



July 29, 2011

Chairman Julius Genachowski  
Commissioner Michael Copps  
Commissioner Robert McDowell  
Commissioner Mignon Clyburn  
Federal Communications Commission  
445 Twelfth Street, S.W.  
Washington, D.C. 20554

***Re: America's Broadband Connectivity Plan***

Dear Mr. Chairman and Commissioners:

The companies listed below respectfully submit the attached proposal to reform the universal service and intercarrier compensation systems. We have been working in good faith for the past several months discussing reform amongst ourselves and with other stakeholders. After months of hard work, and significant concessions on the part of all signatories, we have attempted to develop a framework that balances the many policy and political challenges these issues present. Our proposal will ensure that four million rural homes and businesses in high-cost areas served by price cap carriers will have access to broadband, two million of which will enjoy the benefits of broadband for the first time.

We thank you all for your leadership in this area. We also thank the team that prepared the National Broadband Plan, which has served as a foundation for this proposal. As you know, we can no longer afford to continue to sidestep the urgent need to implement new policies in this space. The industry is ready. The Commission is ready, having studied both of these issues for years, providing multiple opportunities for public comment, and receiving thousands of filings. The time is now for meaningful, comprehensive reform of both the universal service and intercarrier compensation systems.

The framework we have developed will directly enable efficient deployment, operation, and enhancement of broadband networks in high-cost areas. The reforms we propose will simultaneously rationalize the universal service and intercarrier compensation systems. They will encourage additional private sector investment. And,

they will help narrow the “rural-rural divide” by targeting funding to areas that have been neglected under the current universal service program. As the National Broadband Plan and the FCC’s notice of proposed rulemaking acknowledged, a rural-rural divide exists because the current system supports upgrades to the best rural networks in the nation but does not address the needs of millions of others in rural areas that receive insufficient support. Addressing these disparities in the current system in a fair and equitable way will make substantial progress in closing this divide. Finally, and most importantly, these changes will produce enormous benefits to consumers.

### **RATIONALIZING AND REFORMING THE HIGH COST FUND**

The plan proposes to create and fund a new broadband “Connect America Fund” that will focus on two important goals: (1) extending broadband to unserved areas within five years; and (2) maintaining and improving broadband service in other high-cost areas. Support would be awarded through a combination of a forward-looking cost model and competitive bidding. This proposal is designed to stay within a budget constraint of \$2.2 billion.

The main objective of the Connect America Fund will be to support broadband in areas in which there is no private sector business case. As a result, under our proposal, the system would no longer support services in areas in which another provider offers the defined service without a subsidy.

Providers that elect to receive support from the proposed Connect America Fund must offer broadband service that provides customers with a minimum actual bandwidth of 4 megabits per second downstream and 768 kilobits per second upstream. This service would also provide robust capacity that is sufficient for households to use education and health care applications. The broadband service obligation is technology neutral: providers could use any wireline or wireless technology that meets the Commission’s bandwidth and capacity requirements.

While focused on the nation’s broadband deployment goals, our plan also acknowledges and responds to additional policy concerns that may constrain the program’s ability to enable ubiquitous broadband access in the near term. Our initial projections determined that annual support would need to grow to approximately \$10 billion for all Americans to receive terrestrial broadband access. We, however, opted to pursue an alternative path to accomplish these critical goals without increasing the size of the high-cost fund. As Chairman Walden recently observed “...the support from the high-cost fund has not always been targeted to those consumers in those rural areas who need it most, which has created a rural/rural divide. And the mounting costs of the high-cost fund, along with declines in the USF funding base, have led to ever-increasing customer surcharges as high as 15% of the interstate portion of a customer’s phone bill. In a word, the Universal Service Fund has become unsustainable. ***Reform is no longer an aspiration; it is a necessity.***”<sup>1</sup>

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<sup>1</sup> Speech before the Oregon and Washington Telecommunications Associations (June 7, 2011) (emphasis added).

## **FIXING THE BROKEN INTERCARRIER COMPENSATION**

Reforming the intercarrier compensation system is a critical component of our framework. As you know, new technologies and products are eating away at wireline carriers' access revenues. Carriers are losing access lines that provide the basis for access charges. Carriers are also increasingly unable to realize access revenues on their remaining lines because of the fraud and arbitrage schemes made possible by today's complicated, multi-tiered system. Today's status quo is not the basis for comparison – we must consider what will happen to our industry if intercarrier compensation reform does not take place. The future of continued intercarrier compensation losses has dire consequences, for both carriers and consumers, in the absence of reform. Although finding the right way to transition away from the policies of the circuit-switched world is difficult, consumers and the entire industry will benefit from the effort once it is completed.

