

**STATEMENT OF
COMMISSIONER MICHAEL P. O'RIELLY**

Re: *Connect America Fund*, WC Docket No. 10-90.

Compared to the circulated version seeking to eliminate the rate floor, as it has come to be known, the document we consider today contains vital fixes and revisions that are the only reason I can now support it. During the new freeze period, I will work in good faith with my colleagues to find other ways to accomplish the same goals but if that cannot be achieved then the existing rate floor will be restarted. This structure is intended to provide sufficient impetus to explore and develop more precise means to get to the same outcome.

Make no mistake, I support the rate floor concept and I'm puzzled why everyone else doesn't. Contrary to all of the misinformation, the policy is built on a solid premise: the Commission – as the steward of the contributions made by those that pay into the universal service fund (USF) – expects a certain level of company revenue to be recouped from its own subscribers prior to receiving subsidies. In other words, there is a basic level of fairness expected before consumers throughout the nation contribute to cover the lower rates offered in the more rural parts of America. The obligation in the law to promote reasonably comparable rates to rural communities was meant to ensure that the cost of service in rural America was not too *high*. The rate floor originated when the Commission was presented with particular and demonstrable evidence of a number of rural companies charging far, far *below* reasonable rates to subscribers, but seeking full reimbursement of their costs from scarce federal USF dollars.

To be clear, the policy *does not* mandate higher rural telephone rates and the Commission is not engaging in rate regulation. Companies are fully free to charge lower rates; the Commission – or more accurately the hard-working citizens throughout our country – just won't contribute to keep rates artificially low. If rural telephone companies want to charge their consumers \$1 per month, they most certainly can, but subsidies won't be provided for the delta between the consumer rates and the set rate floor, which is based on the average of rates in non-rural America. Are their better ways to calculate the rate floor? Probably, and I will happily explore those with all interested parties, but if anyone thinks that this is a backdoor way to end the policy with my support, forget it.

Additionally, we should not ignore that setting a more generous rate floor will have an impact on the rates for standalone broadband. To be more specific, because we have a cap on the high-cost budget, each dollar spent to keep the rate floor artificially low is one less dollar available to bring down the consumer rate for broadband services in rate-of-return areas. This very issue came up in our last Senate Committee oversight hearing. As it presently stands, it is a zero sum game and the prognosis for additional high-cost funding seems difficult. And do not count me among those who will ever support imposing USF contributions on broadband; this is a non-starter for me.

Let's also accept this stone cold reality: rural does not necessarily mean poor. There are plenty of rich, middle class, and poor people throughout all rural America. Our job at the Commission is to ensure that those who face higher costs – *and can't afford them* – are still able to access communications services. This means we shouldn't subsidize the telephone or broadband rates for very wealthy people, no matter where they live. If God has bestowed an American with high levels of material wealth then we ought to expect that person to pay for services themselves, instead of forcing potentially poor and middle-income individuals elsewhere to provide subsidies. While overall incomes can be lower in some rural communities compared to the nation as a whole, so can the cost of daily necessities.

For this reason, I reject the theory that we must or should subsidize everyone who happens to live in a particular area no matter their income. That's a waste of resources, and it's why the federal government means-tests the majority of other federal programs, certainly the biggest and most expensive ones like Medicare. For instance, if a person receiving Medicare makes more than a certain income per year they pay higher Part B monthly rates. If we can means-test Medicare, why not the FCC's high-cost program? There is no reason why anyone who earned more than \$1 million last year shouldn't pay the

full cost of their telephone or broadband service. Towards that end, I have worked with Commissioner Clyburn on draft NPRM text to take the first steps on this project. We intend to put this out for consideration shortly. I firmly agree that it may take a bit of time to get all of the pieces to work – and I have no intent of adding layers upon layers of burdens on communications companies or disrupting parts of the program that have already been adopted – but moving in this direction is the right thing to do.

At the same time, examining ways to alter the existing rate floor does not mean that there aren't other adjustments needed to the rate of return regime. While we instituted major reforms during the last Commission, that the industry still fully supports, there are a number of so-called "punchlist" items, or small technical fixes, that are appropriate. For example, there seems to be general support at the Commission and relevant associations that ratepayers shouldn't have to pay more to cover the cost of some company officials' golf club memberships. I am disappointed that we couldn't get them all done as part of this package, as they seem like reasonable and common sense steps to ensure that dollars are spent on actual broadband deployment. But, I do appreciate the Chairman's commitment to work in good faith to accomplish these items, one way or another, in the very near future.