

**REMARKS OF FCC COMMISSIONER AJIT PAI
BEFORE THE 2014 SPRING MEETING OF WTA – ADVOCATES FOR RURAL BROADBAND**

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Good morning, and thank you for giving me this opportunity to address WTA – Advocates for Rural Broadband. WTA has been an invaluable voice in Washington, making sure that policymakers understand the challenges that rural telephone companies—strike that, rural broadband providers—face each and every day serving the vast expanses of the American West.

Believe me when I say that I know vast expanses. I know rural America because I am one of its sons. I grew up on the outskirts of Parsons, a town of about 10,000 people in the southeast corner of Kansas. The road to my parents' house wasn't paved (it still isn't!). It didn't have curbs and it certainly didn't have a bike lane. It was just a gravel road called "Rural Route 4." And while my parents weren't farmers, I did grow up next to an emu rancher—so the first "big bird" I got to know wasn't on Sesame Street.

Looking back on it, I wouldn't trade my upbringing for any other, partly because growing up in Parsons taught me a lot. One thing I learned is that rural America is different, especially when it comes to communications. For example, my family did not have cable, and only three broadcast channels reached our house. So eventually, my parents bought a big satellite dish and had it installed in our backyard. It was 10 feet wide and 10 feet tall. With the dish, we could watch non-broadcast programming if we typed the channel coordinates into a set-top box and waited a minute or two for the satellite to reposition itself. Between that and Atari, I thought I had it made! It wasn't until years later that I learned that my friends who grew up in the big cities had, let's say, a very different experience.

So I don't approach rural issues just from the perspective of a policy wonk. They aren't abstractions to me. I know that the decisions that we make in Washington, DC have a real impact on my family and folks back home. I know how important it is to deploy communications infrastructure to rural America. And yet I also know how difficult it can be.

That's why the first sentence of the Communications Act of 1934 is so important to me. It says that Congress created the Federal Communications Commission to "make available, so far as possible, to *all* the people of the United States . . . a rapid, efficient, Nation-wide, and world-wide wide and radio communication service with adequate facilities at reasonable charges."

We at the FCC must take this promise seriously. And in many ways, we have. For example, the Commission made the right call back in 2011 to reorient the Universal Service Fund away from supporting telephone service and toward supporting next-generation, broadband-capable networks. There were many good aspects to what is known as the *Universal Service Transformation Order*, and those serving on the Commission at the time deserve a lot of credit for tackling this challenge.

But in any 752-page decision, there are going to be mistakes. After all, the *Universal Service Transformation Order* wasn't divinely inspired. Moses didn't bring it down on tablets from Mount Sinai—which, I would point out, is a good thing given the *Order's* length. And when we at the Commission find those mistakes, it is our responsibility to correct them.

One of those mistakes has been in the news lately: the so-called "rate floor." The term "rate floor" is one of those nice euphemisms that we like to use in Washington, DC. Inside the Beltway, it may be a "rate floor" but in rural America it means an FCC-mandated price increase. Specifically, over a million rural households will see their telephone bills jump up to \$20.46 per month. That's a 46 percent jump over the current \$14 floor for rural consumers, many of whom are still waiting for the economic recovery to arrive.

And the rate floor won't only take a substantial bite out of rural Americans' bank accounts. For the small carriers who serve them, it may mean serious financial problems. Rate shock could send customers off the network entirely. That means further uncertainty about the economics of investing in rural America. As you know all too well, line loss is a real problem that's already hurting rural carriers. The rate floor will only make it worse.

So why would we raise rural Americans' telephone bills by 46 percent? Some claim that the rate floor is supposed to reduce "excessive subsidies for basic phone service." Well, we have a word in rural Kansas for that type of argument: hogwash. I strongly oppose excessive subsidies too, but the fact of the matter is that the rate floor is designed to increase rural rates *without* reducing the subsidies that carriers receive. So long as carriers raise their rates up to the rate floor, they receive the *same* subsidy. That means rural consumers pay more and there's no savings to the Fund that could be used to decrease everyone's rates or deploy more broadband.

Others argue that the law somehow requires us to raise rates on rural Americans by 46%. This is where I have to put my lawyer's hat on and say "Well, no." The Communications Act does not demand that the FCC increase what consumers pay for telephone service. For one thing, a core principle of Section 254 is that we are supposed to make telephone service more "affordable," not less.

Moreover, the law calls for "comparable" rates between rural and urban folks, not "identical" ones. And that's what's so bizarre about the rate floor: It just assumes that what's affordable in our country's largest cities must be affordable in our small towns. But that's not the case. Jobs pay more in the big cities; and families living there often have more disposable income. In Washington, DC, for example, the median household income is \$64,000. The median family in my hometown, by contrast, makes only \$38,000.

State commissions have long recognized this fact. That's why they've designed their rates to keep rural households on the network. We shouldn't intrude on state authority to disrupt these decisions—decisions that have kept people connected. And think about this: If the shoe were on the other foot, do you really think that the FCC would ever raise phone bills in Washington, DC by 46%? If you do, I've got a bridge in Bozeman to sell you.

