



SMALL COMPANY COALITION

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February 5, 2018

Via ECFS

Marlene Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: Proposed Rural Broadband Order and NPRM

Dear Ms. Dortch:

On Thursday, January 25, 2018, James J. Kail and Luke Kail with Laurel Highland Telephone Company, Doug Kitch of Alexicon, and Keith Nelson—collectively representatives of the *Small Company Coalition* (SCC)—conducted a teleconference with Jay Schwarz, Chairman Pai's Wireline Advisor. The purpose of the discussion was to acquire a better understanding of the details of a recently-reported draft Order from Chairman Pai adding \$500 million in added funding for broadband deployment by rural and small carriers, and to discuss additional areas of concern to the SCC.

Both the proposed Order and an upcoming NPRM were discussed. We were informed that of the \$500M, \$180M is designed to mitigate the effects of the budget control mechanism (BCM) on legacy Rate of Return (RoR) carriers for year ending June 30, 2018. This would be a one-time payment. The remaining \$320M is designated for ACAM model takers, to be distributed over an approximate ten year period in total retroactive to July 1, 2017.

Going forward, BCM review will be part of the upcoming NPRM. The FCC anticipates establishing a threshold for legacy RoR carriers, where operating expenses (OpEx) up to a certain amount would not be subject to the BCM.

The NPRM will also contain an open review of the budget, and will seek industry input on a variety of issues, including a proposed additional model for legacy RoR carriers. The \$2B cap on the Universal Service Fund (USF) program will be part of this review.

Rural Growth Factor

Due to the way in which high cost loop support is structured, payments are dependent upon the growth in voice access lines in rural areas. Wireless and broadband have effectively eclipsed voice lines, however, leading to reductions in the growth in these lines. The voice line bias built into the payment formula needs to be corrected. It was agreed that the SCC would develop and bring forth ideas and recommendations on how this problem can be resolved.

USAC Surplus

The SCC has previously raised the issue of an apparent surplus in the USF, as identified in USAC Audit reports. The FCC indicated that while this surplus may appear to be in excess of \$8B, the bulk of these funds is actually committed to other FCC USF obligations. We were informed that while the USF does maintain a surplus, it is likely in the dozens of millions, not the billions apparent from the USAC reports. However, the SCC pointed out that this commitment or earmarking of the funds was not identified or made clear in USAC's audited financial statements.

Other Data Points

Several other noteworthy issues were discussed, including:

- Quarterly collections ultimately equating to \$4.5B annually will continue.
- While not changing any FCC policies, the Order will make explicit the rules on eligible deductible expenses.
- OpEx limitations will be adjusted for inflation going forward.
- Additional tribal issues will be addressed.

Pursuant to Section 1.1206(b) of the Commission's Rules, this submission is being filed for inclusion in the public record.

Sincerely,

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