STATEMEMENT OF CHAIRMAN BOB ROWE[1]

The deployment of high quality telecommunications infrastructure and services to many parts of rural America, especially those served by carriers currently defined as "rural" for universal services purposes, is one of the signal successes of recent telecommunications policy. As always, there is much more to be done.

There are tremendous economic, regulatory, and technology challenges as this nation builds on what has been accomplished to-date. The Joint-Board's first objective in this proceeding should be to preserve and enhance what has been accomplished. We should strive to further the "no barriers" approach to deployment of advanced services articulated by the Rural Task Force, whose work we are in part revisiting.

It is possible that the Section 54.305 rules concerning treatment of transferred exchanges may continue to create unintended but substantial barriers to essential upgrades of property acquired by carriers committed to investing in order to provide top notch service. These rules may exacerbate the effects on some rural areas, formerly or currently served by "non-rural" carriers,[2] of certain policies adopted by the Commission for non-rural companies serving rural areas. I am pleased that this referral will examine treatment of transferred exchanges and these possible unintended barriers.

I am especially pleased that the Joint Board announced its intention to hold an en banc hearing as part of this proceeding, and is considering workshops to address specific issues. The general absence of structured in-person proceedings, whether traditional hearings or alternative approaches, is a core procedural weakness of telecommunications policy at the national level, and led to suboptimal results in a variety of proceedings. (It has perhaps also contributed to a certain amount of puzzlement among courts attempting to review a record developed through this process.) The Universal Service Joint Board has held en banc hearings as part of several recent referrals. These have consistently

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[1] This separate statement accompanied the Federal-State Joint Board on Universal Service's notice and request for comments in the referral concerning high-cost support for areas served by rural carriers, dated August 16, 2004.

[2] "Non-rural companies serving rural areas," is one of the more oxymoronic terms in telecommunications, and is a consistent source of confusion and misimpression to people who "don't do what we do" on a daily basis. These are simply large companies (not necessarily "non-rural"), which in some cases serve very large numbers of rural customers.

enriched the record, and have greatly facilitated the Members' understanding of the subject, and appreciation of one another's perspectives.

Part of this referral concerns the cost basis for support to rural carriers. I would not support imposing on smaller companies costing methodologies, or policies generally, that do not in my opinion always work terribly well even when applied to large companies. As pointed out by the Rural Task Force, the risk of getting it wrong is simply too great. Hippocrates was right.

I have substantial and long-standing concern about the reliability of the hybrid cost proxy model even as currently applied to large companies. For the reasons identified by the Rural Task Force, this concern is even more pronounced as to small companies.[3] Failure adequately to maintain the cost model is a significant deficiency in universal service policy. If an economic cost model is to be used for any purpose, it is irresponsible not to tend it. "An unexamined cost model is not worth using." A careful examination of the existing cost model, as part of or parallel to this proceeding could produce great benefits.[4] Referral to the Joint Board of economic costing questions for rural companies, and perhaps to a lesser extent the reserved portability issues concerning CETCs, would seem at last to compel attention to this subject. To be clear, policies adopted for the large company high cost fund program are outside the scope of this referral (and in some cases are under appeal). Improvements to the cost model (which is not currently subject to appeal) could be an ancillary benefit of this proceeding.[5]

Significantly, this notice highlights the issues reserved from the recently-concluded portability referral, including whether a competitive ETC should receive

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[3] Rural Task Force White Paper 2 detailed the significant differences between rural and non-rural carriers. White Paper 4 reviewed the FCC's non-rural method and the "synthesis" model for rural companies. The Rural Task Force concluded that "the non-rural method is not sufficiently accurate to form the basis for determining each Rural Carrier's explicit support." White Paper 4, page 7. Different outcomes produced by an embedded cost method and the forward looking model are amplified by policy choices, including calculating support on a study area basis, as occurs in the rural programs, and on a statewide basis, as occurs in the non-rural program.

[4] This is particularly true for those "non-rural" carriers that serve predominantly rural areas. Indeed, it is worth asking whether those carriers should be classified as "rural" for their rural states or study areas. This is relevant to the definition of rural, which is noticed for comment, and is potentially relevant to mitigating the unintended effects of the Section 54.305 restrictions.

[5] The 10th Circuit's Qwest v. FCC gives guidance as to how modifications to the model should be developed and implemented, and makes clear that the process due is not always the same. "(T)he FCC is not required to begin a new notice-and-comment period every time it fixes a technical bug in its computer program." 258 F.3rd 1191, 1206 (2001).

support based on the incumbent's cost or its own cost; and, if it's own cost, what the costing method should be. Wireless carriers currently constitute the great majority of CETCs; yet, wireless ETCs are the only significant group of support recipients for which some costing method, either embedded or forward looking, has not been implemented.[6] Prompt and rigorous work on the basis of support issues would do more to address concerns over growth in the high cost fund than would the controversial and administratively problematic primary line recommendation from the previous referral. As a result, it is in the interest of wireless ETCs for all of us to march smartly on this subject. It is also the prudent and right thing to do. Punt we no more!

Technical matters such as costing are particularly ill-suited for notice-and-comment proceedings. Costing and other factually and technically complex matters require nuts-and-bolts development, with cogent participation by subject matter practitioners. These subjects are typically ill-suited for the paper-driven reviews through which telecommunications policy is commonly developed. A series of technical workshops, organized by the Joint Board staff, would be an ideal way to get under the hood of costing issues. For discussion, an initial session could be devoted to a general overview of issues and options; another could concern embedded approaches; a third could be devoted to developments in forward looking models, including the HCPM; a fourth could specifically examine wireless costing. There are a variety of reasonable approaches to the ground rules and organization for such workshops. Outcomes and the record could then be filed with the Joint Board in this proceeding. Such an approach would aid greatly in moving forward some of the most complicated, and oft-deferred matters with which the Commission and Joint Board must deal.

I commend the Joint Board members and staff for their great work in preparing and promptly issuing this notice, and look forward to a very productive inquiry.

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[6] It is worth noting that certain costs may differ between small and large wireless carriers, as has traditionally been recognized for landline carriers.