



April 8, 2013

The Honorable Mark Pryor
Subcommittee on Communications,
Technology, and the Internet
255 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Roger Wicker
Subcommittee on Communications,
Technology, and the Internet
555 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Pryor and Ranking Member Wicker:

The Telecommunications Industry Association (TIA), the leading trade association for global manufacturers, vendors, and suppliers of information and communications technology, wishes to thank you for holding a hearing this week to examine the State of Rural Communications. TIA is strongly supportive of efforts to maximize broadband deployment in both unserved and underserved communities.

In particular, TIA supports the FCC's ongoing efforts to reform the Universal Service Fund and intercarrier compensation rules, and the transition of universal service to fund the deployment of broadband-capable infrastructure. The FCC's target of \$4.5 billion in annual funding for the new Connect America Fund is laudable. However, the transition to broadband must incorporate flexibility for rural carriers during the USF-to-CAF transition period, along with technology neutrality. To do otherwise may inadvertently discourage investment due to lack of clarity regarding expenditure requirements.

Indeed, uncertainty regarding USF/ICC reform has already impacted capital expenditures. As described in the attached appendix, regulatory uncertainty resulted in more than half of CAF Phase I funds not being accepted by carriers, even as the Phase II process remains behind schedule. Meanwhile, traditional ICC revenue is phasing out even as uncertainty remains regarding the new CAF revenue stream.

TIA appreciates the FCC's efforts to move forward with the USF-to-CAF transition. We urge you to encourage the Commission to continue moving expeditiously to resolve these issues in the months ahead.

For more information, please contact Danielle Coffey at (703)-907-7734 or by email at dcoffey@tiaonline.org. TIA once again thanks you for your work on these important issues, and we look forward to continued progress in 2013 and beyond.

Sincerely,

Grant E. Seiffert
President

Attachment: USF / ICC Reform – Recent Challenges and Progress

USF / ICC Reform – Recent Challenges and Progress

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Recent uncertainty regarding USF / ICC reform and the transition to the new Connect America Fund (CAF) has significantly impacted capital expenditures by rural carriers.

- During the CAF Phase I program in 2012, only \$115 million (out of a potential \$300 million) in funding was accepted by price-capped carriers due to uncertainty or lack of flexibility regarding the FCC rules. Carriers such as CenturyLink, Windstream, Fairport and Alaska Communications Systems filed waiver petitions requesting reasonable rule modifications so that they could accept their allotment of funds, but the FCC did not rule on their petitions.
- The CAF Phase II forward-looking cost model, originally targeted for completion by the end of 2012, has missed its deadline and remains behind schedule.
 - Rate-of-return carriers, who are impacted by quantile-regression-analysis (QRA) adjustments, await details on the model and cannot plan effectively for multi-year projects. Meanwhile, traditional ICC revenue is phasing out even as uncertainty remains regarding the new CAF revenue stream.
- Without CAF Phase II in place, the FCC issued a Further Notice of Proposed Rulemaking for a 2013 CAF “Phase I.x” to allocate \$485 million to price cap carriers. (This consists of \$300 million in new funding plus the \$185 million in unaccepted prior Phase I funding.) The comment cycle was completed in early February, but the FCC has not yet allocated these funds.
 - On April 3, the CEOs of CenturyLink, Windstream and Frontier wrote to Chairman Genachowski noting that their companies stand ready to deploy broadband infrastructure as soon as the CAF funds are allocated, but that further delays during the spring season (optimal for infrastructure construction) are particularly harmful.

The FCC has, however, taken some positive steps for rate-of-return carriers with the release of its 6th Reconsideration Order on February 27.

- The Order combines the two separate Capital Expenditure and Operational Expenditure quantile-regression-analysis (QRA) benchmarks into one benchmark, simplifying the regression analysis. As a result, the figure of 159 companies previously subject to reductions in financial support has been decreased to only 70 rural carriers being impacted in 2013.
- The Wireline Competition Bureau has been directed to consider keeping the QRA benchmarks in place for a longer period of time, as opposed to annual adjustment which provides carriers with less certainty for long-term investment.
- The Order helpfully provides a 15 percent “backstop.” Beginning with the first full month after the effective date (and for the rest of 2013), the amount of any support reduction for carriers is limited to no more than 15% of an area’s support as would otherwise be calculated based on National Exchange Carrier Association (NECA) cost data.
- Even with these modifications, however, many carriers will still feel the arbitrary impact of the 2013 QRA benchmarks. For example, more than 70 percent of the carriers that will be capped in 2013 will face lower QRA benchmarks than they did in 2012.