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Federal Communications Commission
Washington, D.C. 20554

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In the Matter of

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| Notice of Proposed Rulemaking Regarding an | : | WC Docket No. 05-337 |
| Interim Cap on High-Cost Universal Service | : | |
| Support for Competitive Eligible | : | |
| Telecommunications | : | CC Docket No. 96-45 |
| Carriers | : | |

**COMMENTS OF
THE PUBLIC UTILITIES COMMISSION OF OHIO**

BACKGROUND AND INTRODUCTION

On May 1, the Federal State Joint Board on Universal Service released a Recommended Decision regarding the Universal Service High-Cost fund (High-Cost fund) ("Recommended Decision", WC Docket No. 05-337, CC Docket No. 96-45). In this Recommended Decision, the Joint Board urged the FCC to take immediate action to impose an emergency cap on USF High-Cost funding to Competitive Eligible Telecommunications Carriers (CETCs). The Public Utilities Commission of Ohio hereby submits its comments in this matter.

DISCUSSION

- A. The growth in the USF High-Cost fund attributable to CETC growth is out of control, and immediate action is required.**

The Federal-State Joint Board on Universal Service recommends that the FCC take immediate action, as an interim emergency measure, to temporarily cap the support

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provided to CETCs in order to stem the high growth rate in that segment of the High-Cost universal service support mechanism. (Recommended Decision, at 1 and 6). The fund has grown from \$1.8B in 1997 to \$7.2B by early 2007¹, and the contribution factor has leapt from 9.7% in 1Q07 to 11.7% in 2Q07, pushing the projected total growth of the fund during calendar 2007 to over \$1.28B under current conditions and potentially reaching \$1.56B if the FCC were to approve the CETC's currently pending applications for High-Cost support. (Recommended Decision at 3).

In addition to committing to work with the FCC to reform the High-Cost fund, the Joint Board also committed to recommending comprehensive reforms to the High-Cost fund within six months after issuing the Joint Board's Recommended Decision. (Recommended Decision, at 1). The Joint Board is also asking interested parties to submit proposals for comprehensive reform as well as comments on various proposals in the record, including reverse auctions, use of Geographic Information Systems (GIS) technology, and support for broadband services. The Ohio Commission believes that it is reasonable to expect that there will be a transition period to implement a comprehensively reformed system for High-Cost funding. Under these circumstances, the formulation and implementation of a new High-Cost Support system is likely to take at least 18 months, possibly longer. The Ohio Commission, therefore, believes that attempting to reform the USF High-Cost fund without imposing an interim "freeze" to cap CETC High-Cost support would allow the problem to worsen, even as parties work to resolve it. The Commission, the several States, and the telecommunications industry

¹ Testimony of Billy Jack Gregg, Director, Consumer Advocate Division, Public Service Commission of West Virginia, Before the Communications Subcommittee of the Senate Commerce, Science, and Transportation Committee, March 1, 2007.

would be chasing a moving target, in a real world example of Zeno's classic paradox². In other words, we are currently working on a problem that is \$7.2B and growing, we need to arrest the growth now, or we'll be dealing with a far larger problem before we're done.

B. The rapid growth in the fund exacerbates existing inequities in the High-Cost fund.

Ohio recognizes and supports the intention of the USF High-Cost fund to provide access to quality service available at just, reasonable and affordable rates in all regions. Rural, insular and high-cost areas should have access to telecommunication services that are reasonably comparable to services that are provided in urban areas. The USF High-Cost fund spreads the costs of providing service in high-cost areas nationally, consistent with the national benefit that universal service provides. However, the high cost fund as currently administered contains certain inequities.

Many states, especially more urban states, pay significantly to support the USF High-Cost fund and receive little or no benefit in return. These more urban states' ratepayers continue to subsidize the high-cost rural consumers in other states. While this is to a certain extent inevitable given the policy goal of universal service, the areas receiving support should be areas that truly require the funding support, not just areas defined as "high-cost". There are communities within some of the "defined high-cost areas" that may well be capable of bearing their own costs, yet receive funding simply because the entire area is defined as high-cost. As a result, there is no real way in a

² Zeno of Elea (ca. 450 BC) posited that in a race between Achilles and a tortoise, Achilles would never catch the tortoise if the tortoise had a head start, since by the time Achilles reached the point where the tortoise started, the tortoise would have moved.

reasonable timeframe to measure the success of the fund in bringing quality services to areas that would otherwise lack them. One cannot tell whether the USF High-Cost fund is actually doing the job it was designed to do.

The rapid growth in the High-Cost fund exacerbates these inequities, and the difficulties in dealing with them, due to the explosive growth in costs. This growth has been attributed to three factors; an increasing number of CETCs which receive high-cost support, the support funding to a CETC is based on the per-line support that the incumbent local exchange carrier (LEC) receives, rather than the CETC's own costs, and the support is provided to the CETC regardless of whether the CETC service is in addition to a LEC-provided service that already receives high-cost support. As noted by Chairman Martin, it is quite possible that the creation of CETCs has led to inefficiencies caused by having multiple carriers in markets that are, by definition, "prohibitively expensive for even one carrier".³

CONCLUSION

As already stated, immediate action is required in order to prevent the hyper-rapid growth in the USF High-Cost fund which threatens to damage the fund, distort the market, and increase inequities resulting from a system that, it is generally acknowledged, needs to be reformed. While not a permanent solution, the interim cap proposed by the Joint Board on Universal Service provides the single most critical resource in any large-scale reform, time to consider the options. The proposed cap

³ FCC Chairman Martin's reply to Representative Edward J. Markey's April 2, 2007 letter regarding Universal Service Issues. Both Representative Markey's letter and Chairman Martin's reply are available at: http://markey.house.gov/index.php?option=com_content&task=view&id=2825&Itemid=46

simply provides time for the FCC to consider the options for USF reform, without the ongoing concern of the explosive growth of the fund. The Ohio Commission encourages the FCC to implement the proposed cap in the most expeditious manner possible.

Respectfully submitted,

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