives to RoR generated support could also further the Commission’s goals. RoR companies are committed to the provision of the highest quality voice and broadband service to their customers. These ILECS have historically provided quality service utilizing the latest technology and have strived to do so in an efficient and cost effective manner. The Commission’s recent changes to the traditional USF and intercarrier compensation mechanisms have and will continue to produce significant negative impacts to RoR ILECS’ historic revenue streams. This result makes the continued provision and growth in

[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), McClure Telephone Company (McClure, OH), 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), Summit Telephone Company (Summit, AK), and Venus Telephone Company (Venus, PA).

availability of broadband service an ever increasing challenge for rural RoR ILECS. For this reason the ICORE Companies find it beneficial to consider alternative approaches for determining RoR LEC support to insure that the goal of universal broadband availability is realized.

II. WHY HIGH COST RURAL AREAS REQUIRE SUPPORT FOR STANDALONE BROADBAND LINES

The same conditions persist today that occasioned the need for support and incentive mechanisms to produce and sustain universal telephone service at affordable rates throughout the areas served by small, rural ILECS. These conditions generally include – relative to more urban settings - smaller, more scattered, and less wealthy customer bases, with fewer large business customers.

While the costs associated with broadband are different in many ways from those for traditional telephone service, it is still far more costly – in relative terms – to serve the smaller, less dense, more residential subscriber base of the typical rural ILEC. Economies of scale and scope are not readily available to these smaller entities.

In the past, a number of support mechanisms were adopted over several years to help rural ILECs overcome these substantial obstacles and achieve the worthy goals of universal service at affordable rates in their service territories. If the Commission is to realize its equally laudable current goals regarding fair and equitable broadband deployment, some comparable level of support for costly rural, standalone broadband lines must be implemented.

III. ABSENT SUPPORT, RURAL ILECS AND CUSTOMERS WILL BE SEVERELY DISADVANTAGED

The Commission requires that RLECs: 1) deploy broadband-capable infrastructure as a condition for receiving traditional high cost support and 2) offer broadband services upon reasonable request. Yet despite these mandates, present rules prescribe that loops used jointly for voice and broadband services are eligible for high cost support, but loops used solely for broadband are not.

A comparison of the prices between jointly used lines and standalone broadband lines for a typical ICORE RLEC demonstrates the dramatic rate differences caused by these rules:

Rate Element	Jointly Used Line	Broadband Only Line
Basic Local Service	$14.00	$ 0.00
Subscriber Line Charge	$6.50	$0.00
Access Recovery Charge	$1.00	$0.00
High Speed Internet	$29.99	$9.99
Federal USF Charge	$1.13	$13.26
Data Only Plan	$0.00	$87.82
Total	$52.62	$111.17

This situation leads to some very arbitrary pricing for customers of ICORE companies, where those canceling voice service (leaving broadband service only over the loop) experience increases of over 100 percent in their per line rate. The customer ends up paying more – more than double, in fact – for a single service rather than two.

As these examples show, the failure to provide high cost support for standalone broadband loops causes great confusion and consternation among customers of ICORE companies. It obviously puts ICORE RLECS at a tremendous competitive disadvantage, since – due to their higher costs of providing rural service - their unsupported broadband lines must be priced far higher than their competitors.

This lack of high cost loop support for standalone broadband loops causes a catastrophic difference in cost recovery between them and jointly used lines, and creates an unacceptable rate disparity for their customers. There can never be rate or service comparability between urban and rural customers under these circumstances.

IV. A SIMPLE RULE CHANGE CAN REMEDY THIS SITUATION

One way to provide high cost support for these standalone loops would be to treat them comparably to voice only and jointly used (voice and broadband) loops. That is, a rather simple rules change could assign 25 percent of their costs to interstate, include them in high cost calculations, and make them eligible for high cost support. All other, non-loop broadband costs could be handled as they are currently.