I'm glad that I'm not the only one skeptical of the rate floor. WTA, along with NTCA – The Rural Broadband Association, the National Exchange Carrier Association, and the Eastern Rural Telecom Association, has called on the FCC to delay any increases so the Commission can "revisit the fundamental operation of the rate floor." Montana's independent LECs want a freeze, and the associations representing independent LECs in Colorado, Idaho, Nevada, Oregon, and Washington have called for a "moratorium" and a "re-examination of the public policy issues surrounding the urban rate floor concept." The Washington Utilities and Transportation Commission points out that a national rate floor means that rates in rural areas will "leapfrog the prevailing local telephone rates in the more urban areas of the state." And the National Tribal Telecommunications Association sums up the problem: "[A]sking . . . consumers to pay more for nothing in return is counterproductive to universal voice and broadband service goals." All of these organizations understand that the rate floor makes about as much sense for the American West as did the 55 mile per hour speed limit.

Some have suggested that the answer to this problem is to phase in a 46% rate increase over a couple of years. But this isn't acceptable either, unless Washington has a secret plan to increase rural families' incomes by 46% over that same time period. So no, we don't need to phase in an increase in rural Americans' telephone bills or delay it until after the next election. We need to freeze the rate floor indefinitely and reconsider the policy entirely. I believe that we can be fiscally responsible *without* adding to the challenges our fellow citizens face in rural America.

The fight over the rate floor will be coming to a head over the next couple of weeks, and we may have an uphill battle on our hands. But I pledge to stand with you. And I ask you to stand with me. For if you make your voices heard in Washington, I believe that we can turn the tide.

Why do I say this? Because I've seen it happen before. Take the quantile regression analysis (QRA) benchmarks adopted in the *Universal Service Transformation Order*. For over a year, I and many others have warned that the QRA benchmarks chilled the investment climate and impeded the deployment of broadband to rural Americans. Some of you may remember a statement I made on the "*Sixth Recon Order*"—a real barn-burner—where I called out the unpredictability that was inherent in the QRA benchmarks. As I said back then, investing in rural America is not a one- or two-year investment but a ten- or twenty-year commitment. And carriers can't plan investments with standards that change year after year based not on your own decisions, but on what others do. By design, the QRA benchmarks created a race to the bottom—which may be why the U.S. Department of Agriculture's Rural Utilities Service told us that carriers had stopped taking out loans to deploy broadband.

Fortunately, it looks like we will soon strike the QRA benchmarks from our books in something called the *Seventh Recon Order*. This is one sequel that will be better than the original. It was no small matter when Chairman Wheeler announced a change of course in December. After all, the benchmarks had been adopted unanimously over two years before. But it was and is the right thing to do, especially because that the QRA benchmarks did not save the Fund one dollar. I applaud Chairman Wheeler for his leadership on this issue, and he deserves your applause as well.

Getting universal service policy right isn't the only issue at the FCC that matters to rural America. We addressed another one on March 31 with our targeted review of our retransmission consent regulations. As I said in supporting last week's order, joint negotiations by separately-owned, top-four stations in the same market may result in supra-competitive increases in retransmission-consent fees, including those paid by rural providers. This kind of coordination can cost you and your consumers money when it comes to video. And because offering a triple-play package is often key to getting consumers on the network, anticompetitive increases in programming costs may lead to less broadband adoption and ultimately less deployment in rural America.

Another important task is removing burdensome regulations that impede investments in infrastructure. Along those lines, here's low-hanging fruit that I believe is gaining traction: The FCC should streamline our review of transactions involving geographically adjacent rural carriers that are seeking to merge. Since we streamlined the process for other types of transactions in 2002, we've been able to approve hundreds of small transactions within about a month on average. One year ago, I proposed the FCC broaden the scope of streamlined transactions. This would give small companies that are thinking about doing a deal a better sense of where they stand and a firm deadline around which they could plan. And letting small companies join forces could help them cut unnecessary costs—something that will free up funds that could be redirected towards broadband deployment.

The FCC also needs to look at ways to reduce or get rid of paperwork, especially for small companies. We have 427 active "information collections," as they're called, according to the Office of Management and Budget. This translates into rural carriers having to track numerous filing deadlines each year.

One could rightfully say that rural carriers are enduring death by a thousand paper cuts. Carriers have to remember one deadline for submission of their customer proprietary network information (CPNI) compliance certifications. They have to remember another for their annual accessibility program compliance certifications. And there are several more related to collecting high-cost and low-income universal service funding, among others.

Oh, and there is also the five-year plan that's supposed to be filed in July. That's the one where rural carriers are supposed to explain how they will build out new broadband to their customers—even

though the Commission hasn't adopted a Connect America Fund for rate-of-return carriers that would support stand-alone broadband. By the way, I'll confess that I'm inherently suspicious of five-year economic plans. They don't exactly have an auspicious pedigree, but that's a topic for another speech.

There's got to be a better way, one that allows the Commission to get the information it needs without overwhelming the very companies we are counting on to bring broadband to rural Americans. And frankly, I don't have a solution at the moment.

So I want to hear your thoughts. Tell us how we can consolidate these deadlines and reports. Show us a better way to make the Small Business Paperwork Relief Act worthy of the name. If there's any chance of fixing this problem, it'll only happen with your help.

Needless to say, I don't set the FCC's agenda, so I can't tell you if and when we'll take action on these issues. But one promise I can make is that you won't have any problems getting your calls to my office answered. Please keep sharing your perspective on what needs to be done to ensure that universal service is a reality. Whether through WTA or on your own, make your voices heard. Send me an e-mail or reach out to me on Twitter: My handle is @ajitpaifcc. And come to the Commission. My door has been open since I came to the FCC, and it will be open as long as I have the privilege of serving the American people.

Thank you for inviting me to speak this morning, and thank you for everything you do to get and keep rural Americans connected.