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Larry Cohen
President



Via Fax

October 29, 2008

The Honorable Kevin J. Martin
Chairman
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

RE: Developing a Unified Intercarrier Compensation Regime, CC Docket No. 01-92; Federal-State Joint Board on Universal Service, CC Docket No. 96-45; Universal Service Contribution Methodology, WC Docket No. 06-122; High-Cost Universal Service Support, WV Docket 05-337.

Dear Chairman Martin:

As the Commission considers the draft proposal for comprehensive reform of intercarrier compensation and universal service ("ICC-USF reform"), scheduled for a Nov. 4 vote, the Communications Workers of America (CWA) submits these *ex parte* comments.

CWA supports the general framework of the draft proposal. CWA has long urged the Commission to reform the universal service subsidy to support broadband build-out and to establish a level playing field for intercarrier compensation. However, as currently structured, the draft proposal would have the unintended consequence of reduced investment in rural broadband. Therefore, CWA strongly urges the Commission to *revise* the current draft to ensure that rural customers of and workers employed by mid-sized rural carriers do not suffer a reduction in investment in high-speed networks and job cuts due to a precipitous loss of access charge implicit subsidies. This is the time in which we need more, not less, support for job creation and investment in high-speed broadband in high-cost rural areas.

CWA represents 350,000 employees who work in all segments of the telecommunications industry, including the large integrated carriers (AT&T, Verizon, Qwest) and the mid-size rural carriers (Embarq, Frontier, Century Tel, Windstream, Iowa Telecom, Fairpoint). CWA members live and work in communities throughout this diverse nation that are still waiting for the benefits of truly high-speed broadband. Thus, we approach this complex proceeding through a wide lens, considering its impact on our nation's progress toward affordable high-speed Internet in all communities. Our members' employment security and career opportunities depend upon a regulatory regime that supports investment in world-class high-speed broadband networks.

The draft ICC-USF reform proposal, as we understand it, establishes a positive framework for reform in two ways. First, it establishes a path to a unified intercarrier compensation regime over a ten-year period that minimizes the opportunities for regulatory arbitrage that exist in the current system. Today, for example, cable companies offering local voice and Internet access service gain competitive advantage by passing long-distance traffic transported over their interconnection trunks to phantom local companies in order to avoid access charge payments. The draft proposal would eliminate such bypass opportunities by moving over a ten-year period to a unified intercarrier compensation regime in which all bits of traffic – regardless of their source – are exchanged from one network provider to another at the same rate. Virtually all parties to this proceeding agree with this objective, one that recognizes the reality of how companies exchange traffic in the Internet Protocol world.

However, the draft proposal, as we understand the details, does not provide sufficient transition for mid-size rural carriers to adapt to the sharp reduction in access charge revenue that will occur in the early years. The small rate-of-return rural carriers will be able to petition to raise rates to protect their rate of return in response to access charge reductions. But the mid-size price cap carriers have no such options. Our employers have separately told us that the cumulative impact of the changes over four years would result in several hundred million dollars less in revenue (per carrier). While some of these companies may have opportunities to reduce shareholder dividends or stock repurchase plans to recapture some of this reduced free cash flow for network

investment, these options may not be sufficient to cushion the blow, and the net result will be significant cuts in broadband build-out and jobs in rural areas.

To protect rural customers and workers, therefore, we strongly urge the Commission to modify the draft proposal. The Commission should establish a supplementary explicit universal service fund available to mid-size carriers for broadband build-out. There are other proposals that could ease the transition, such as a longer transition for reduction in the access charge, particularly the transport element. The Commission might consider other proposals as well.

The second way in which the draft ICC-USF reform proposal establishes a positive framework regards universal service support for broadband deployment and adoption. CWA in its Speed Matters campaign has long urged the Commission to reform the universal service system to support build-out of high-speed broadband networks. The draft proposal aims to reach this goal by requiring all recipients of federal universal service support to build-out broadband networks capable of providing 768 kbps speeds within five years. Carriers that fail to make that commitment would lose their USF subsidy, and the Commission would conduct a reverse auction, with the current level of subsidy set as the reserve price.

While CWA supports the use of USF subsidies for broadband deployment, we also are aware that many of the areas that are not served today by 768 kbps broadband networks are very low-density areas with very high costs to serve. It may be that carriers need additional subsidies – over and above current levels of support – to serve these areas. It is simply inconceivable to imagine that a new entrant would be able to build an entirely new network with 100 percent broadband coverage and meet carrier-of-last-resort voice obligations at the current level of USF subsidy. Putting the subsidy up for reverse auction at current support levels does nothing to address the economics of last-mile broadband deployment in high-cost low-density rural areas. Therefore, the Commission must supplement current levels of USF support – perhaps allocated as competitive grants for one-time construction costs -- to ensure broadband build-out in high-cost rural areas. Allowing carriers to apply for these grants in targeted areas that may be smaller than current USF study areas would keep down the size of the supplemental USF broadband fund.

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Finally, CWA supports the provision in the draft proposal that would allow the use of Lifeline and Link-up funds to subsidize the cost of Internet access and Internet access equipment for low-income households.

In summary, CWA supports the general framework of the draft proposal to unify the intercarrier compensation system and to move universal service subsidies to support broadband deployment and adoption. However, we believe the ICC proposal must be improved to create a stronger transition mechanism for the mid-size rural carriers. CWA is hopeful that progress can be made to move the broken ICC system to one that reflects the realities of IP networks, supports investment in truly high-speed broadband networks, and in so doing, fosters employment opportunities for workers in the industry.

Sincerely,

A handwritten signature in black ink, appearing to be 'L. Cohen', written in a cursive style.

Larry Cohen
President

cc: Commissioner Michael J. Copps
Commissioner Jonathan S. Adelstein
Commissioner Deborah Taylor Tate
Commissioner Robert M. McDowell