This plan proposes reasonable reforms that include a five-year transition to a single, low default terminating rate of \$0.0007 per minute starting July 1, 2012 and completing July 1, 2017, coupled with essential opportunities for companies to recover these lost revenues from their customers as well as through a new temporary recovery mechanism that would be part of the universal service fund. In addition, the plan calls for immediate FCC action on compensation for Voice over IP traffic, access pumping, and phantom traffic. These reforms would go into effect on January 1, 2012. Moving all circuit-switched traffic to a uniform, low default rate and fixing the other persistent problems dogging the system will help prevent the arbitrage, disputes and litigation that have diverted resources and capital from productive uses. Carriers and policymakers will be freed of the burdens these intractable issues have imposed so they may put their resources to more productive use. And, the plan contains several backstops that will limit any annual increase in the federal subscriber line charge to modest amounts.

To ensure these major reforms do not destabilize carriers serving high-cost areas, it is critical that the Commission adopt and implement proposed universal service reforms at the same time as these intercarrier compensation reforms.

## **BENEFIT TO CONSUMERS**

The consumer benefits of this plan are undeniable. Most importantly, the plan if adopted will make currently unserved households in high-cost rural areas eligible for broadband support. It will enable continued and enhanced broadband access in areas that are served today. Broadband services provide consumers with access to a wide array of education, health care, employment, and entertainment applications.<sup>2</sup> Thus plan will

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<sup>2</sup> See Mark Dutz, Jonathan Orszag, and Robert Willig, *The Substantial Consumer Benefits of Broadband Connectivity for U.S. Households*, Internet Innovation Alliance (July 2009) (estimating that consumers receive more than \$30 billion of net benefits from the use of fixed-line broadband at home).

ensure that rural consumers also enjoy the extraordinary economic and social benefits of broadband.

Private sector investment will thrive under this regulatory regime, accelerating the transition from traditional circuit-switched networks to IP-based networks. The plan encourages this transition by supporting the deployment of broadband. Consumers benefit from the deployment of Voice over IP because network operators can reduce the cost of providing voice service. Consumers will see more and more new features that are possible with IP-based networks. For example, the estimated gain in consumer welfare from one IP-enabled feature alone – “voice-to-text” emails – exceeds \$1 billion.<sup>3</sup>

The plan’s intercarrier compensation reforms will also benefit consumers by reducing the cost of voice calling and stimulating an increase in demand for voice calling. It is possible to measure in dollars, for example, how much consumers would benefit overall from lower intercarrier compensation charges. One part of that calculation is what economists call “consumer surplus.” The plan proposes to reduce all rates to a small per-minute charge of \$0.0007, which translates into an estimated gain in consumer surplus of more than \$8 billion per year.<sup>4</sup> And, as terminating access charges are reduced to the unified \$0.0007 terminating rate, carriers will be freer to offer the flat-rated bundles that consumers prefer. In addition, reductions in terminating access charges will eliminate the incentive to keep local calling areas artificially small. With larger calling areas, a rural consumer could call a hospital or business in a neighboring town without incurring toll charges.

The plan will also benefit consumers by moving to a more rational pricing structure for voice service. The plan encourages all voice providers to shift to a greater reliance on retail end user revenues, replacing a system that allowed some providers to use revenues from other carriers to keep retail prices artificially low. Because voice prices will continue to be constrained by competition from a wide array of wireline, wireless, and Voice over IP providers, the shift to a more rational pricing structure will only benefit consumers.

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We ask that the Commission give careful consideration to this plan. We believe that it represents a fair and realistic approach to reform that will put the universal service and intercarrier compensation systems on a sustainable path. No doubt, some parties will complain that the plan goes too far; others will complain that it does not go far or fast enough. We ask you, however, not to let the perfect be the enemy of the good. We can no longer afford to delay action on these issues that are enormously important to our industry.

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<sup>3</sup> Attachment 4 – Professor Hausman Consumer Benefits Paper, ¶ 27.

<sup>4</sup> Hausman Paper ¶ 24.

We look forward to working with you to cross the finish line and finally accomplish intercarrier compensation and universal service reform.

Sincerely,

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