



FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON DC

Mike O'Rielly
Commissioner

August 1, 2017

The Honorable Deb Fischer
U.S. Senate
454 Senate Russell Office Building
Washington, D.C. 20510

The Honorable Amy Klobuchar
U.S. Senate
302 Senate Hart Office Building
Washington, D.C. 20510

Dear Senators Fischer and Klobuchar:

Thank you very much for your letter earlier this year regarding efforts to increase broadband deployment, particularly by rate-of-return carriers.

I appreciate the commitment and focus made by each of you to make standalone broadband by rate-of-return carriers a reality. Like many, I have spent considerable time and energy to update our rules to allow federal support for standalone broadband. At the same time, the Commission enacted other necessary programmatic reforms to better target support to connect unserved Americans and to implement safeguards to ensure that funding is used for the intended purposes. After a long and collaborative process to understand and address carriers' ideas and concerns, the Commission adopted a strong and defensible item, at least in my opinion, that accomplished these goals in a reasonable way.

Having worked on these issues closely, I previously recognized and continue to acknowledge the importance of overall funding levels to the success of the rate-of-return reforms. In making the necessary changes to our previous rules, the Commission operated within the funding constraints set forth by the overall budget for the high-cost program. For instance, we were aware that the Commission still had to take further action with regards to the Mobility Fund Phase II and the Remote Areas Fund, all while staying within the overall budget of \$4.5 billion in annual high-cost funding.

To stay within the overall rate-of-return funding level of approximately \$2.0 billion per year, the adopted item established several cost control mechanisms for legacy carriers (those that elected not to participate in or were not eligible for model support). First, in providing support for standalone broadband, the item expects that carriers will receive a certain amount of revenue from their end users. Second, limits, in line with industry norms and averages, were placed on operational and capital expenses. And finally, the item adopted an overall budget control mechanism to apply an across the board cut equally to all legacy rate-of-return carriers if costs exceeded the overall budget allocation. All of these changes were discussed with and agreed to by the representatives of the rate-of-return carriers.

In my ongoing discussions with providers and their representatives, I continue to hear that the framework is sound and not unduly complicated. Apart from technical corrections, they have not pursued fundamental changes. Instead, both the legacy and model support carriers have requested that the Commission consider increasing its overall rate-of-return spending allocation by a small percentage

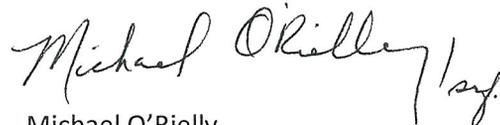
to generate greater broadband buildout. For some legacy carriers, this also would help minimize the impact of the budget control mechanism and reduce the cost of standalone broadband for some consumers.

Having considered all the factors before the Commission and this particular program, I am generally in favor of adding some additional funding to the rate-of-return allocation for both the legacy and model support carriers. Specifically, I would like the Commission to closely examine our high-cost reserves, and review any assumptions, policies or directions regarding those reserves, to determine whether additional funding could come from those reserves without having a significant impact on our other obligations (e.g., the Remote Areas Fund). Moreover, information on the reserves should be made public so that all interested parties understand whether additional resources are available and, if so, how much. While it may not provide all the relief sought by affected carriers, it would benefit consumers and carriers in areas more difficult to serve, including those areas that tend to be in rural America. It remains to be seen whether there is sufficient support to move such an item through the Commission process.

Additionally, the Commission has been considering select technical edits, known as the "punch-list" items, to our rate-of-return regulations. While several of these pieces have been adopted, the Commission is still working through the remaining four or five additional changes requested by the affected industry participants. These efforts, which I hope will conclude soon, should help the overall situation faced by rate-of-return carriers.

Please do not hesitate to contact me if I can be of any assistance on this matter or any other within the Commission's authority. I respectfully request that you share the following views with the many Senate signatories of your letter.

Sincerely,

A handwritten signature in black ink that reads "Michael O'Rielly" with a stylized flourish at the end.

Michael O'Rielly
Commissioner