

FCC's Reform of the USF and ICC

The Impact on Kansas Rural Independent Telephone Companies

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- Mr. Chairman and members of the Committee. I am Brian Boisvert, CEO and General Manager of Wilson Communications. Thank you for the opportunity to share with you the views of the Kansas Rural Independent Telephone Companies relative to the FCC's recent order on the Universal Service Fund and Inter-Carrier Compensation reform.
- The Kansas Rural Independent Telephone Companies (KRITC) support the overall goals of the National Broadband Plan. The KRITC have and continue to build robust, high quality networks providing economic opportunity for the very rural areas we serve. Our networks are capable of providing advanced services as envisioned in both the federal and state telecommunications acts. Unfortunately, the reform rules as currently written and proposals in the FNPRM will result in less affordable, and a potential loss of broadband access to many rural areas the plan envisioned.
- We understand the direct connection between affordable access to ever improving broadband networks and economic development for small, rural communities. After all, we live and work in these communities. We see firsthand the direct link of our services and the success, and sometimes survival of these very rural communities in Kansas. We recognize and support the need for both wireline and wireless service. We also recognize that a fiber optic based, wireline network is the only infrastructure truly capable of meeting the ever growing bandwidth needs of rural Kansans.

- One area not addressed in the FCC's Order is contributions. The KRITC believe this should have been contained in the reform order. We recognize the evolution of the network and see the need to expand contributors. Contribution reform should include internet service providers, and content providers such as Google and Netflix. Contributions is under consideration in the FNPRM.
- In the USF reform, the FCC has put into place rules that will reduce investment in critical broadband capable networks and prevent recovery of necessary operating expenses. One unfair and unreasonable formula to limit recovery of investment and expenses results in the loss of millions of dollars in support funding to rural Kansas companies. In addition, this rule as currently written is retroactive reducing support on investments made and expenses incurred under the previous rules.
- The FCC has also shifted the cost to the end user for carrier access. Fundamentally, we do not support the notion that carriers who prosper from access to our customers should shift the cost of that access onto the customer. The FCC's ICC reform does just that. It reduces access rates to essentially zero (\$.0007) over time with the customer paying for the recovery of these necessary revenues in the form of an Access Recovery Charge (ARC). Only after the customer has reached a limit set by the FCC, will CAF support funding be available.

- As the previous paragraphs point out, The FCC order results in reduced support for many rural Kansas companies and creates regulatory uncertainty. This will likely result in reduced investments and slow the deployment of broadband capabilities. The FNPRM adds additional uncertainty with the prospect of many additional changes.
- The initial comment period for the FNPRM on USF ended on January 18th. Many rural telephone companies, rural telephone associations, rural telephone consulting firms , along with several state public service commissions filed comments. We hope the KCC will take the opportunity to urge correction of the FCC's mistakes.
- Some will argue that ICC and the KUSF have served their purpose. That it is time to end these essential programs. We couldn't disagree more. These programs are more vital than ever. The FCC is correct in modifying the Federal Universal Service fund to support broadband and wireless networks. However, limiting the size of the fund at current levels will not provide affordable and reliable broadband service to all Americans as envisioned in the Nation Broadband Plan. It's now time, more than ever, to adopt rules and processes that will truly provide rural Kansas Communities with the communications network they need and deserve.
- Only sufficient, predictable and identifiable support targeted to the carriers who have experience and knowledge of prudent investment and efficient operations will ensure rural Kansans will be equipped to compete in the 21st century.

Kansas Rural Independent Telephone Companies (KRITC)

Blue Valley Tele-Communications Inc

Bluestem Telephone Company Inc

Columbus Telephone Company Inc

Craw-Kan Telephone Coop Inc

Council Grove Telephone Company Inc

Cunningham Telephone Company Inc

Elkhart Telephone Company Inc

Golden Belt Telephone Assn Inc

Gorham Telephone Company Inc

H&B Communications Inc

Haviland Telephone Company Inc

Home Telephone Company Inc

JBN Telephone Company Inc

KanOkla Networks

LaHarpe Telephone Company Inc

Madison Telephone Company Inc

MoKan Dial Inc

Moundridge Telephone Company Inc

Kansas Rural Independent Telephone Companies (KRITC)

**Mutual Telephone Company Inc
Peoples Telecommunications LLC
Pioneer Communications
Rainbow Telecommunications Assn
Rural Telephone Service Company Inc
S & A Telephone Company Inc
S & T Telephone Coop Assn
South Central Telephone Assn Inc
Southern Kansas Telephone Co Inc**

**Sunflower Telephone Company Inc
Totah Telephone Company Inc
Tri-County Telephone Company Inc
Twin Valley Telephone Inc
United Telephone Association Inc
Wamego Telephone Company Inc
Wheat State Telephone Inc
Wilson Telephone Company Inc
Zenda Telephone Company Inc**

36 Companies

Kansas Rural Independent Telephone Companies (KRITC)

- **RLEC's serve 10% of Kansas Population**
- **RLEC's service areas covers 50% of Kansas land mass**
- **An average customer density of 2.5 customers per square mile**
- **An average study area size greater than 1000 square miles**

Universal Service / ICC Reform

Rate of Return Carriers

➤ Reforms to legacy support mechanisms

- Framework to limit capital and operating expense recovery
- Reduction of support based on investments and expenses made under previous rules
- Extend general support operations expense cap to ICLS
- Reduce HCLS for carriers with low rates
- Phase out Safety Net Additive
- Eliminate LSS
- Phase out support in study areas with 100% overlapping non-supported service available
- Cap per-line monthly support at \$250

Universal Service / ICC Reform KRITC Concerns

- **Results in increasing costs to customers**
- **Usurping of State Commission Jurisdiction**
 - Require increases in local rates if below a threshold or lose the revenues
 - Require reduction in rates charged to toll and wireless carriers for use of the intrastate network
- **Loss of Critical Funding**
 - Loss of Federal support revenue for investments already made. For just one of the changes, collectively Kansas rural ILECs could lose \$15M to \$18M in the first year
 - Elimination of all revenue over time for use of the telecommunications network made by toll and wireless carriers

Universal Service / ICC Reform Unintended Consequences?

➤ Effect on Rural Consumers

- Possible loss of quality and affordable voice and broadband service – at a minimum, increased rates – at a worst, loss of services
- Reduced possibility for rural economic development if reliable broadband service is less available.

➤ Effect on Kansas Rural Telecommunications Carriers

- At a minimum, most Rural ILECs will have to suspend further network investments.
- If the loss of federal revenue is significant enough, individual rural ILECs will have difficulty (a) maintaining the existing network and the services it provides and (b) paying back the loans made (largely by RUS) to build the existing network.

Universal Service / ICC Reform

Many Unknowns

- **Further Notice of Proposed Rule Making is in progress.**
- **Many decisions are still pending.**
- **Methods for implementing many of the new rules have not been developed.**
- **Numerous requests for reconsideration have been filed.**
- **More than 20 court challenges will heard by the 10th circuit court of appeals in Denver.**
- **We recommend no statutory action be considered in 2012 due to amount of uncertainty that still exist.**