



OFFICE OF
THE CHAIRMAN

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

July 6, 2017

The Honorable Joni Ernst
United States Senate
111 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Ernst:

Thank you for your letter regarding the importance of delivering to all Americans—including those in high-cost rural areas—affordable access to high-speed Internet access. As you know, I grew up in Parsons, Kansas and have traveled during my time at the Commission to locations as varied as Barrow, Alaska, and Laurens, Iowa, and Carthage, Mississippi. I have seen with my own eyes what access to affordable high-speed Internet access can do for a community—for its schools, its libraries, and its hospitals and for those Americans struggling to stay afloat.

Four years ago, I called on the Commission to tackle the issue of affordable broadband in rural America head on. The problem back then was that the Universal Service Fund predicated support on providing voice service. This meant bundled telephone/broadband offers could get support while standalone broadband could not. The perverse result was that carriers were incented to take universal service support and offer telephone/broadband bundles (even if consumers could not afford them) while not offering standalone broadband. The business case for stand-alone broadband didn't exist for some rural telephone companies—not because consumers didn't want it, but because our arcane rules penalized companies for offering it.

I wish I could tell you that the FCC has fixed this problem. But as your letter rightly points out, we have not. Despite the Commission's efforts in the 2016 *Rate-of-Return Reform Order*, I still hear from small carriers that offering stand-alone broadband would put them underwater—that the rates they have to charge exceed the rates for bundled services because of the different regulatory treatment. This is unfortunate but unsurprising. As I said at the time, the *Order* needlessly complicated our rate-of-return system and in many ways made it harder, not easier, for small providers to serve rural America.

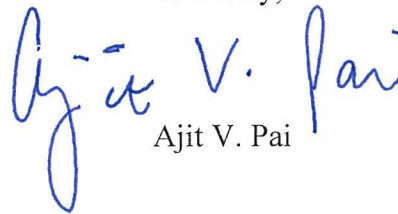
To provide some relief, my colleagues in recent months have urged me to work through a punch list of lingering issues from the *Order*. I have accordingly directed staff to work through that list. In April, the Commission amended a rule that would have disallowed capital expenses to any project exceeding a Commission-set threshold by even a dollar; now providers can complete efficient projects so long as they are willing to absorb any costs above the threshold. That month staff also resolved concerns raised by rural carriers about the “parent-trap” rule. In May, I circulated an order to address problems with two calculations made in the *Order*—one involving a “surrogate method” to avoid duplicative cost-recovery and another involving charges imposed on stand-alone broadband lines. Also in May, I circulated an order to address certain

duplicative reporting requirements imposed on rural providers. I look forward to continue working with my colleagues on these issues.

Although I hope these changes will help, you may be right that something more fundamental is needed. After all, if the *Order* is not carrying out its stated purpose of advancing broadband deployment in rural America, we cannot ignore that problem—for time is not on the side of rural Americans.

I appreciate your views on this matter. They will be included in the record of this proceeding and considered as part of the Commission's review. Please let me know if I can be of any further assistance.

Sincerely,

A handwritten signature in blue ink that reads "Ajit V. Pai". The signature is written in a cursive style with a large initial "A".

Ajit V. Pai