



Small Company Coalition (SCC) Position Paper Relating to the Federal Communications Commission (FCC) Order on Comprehensive Universal Service Fund (USF) and Intercarrier Compensation Fund (ICC) Reform

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- The FCC released its Order reforming USF and ICC mechanisms in November of 2011, with the ultimate end of connecting 18 million currently underserved or unserved Americans to broadband Internet. While a laudable goal, the manner in which the FCC proposes to execute such a plan will have an effect contradictory to its stated goals as well as the Congress-mandated “sufficient and predictable” requirements provided by the 1996 Telecommunications Act.
- Included among the reforms is the implementation of the Quantile Regression Analysis (QRA), a technique used to determine various expense caps. In its 6th Order on Reconsideration, the FCC combines all previous caps into one, though in direct contrast to the aforementioned Congressional provisions, the QRA still creates an atmosphere of complete uncertainty, as the cap changes year-to-year and cannot be known prior to its annual implementation. The Commission’s most recent revision also discusses the possibility of modifying these caps to fit multi-year intervals, though adoption of this change is not guaranteed. In the meantime, for each dollar that a company exceeds the cap, they shall lose that dollar in support. The result is a business environment in which companies are risk-adverse, not wanting to exceed the caps through investment, and thus impede growth.
- Though rural carriers have seen unprecedented usage of their networks, partially due to the increase of VoIP traffic, the reduction of Intercarrier Compensation to bill-and-keep devalues rural networks. Prior to this Order, carriers would compensate one another for the usage of one another’s networks. Under the provisions of the Order, carriers will be expected to derive these reimbursements from the end-users themselves. This will directly result in higher consumer rates, with increases from \$10 to \$17 per month.
- These same expense caps retroactively punish companies who made investments under the old rules. Though companies made significant investments, many with the Rural Utilities Service (RUS), the regulatory reality has been completely transformed. Many of the revenue recovery mechanisms which existed when these investments were made have been either reduced or outright eliminated. Though this issue has been raised at multiple Congressional hearings, the FCC still has chosen not to employ a grandfather clause, which would exclude such companies from the current reforms until their debts had been

paid. To this end, there is a widespread fear of defaulting on these loans, a concern addressed by both small carriers and the RUS in these Senate and House hearings.

- The FCC has offered a waiver as the solution to any possible reform-related red-lining. Not only is the waiver process onerous, the provisions for receiving a waiver are entirely irrelevant to the FCC's stated goals. In order to receive a waiver, the applicant must demonstrate that its ability to deliver *voice* service to its customers is severely impaired, yet the purpose of the Order is to connect these Americans to *broadband*. The structure of the waiver provision, in effect, may reject an applicant seeking relief even though it cannot provide broadband, but simply because it still has the ability to provide voice service.
- Wireless service and broadband Internet depend upon rural networks to function. The state of the American telecommunications/broadband network is one of interdependency. In order for wireless calls to be completed from state-to-state, or across the country, as well as national broadband connectivity, rural telecommunications infrastructure is invaluable.
- Numerous hearings have been held in both the House and Senate, with concentration on the Order's impact on Tribal carriers and communities. We would like to replicate this initiative with a broader focus on the small rural industry at large. In the interests of small rural telecommunications carriers, the rural Americans they serve, and the general quality of the American broadband and telecommunications network, the SCC implores Congress to initiate a hearing on the FCC Order, issue a halt to its implementation, and demand substantial consultation with small carriers and meaningful, equitable regulatory revision.