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Honorable Thomas J. Vilsack
Secretary of Agriculture
U.S. Department of Agriculture
1400 Independence Avenue, S.W.
Washington, DC 20250

Re: Rural Broadband

Dear Secretary Vilsack:

The National Cable & Telecommunications Association (NCTA) shares the Department of Agriculture's goal of deploying broadband to all Americans. Achieving this objective will require continued investment by the private sector, supplemented by targeted government subsidy programs. The Universal Service Fund reforms recently enacted by the Federal Communications Commission (Commission)¹ will be the cornerstone of future government efforts in this area, but the success of these reforms also will depend on other federal and state agencies. To maximize the likelihood that these policies will benefit American consumers, NCTA encourages the USDA to work collaboratively with the Commission in implementing this new universal service regime and to reject the calls of some rural telephone company representatives that urge the agency to take a more divisive, adversarial approach.²

As all parties would agree, reform of the Commission's high-cost universal service support program was long overdue. The *USF Reform Order* was the culmination of a decade-long effort in which the rural telephone companies were full participants. It represents the well-considered work of an expert agency that devoted considerable resources to resolving a set of very difficult public policy decisions.

As is the case with any regulatory decision of this magnitude, the *USF Reform Order* calls for concessions from all interested parties. Certainly the cable industry has concerns with elements of the order, as does virtually every other segment of the telecommunications industry. These concerns do not, however, diminish the necessity to move forward with reform or detract from the important work the Commission has done.

¹ *Connect America Fund, et al.*, WC Docket Nos. 10-90, 07-135, 05-337, 03-109, GN Docket No. 09-51, CC Docket Nos. 01-92, 96-45, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011) (*USF Reform Order*).

² See Letter from Shirley Bloomfield, CEO, National Telecommunications Cooperative Association, et al., to Honorable Thomas J. Vilsack, Secretary, U.S. Department of Agriculture (Jan. 12, 2012).

We appreciate that the *USF Reform Order* has significant consequences for the rural telephone companies that are the primary recipients of loans from the Rural Utilities Service (RUS), but their assertion that the order represents a “downside only” approach does not withstand scrutiny. The *USF Reform Order* explicitly recognizes the important role that rural telephone companies have played in bringing voice and broadband services to high-cost areas of the country and it provides those companies significant benefits not afforded to competitors, including the following:

- \$2 billion in high-cost support for rural telephone companies on an exclusive basis each year.³ No such support will be made available to any competitive provider in geographic areas served by rural telephone companies.
- A long transition period for changes in intercarrier compensation (nine years), as well as access to a recovery mechanism that is not available to other competitive providers.⁴
- A waiver process these companies can avail themselves of if reductions in high-cost support and intercarrier compensation would jeopardize continued availability of service to consumers.⁵

In light of the significant benefits provided to rural telephone companies in the *USF Reform Order*, it is disappointing that these companies are encouraging your agency to interfere with the Commission’s implementation of this new regime. Rather than taking this adversarial approach, we encourage USDA to continue its past practice of engaging with the Commission in a collaborative manner.

We also encourage RUS to move forward with the process of revising its financial models to reflect the new rules, as suggested by the Stakeholder Announcement issued by the RUS on January 23, 2012. We hope that RUS will be as transparent as possible in explaining how it plans to incorporate the Commission’s new rules into the criteria for evaluating new loan applications, as well as whether, and how, it plans to take any action to modify the terms of existing loans. The Obama Administration has a strong track record of promoting the need for transparency in government and we hope that greater transparency will be a key element of all future RUS broadband and telecommunications programs.

Of particular importance to NCTA’s members, we strongly encourage RUS to revise its approach so that it no longer makes loans that depend on continued receipt of high-cost support in areas where other providers are offering robust, competitive broadband services. Providing grants or subsidized loans to telephone companies in areas that are already well served by

³ *USF Reform Order* at ¶ 195 (establishing \$2 billion annual budget); ¶ 519 (eliminating competitive support over five years).

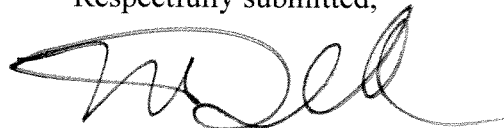
⁴ *Id.* at ¶ 801 (setting forth transition schedule ending in July 2020); ¶ 864 (declining to provide competitive providers with access to the recovery mechanism).

⁵ *Id.* at ¶¶ 539-42.

broadband competitors wastes scarce government resources and jeopardizes private investment made in those rural areas, often by small cable operators. The Commission's decision to target high-cost universal service support to areas not served by competitive providers offers a good opportunity for RUS to finally address longstanding concerns expressed by NCTA (as well as USDA's Inspector General and many Members of Congress) about the agency's practice of lending money to telephone companies in areas that are well served by other broadband providers.⁶

As noted above, NCTA and USDA share the goal of deploying broadband to all Americans. We believe the Commission has established a framework that will achieve our shared goal and we look forward to working with you and other interested parties in helping the Commission to implement this new regime as quickly and efficiently as possible.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "M. Powell", with a long horizontal flourish extending to the right.

Michael K. Powell

⁶ See, e.g., EVALUATING THE COST EFFECTIVENESS OF RUS BROADBAND SUBSIDIES: THREE CASE STUDIES, Jeffrey A. Eisenach and Kevin W. Caves, Navigant Consulting (April 13, 2011), attached to Comments of the National Cable & Telecommunications Association, *Rural Broadband Access Loans and Loan Guarantees; Interim Rules*, RUS -06-Agency-0052 (filed May 13, 2011); see also United States Department of Agriculture, Office of Inspector General, Southwest Region, Audit Report, Rural Utilities Service Broadband Loan and Loan Guarantee Program, Report No. 09601-4-Te (September 2005); United States Department of Agriculture, Office of Inspector General, Southwest Region, Audit Report, Rural Utilities Service Broadband Loan and Loan Guarantee Program, Report No.09601-8-Te (March 2009).