

June 1, 2017

South Carolina Telephone Coalition's Comments
Regarding ORS Report to PURC

The South Carolina Telephone Coalition submits the following comments in response to the Office of Regulatory Staff's ("ORS's") request for input on the requirements of the report ORS must file with the Public Utilities Review Committee ("PURC") pursuant to Act No. 181 of 2016. Specifically, ORS requested input, summarized in two pages or less, on the definition of "need" and the appropriate level of distributions, and how "need" can be standardized and presented to the PURC for each fund recipient.

As long as there is a need to ensure access to affordable basic local telecommunications service for all South Carolina citizens, and as long as there are carriers of last resort ("COLRs") who are willing to undertake the obligation to provide such service, there will be a need for funding to ensure the need can be met. The question is not whether there is a need for State USF, but how to verify the need that exists. Act No. 181 froze State USF at 2015 levels (a fraction of the amounts needed for COLRs to recover their cost of providing basic local service), and therefore state law no longer requires State USF to be sized based on cost. It has long been determined and established that the cost of providing basic local telephone service in rural areas far exceeds the amount COLRs can charge for the service.

Keeping in mind the General Assembly's elimination of the cost requirement in determining the size of the State USF, along with its expressly stated intent in S.C. Code Ann. § 58-9-280(E)(11) "to ensure financial stability necessary to encourage long-term investment by carriers of last resort," we respectfully submit that ORS should not reinvent the wheel or impose additional burdensome requirements on COLRs, but should utilize existing sources of information to complete its report. COLRs must continue to be able to recover the cost of long-term

investments made in the past, and must have certainty in future funding if they are to continue to undertake investments whose costs will not be recovered for many years; thus, there is a need for State USF in order to encourage such investment.

Furthermore, requiring COLRs to undertake additional data production without providing additional funding would cut even further into the revenues COLRs need to maintain and operate their rural networks. The funding COLRs receive from the State USF is even more critical today, as federal high-cost USF continues to decline precipitously¹ and the gap between rural companies' revenue requirements and federal USF receipts continues to grow.

SCTC recommends that ORS review regulated capital expenditures and operating expenditures for each COLR. Such an analysis would demonstrate need to the extent those expenditures exceed the amounts received by the COLR from customers and from universal service funding. It would also show that the current distribution levels are appropriate, and that State USF funds are being spent as the General Assembly intended – for long-term investment and maintenance of networks that benefit the citizens of South Carolina.

Consistent with federal and state USF policy, and the General Assembly's stated interest in encouraging investment by COLRs, SCTC believes that the need for USF and the appropriate level of distributions can be demonstrated without imposing additional requirements on small telecommunications companies. SCTC believes that an analysis of regulated capital expenditures and operating expenditures for each COLR operating in South Carolina, as described above, would demonstrate need in a standardized fashion for all COLRs, and would allow for a finding on the appropriate level of distributions, thereby enabling ORS to prepare an appropriate report to PURC.

¹ According to published FCC and USAC reports, High-Cost Support projections for South Carolina's rate of return carriers show a decrease of 13.7% in projected federal High-Cost support from 2011 to 2016 (using annualized 4th Quarter projections).