



FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

OFFICE OF
THE CHAIRMAN

December 19, 2017

The Honorable John Ratcliffe
U.S. House of Representatives
325 Cannon House Office Building
Washington, D.C. 20515

Dear Congressman Ratcliffe:

Thank you for your letter regarding the importance of delivering affordable access to high-speed Internet to all Americans—including those in high-cost rural areas, such as areas in the Fourth Congressional District of Texas. Your views are very important and will be entered into the record of the proceeding and considered as part of the Commission's review.

In my first remarks to FCC staff as Chairman earlier this year, I declared that my highest priority would be making sure every American who wants high-speed Internet access can get it. Rural Americans deserve the same digital access as those living in more urban areas.

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 any rate-of-return carrying offering stand-alone broadband service risked losing the support it needed to deploy broadband networks in rural America. In other words, 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 we have not. Despite what was framed as an order adopting "significant reforms," the last Administration's *Rate-of-Return Order* has not had its intended effect. I still hear from small carriers that offering stand-alone broadband would put them underwater. This is unfortunate but unsurprising. As I said at the time, the Order complicated our rate-of-return system and in many ways made it harder, not easier, for small providers to serve rural America.

Nor, as I predicted in my dissent to that Order, have we given carriers "sufficient incentive to be prudent and efficient in their expenditures." Due to the complexity of the budget control mechanism, carriers do not have the certainty they need to make the long-term investment decisions that will lead to greater connectivity. It has become clear, as my colleagues and I have worked our way through the punch list of lingering issues from the 2016 Order, that our next focus must be on this issue. The statute directs that universal service support be specific, predictable, and sufficient. I supported the path for rate-of-return carriers to voluntarily accept the offer of support under the Connect America Fund's alternative cost model (the A-

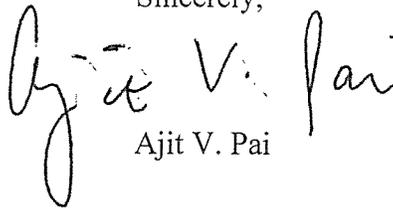
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CAM)—a system that is specific and predictable over a 10-year term and sufficient for those that elect support. I would do so again.

To address these issues, I plan to circulate in the near future an item that will explore how this situation can be changed and to determine the appropriate budget levels. I'll ask my colleagues to join me in considering how to address the uncertainty caused by the current budget control mechanism—such as guaranteeing at least some minimum level of support to ease the unpredictability and allow reasonable capital planning—while being mindful of mitigating the incentives for rate-of-return carriers to operate inefficiently and over-invest capital to increase profits.

I appreciate your interest in this matter. Please let me know if I can be of any further assistance.

Sincerely,

A handwritten signature in cursive script that reads "Ajit V. Pai". The signature is written in black ink and is positioned to the left of the printed name.

Ajit V. Pai