**STATEMENT OF**

**COMMISSIONER MICHAEL O’RIELLY,**

**APPROVING IN PART AND CONCURRING IN PART**

Re: *Connect America Fund*, WC Docket No. 10-90, *High-Cost Universal Service Support*, WC Docket No. 05-337.

Today we take another important step to implement Connect America Phase II. With the model now confirmed and the challenge process well underway, I am hopeful that the Commission will be able to wrap up all decisions needed to make offers to price cap carriers by the end of this year, and will finalize the rest of the decisions for CAF Phase II in early 2015.

With respect to the order at hand, I recognize that the Commission previously delegated substantial authority to the Bureau to adopt the cost model. I do not think the Bureau has overstepped that authority or that its decisions are clearly in error. In fact, I agree with the Bureau that a 70 percent subscription rate over five years in these high-cost areas is more likely than ACA’s 80 percent, and I approve that part of the order. On the other hand, I am sympathetic to ACA’s arguments that a 7.72 percent cost of money would be a more accurate prediction of interest rates over five years (as well as a better reflection of these carriers’ systematic risk) than the Bureau’s 8.5 percent prediction. Based on a review of reasonable economic data, including inflationary projections, a lower level would seem to be justified, and it would stretch CAF Phase II to cover over 40,000 locations that are truly high-cost. Therefore, I can only concur with that part of the order.

Relatedly, I disagree with the assumption, implicit in the analysis, that the Connect America Fund should aim to support more locations even if they are lower cost. The purpose of the program is not to maximize the number of locations that receive a subsidy but to ensure broadband services in high-cost areas that would not be served absent support. I would prefer to focus support on locations that are truly high-cost and are in areas that are not served or are unlikely to be served by a competing provider. That way we minimize the market distorting effects of subsidizing investment. Targeting support to higher-cost locations does mean that fewer locations can be funded overall. But it is worth the tradeoff and, ultimately, is more consistent with our statutory obligation to ensure access in rural and other high-cost areas.