

**STATEMENT OF
COMMISSIONER MICHAEL O'RIELLY
APPROVING IN PART AND CONCURRING IN PART**

Re: Connect America Fund, WC Docket No. 10-90, Establishing Just and Reasonable Rates for Local Exchange Carriers, WC Docket No. 07-135, Developing a Unified Inter-carrier Compensation Regime, CC Docket No. 01-92, Universal Service Reform – Mobility Fund, WT Docket No. 10-208, ETC Annual Reports and Certifications, WC Docket No. 14-58.

There are many different views on how to meet our statutory obligation to preserve and advance universal service so that all consumers have access to reasonably comparable services at reasonably comparable rates. The fact that rational minds may differ is not surprising given the complexities of universal service policies and their importance to our Nation and its people.

The 2011 *USF/ICC Transformation Order* recognized these complexities and created a multi-part framework for tackling them. It established funding for fixed service, mobile service, and alternative technologies. It funded price cap carriers differently than rate-of-return carriers or mobile providers. And it phased in all of the reforms to give carriers and consumers time to adjust. I was not at the Commission in 2011, and I don't agree with every reform, but I commend those that were here for their courage to start us down those paths.

The question before us now is whether to continue down these paths or disruptively reverse course. Universal service was intended to evolve, so the Commission must periodically take stock of changes in technology and the marketplace to see whether adjustments are warranted. And we must remain mindful that we are dealing with scarce consumer-provided dollars. Each dollar we can save—by targeting funding to areas where there is no other provider and by making the programs more efficient—is a dollar that we can use to extend service to unserved areas or that we can return to consumers. Therefore, I am pleased that the Further Notice recognizes the strides that have been made by wireless and satellite providers and asks how we should modify our policies and funding accordingly.

It is also important that the Commission periodically review and replace rules that may have been well-intentioned but did not operate as envisioned. Therefore, I'm glad that the Order eliminates the QRA benchmarks and that the Further Notice seeks comment on replacement rules for rate-of-return carriers. Without the distraction of the QRA benchmarks, I hope that we will finally be able to move forward with a long-term Connect America Fund (CAF) for rate-of-return areas and finalize the QRA's replacement.

As we consider additional changes to the 2011 framework, however, we must weigh the benefits of continuing to fine tune our policies against the costs of upending plans and further delaying the remaining reforms. Many consumers throughout rural America are still waiting to see the benefits promised in 2011. Moreover, all of the universal service and inter-carrier compensation reforms are intertwined. If we second guess too many of the individual reforms, I worry that we put at risk the entire package of reforms that took years to enact. With one notable exception, I think that today's item hits enough of the right chords for me to lend my support.

The one exception is that the Further Notice proposes to increase the broadband speed standard for all support recipients from the current 4 Mbps downstream to 10 Mbps downstream—*before* we've completed the task of ensuring that all consumers have access to 4 Mbps. I too want to get the most bang for our limited USF bucks and I want greater speeds for all Americans, especially rural citizens. However, raising the speed standard will come at a substantial cost and implementing it within the budget could entail significant tradeoffs for consumers.

In 2011, the Commission decided to cover more consumers with a basic level of broadband service rather than upgrade fewer consumers to a higher capacity service. The decision appears consistent with the statute, which calls for *universal* service. Additionally, the 4 Mbps standard that the Commission selected seems to be *reasonably* comparable to what is offered in urban areas. It is sufficient to enable people to send email, look for jobs, complete homework assignments, and even watch an occasional movie. For those that have dial-up service or no service at all, getting access to broadband can be a welcome improvement. And given the way that networks are constructed, delivering 4 Mbps to the very remote homes meant that most homes would have access to far greater speeds. However, the Commission seems ready to explore undoing that fundamental decision and more parts of rural America could remain unserved for a lot longer as a result.

For example, in price cap areas, raising the standard could shift funding towards upgrading existing broadband service—potentially in areas where there’s another provider—rather than extending new broadband service in truly unserved areas. In addition, it could mean that some price cap carriers that would have quickly expanded broadband throughout their entire territories decide not to make statewide commitments to provide service, or that they scale back the percentage of locations they would be willing to serve. That puts increased pressure on the competitive bidding process and the Remote Areas Fund to ensure that people that are served today do not lose service in the future. In short, while the tradeoffs envisioned in the Further Notice may be necessary to accommodate increased speed obligations, I would have retained the current speed standard for now and avoided these tradeoffs altogether. Raising the speed standard is a questionable approach and potentially sends the wrong signals to providers, the markets, and most importantly, consumers. As a result, I must concur with this section of the Further Notice.

In addition, while not addressed in this item, I note that the CAF reserve is projected to exceed \$1.5 billion, and is now growing at a rate of over \$190 million per quarter.¹ That extra money has been coming out of the pockets of consumers—who are now paying 16.6 percent fees on their phone bills—for programs that will not be implemented for another year or two. I do not see the upside of maintaining such a large reserve while we continue to revise the programs, and I do see some real downsides. Having that much money on hand raises false hopes for creative funding ideas and spending. Once we have decided how to revise the programs to ensure that the money is well spent, I am hopeful that we will be in a position to review the budget, which is currently \$4.5 billion a year, and consider reducing it to an appropriate spending level. In the meantime, we should at least stop overcharging consumers. Perhaps this is something we could consider in the next CAF item.

On the whole, I support today’s item. I appreciate that the Chairman was willing to accommodate many of my suggestions, and I thank the staff for their good work and assistance.

¹ Universal Service Administrative Company, Federal Universal Service Support Mechanisms Fund Size Projections for Second Quarter 2014, at 9-11 (Jan. 31, 2014), <http://www.usac.org/about/tools/fcc/filings/2014/Q2/USAC%202Q2014%20Federal%20Universal%20Service%20Mechanism%20Quarterly%20Demand%20Filing.pdf>.