While this disparate treatment of jointly used loops versus standalone broadband loops can cause huge and harmful pricing differences per line for rural customers (as noted above), the total number of lines affected by this proposed change may be relatively small. Based on ICORE's admittedly limited data and anecdotal evidence, it appears that providing high cost support on these standalone broadband lines would likely have a de minimis effect on the Commission's prescribed $2 Billion high cost budget for rate of return territories.

V. ANY PLAN DESIGNED TO ENCOURAGE CONVERSION TO PRICE CAP REGULATION MUST BE FLEXIBILE IN TERMS OF TIMING, THE AMOUNT OF SUPPORT, AND THE COMMITMENT TO ACCEPT SUPPORT

In this proceeding the Commission seeks comment on whether creating an explicit voluntary pathway for RoR carriers to receive CAF II model based support would enhance the deployment of broadband in their service territories. For the reasons discussed above the ICORE Companies believe that options to traditional support are needed. The development of a voluntary option for RoR carriers that would facilitate the conversion to price cap regulation could be beneficial for some RoR ILECS relative to their ability to provide broadband and the

ICORE Companies believe that this voluntary pathway should be developed and implemented. Due to reductions in traditional support and intercarrier compensation revenues, the receipt of stable model based support combined with incentive regulation could be an attractive option to many RoR ILECS and could have a favorable effect on their investment decisions regarding broadband services.

The voluntary pathway developed by the Commission for RoR ILECS to convert to price cap regulation and CAF II cost model support must be streamlined and flexible. RoR ILECS that elect this option should not be expected to do so blindly without knowing the level of cost model support that would be received. As such, there should not be a deadline for a RoR LEC to elect this option. RoR ILECS should be given ample time to consider the many implications of a decision to convert to price cap regulation.

In regard to the level of support to be received by RoR carriers electing the voluntary option, the support amounts should be no less than the results of the cost model. Consideration should be given to a transition from traditional support levels to model based support when the election of model based support would result in a significant reduction in support amounts. When considering the transition, the Commission could implement a three-step process which would be similar to that which was implemented to reduce competitive ETC support. RoR carriers electing price cap regulation under this voluntary approach should be afforded all the rights and options relative to model based support as traditional price cap ILECS. This would include the option to decline model based support at the study area level.

VI. THE COMMISSION SHOULD CONSIDER REVISIONS TO 47 C.F.R. SECTION 61.39 AS A FORM OF INCENTIVE REGULATION FOR THE SMALLEST RURAL CARRIERS.

The Commission may wish to consider another option to incent RoR carriers to move to a model-based support mechanism. RoR carriers may be reluctant to move away from the form of regulation to which they are accustomed. Often times average schedule companies will not move to cost-based settlements because they know there is no "going back", no ability to become average schedule again absent an FCC waiver. In this case, having no fallback position will likely be a disincentive to carriers electing to convert to price cap regulation to qualify for model based support. Price cap regulation requires a more rapid decline in interstate terminating switched access rates. While it is an appropriate goal to encourage incentive-based regulation, the benefits of RoR for some of the smallest companies in the country cannot be overlooked.

To achieve a balance between the goals of incentive regulation, model based support, and carrier of last resort obligations, the Commission should consider a modified rate of return election under which model based support would be made available. This can be achieved by a rules modification to allow model based support to those carriers electing a slightly modified section 61.39 ratemaking methodology. Under a revised section 61.39, carriers would establish their initial rates based on their historical revenue requirement and demand. The switched and special access rates can be calculated consistent with the Commission's ruling in granting waivers to Consolidated Communications, Frontier, and Windstream to convert directly from average schedules to price cap regulation[2]. This severs the link between expenses, investment, and revenues, and is consistent with the FCC's actions in . However, the requirement to restate

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[2] See ¶ 17 In the Matter of Joint Petition of Price Cap Holding Companies for Conversion of Average Schedule Affiliates to Price Cap Regulation and for Limited Waiver Relief of Consolidated Communications, Frontier Telephone Companies, and Windstream Telephone System, WC Docket No. 12-63, released December 13, 2012.

the rates each two years means that the rates are restated to reflect a new and ongoing rate of return driven revenue requirement.

To remedy this, the revised section 61.39 would allow the carrier to continue to charge the same rates as it had previously developed with no mandatory restating of the rates[3] each two years. This approach creates the incentive regulation the Commission feels is most beneficial to consumers without complete abandonment of the rate of return safeguard that is still needed in many rural portions of America. Because section 61.39 allows a company to convert back to rate of return regulation, it could be attractive to companies that would not consider price cap regulation. This approach would strike the necessary balance between incentive regulation and consumer protection.

VII. COMPANIES MAY ELECT PRICE CAP REGULATION EVEN IF THE MODEL SUPPORT IS LESS THAN WHAT IS PROVIDED THROUGH CURRENT FUNDING MECHANISMS.

It should not be assumed that the decision to convert would be based solely on the monetary difference in funding levels between traditional support and CAF II model based support. RoR ILECS would also give significant weight to many other factors not the least of which would be the potential benefits of incentive regulation. Other issues requiring significant consideration are the shorter transition to bill and keep for intercarrier compensation rates as well as the accelerated broadband network deployment requirements for price cap carriers. In addition, the stability of model based support would also be a major consideration.

[3] Rates would be adjusted to satisfy the requirements of the FCC's USF/ICC Transformation Order.

Additionally, companies may elect to move to price cap regulation in anticipation of a ruling by this Commission that the authorized rate of return should be reduced below its current level of 11.25%. The risk of having interstate settlements further reduced by Commission actions could drive rate of return LECs to price cap regulation. To the extent the Commission has already indicated its preference for incentive-based mechanisms, it should explicitly address what impact if any a change in the authorized rate of return would have on a carrier that elects price cap regulation. A company electing price cap regulation has chosen to break the link between expenses, investment, and rates. As such, any change in the authorized rate of return would not result in any change in the rates charged by price cap carriers. Should the Commission plan being designed in this docket have a different outcome, this should be addressed explicitly in order to provide all companies with the best information available to analyze this voluntary regulatory change.

VIII. COMPANIES CONVERTING TO PRICE CAP REGULATION SHOULD HAVE THE FULL 5-YEAR TERM FOR SUPPORT AND SERVICE OBLIGATIONS

RoR carriers electing the voluntary price cap conversion pathway should receive model support for a minimum of five years consistent with the CAF II support to be received by traditional price cap ILECS. It would be unfair to provide support for a lesser period to a RoR carrier who elects voluntary price cap conversion at some point during the five year CAF II time frame that will apply to traditional price cap ILECS. Voluntary converters should receive the assurance of stable and predictable CAF II support for the same length of time as existing price cap ILECS. The five year support period for voluntary price cap converters should commence with the effective date of price cap regulation for those ILECS. Similarly, RoR ILECS voluntarily converting should be afforded additional time to meet the network build-out/service obligations of price cap carriers. The time frame for completion of service obligations for companies that follow the voluntary pathway should reflect the effective date of price cap regulation and should not be tied to specific dates and benchmarks associated with traditional price cap ILECS.

IX. CONCLUSION

The costs of providing broadband service in rural America are much higher than in urban areas. These higher costs have been recognized for many years in the support mechanisms afforded RLECs for provision of traditional telephony services. This same kind of support is needed for broadband only lines, to avoid arbitrarily high rates for rural customers, and artificial competitive disadvantages for the RLECs that serve them.

The development of a streamlined voluntary pathway to price cap regulation would undoubtedly be an attractive option for many RoR ILECS and its' availability and implementation would advance the Commission's goals relative to broadband. Due to the many variables discussed above and given the great disparity in size and operating characteristics of RoR ILECS, the plan can't be a one size fits all approach. It is critical that this voluntary election provides the flexibility required to acknowledge the significant differences between the affected carriers.

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