

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matters of:

Connect America Fund

A National Broadband Plan for Our Future

High-Cost Universal Service Support

WC Docket No. 10-90

GN Docket No. 09-51

WC Docket No. 05-337

COMMENTS OF VONAGE HOLDINGS CORPORATION

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Vonage commends the Commission for focusing in these proceedings on transitioning Universal Service Fund (“USF”) support from a mechanism aimed at delivering “plain old telephone service” to one targeted to expanding access to broadband services. As the Commission recognized, the current system has been a historic success in expanding access to voice service to Americans, but it was never designed to deliver universal broadband access.¹ Reforming the USF program will help ensure that Americans have access to this critical technology and the many benefits it brings.

Vonage is pleased to support the Commission’s approach to USF reform. In these comments, Vonage addresses two issues raised in the Notice of Inquiry (“NOI”) and Notice of Proposed Rulemaking (“NPRM”), in an effort to assist the Commission in making the USF program more efficient, fairer, and less of a burden on consumers.

First, the NOI asks about the kinds of assumptions the Commission should make about what revenues a broadband provider receiving USF support might be able to recover from customers, particularly from bundled video or telephone services, and whether such revenues should be considered at all in modeling USF support needs.² Vonage agrees that an appropriate model should include such potential revenues. But, as Vonage has argued previously, the Commission should require any recipient of broadband USF support to offer broadband on an unbundled basis. The Commission’s model should take such a rule into account. In other words, while anticipated revenues from bundled services should be included in the model, the model should not assume that

¹ See *Connect America Fund*, FCC 10-58 (Apr. 21, 2010) (“*Connect America Fund NOI-NPRM*”), at 3 ¶ 3.

² See *id.* at 16 ¶ 37.

the broadband provider will face no competition for voice or video services that can be delivered over broadband.

Second, while the NPRM discusses ways to reduce the size of current USF support mechanisms, it does so with a focus on transitioning support to the new Connect America Fund.³ Vonage urges the Commission to focus as well on reducing the burden universal service contributions impose on consumers. Specifically, Vonage urges the Commission to identify savings opportunities to reduce the total size of the fund.

I. An Appropriate USF Cost Model Should Consider All Potential Revenues For Broadband Support Recipients, But Should Account For Competition Broadband Providers Face For Bundled Services.

The National Broadband Plan was correct to focus on the “net gap” between forward-looking costs for deploying broadband and the expected revenues a broadband provider might earn, rather than focusing exclusively on the costs a provider faces.⁴ Whether a provider will deploy facilities and offer service depends on the business case for doing so, and any such analysis would take into account both costs and potential revenues. The Commission’s model should focus on determining how much support is necessary to make the business case for service in an area that would otherwise be unserved. The model thus should—like any potential provider’s analysis would—consider potential revenues along with costs.

The Commission’s model must, however, permit continued innovation and competition in voice and video services. In particular, the Commission’s model should recognize that supported providers may receive voice and video revenues from their

³ See *id.* at 21 ¶ 50.

⁴ See *id.* at 15 ¶ 36 (citing Federal Communications Commission, *Connecting America: The National Broadband Plan*, 145 (Mar. 16, 2010)).

customers, but should not assume that supported providers will always do so. A properly constructed model, in other words, will not require supported providers to offer broadband services as part of a bundle with voice and video services. Vonage has separately explained the importance of requiring recipients of broadband USF support to offer broadband as a standalone product.⁵ Standalone broadband offerings promote broadband adoption, ensure that consumers in high-cost areas have access to services that are comparable to services available in urban areas, enable competition for advanced services, and support fairness in the USF.⁶ To garner these benefits, the Commission must adopt a revenue model that does not dictate that supported providers recoup voice and video revenues in addition to broadband revenues.

II. The Commission Should Focus On Reducing The USF Support Burden On Consumers.

Vonage supports the Commission’s plan to “refocus universal service funding to directly support modern communications networks that will provide broadband as well as voice services.”⁷ Indeed, Vonage has previously argued that the Commission should do just that—and that the Commission has the authority to do so now, without waiting for legislation.⁸

But the Commission should do more. Merely repurposing existing support funds does not go far enough to reduce the substantial burden the USF imposes on consumers.

⁵ See Comments of Vonage Holdings Corp., GN Docket Nos. 09-47, 09-51, and 09-137 (Dec. 9, 2009) at 2.

⁶ See *id.* at 2-6.

⁷ *Connect America Fund NOI-NPRM* at 21 ¶ 50.

⁸ See Letter from Brita D. Strandberg, Counsel to Vonage Holdings Corp., to Marlene Dortch, Secretary, FCC, GN Docket Nos. 09-47, 09-51, and 09-137 (Jan. 27, 2010). Vonage also believes that it would be prudent for Congress to eliminate any doubt about the Commission’s authority in this regard. See *id.* at 4.

For the first quarter of 2001, the contribution factor was 6.7%.⁹ For the quarter just ended, the second quarter of 2010, the contribution factor was 15.3%.¹⁰ The Commission has itself recognized the importance of reversing this trend, explaining that USF reform should “minimize the burden of increasing universal service contributions on consumers.”¹¹

To do so, the Commission should first work to reduce the size of the current high-cost fund. The Commission and others¹² have begun to take the steps necessary to identify potential sources of savings. While some of the savings these reforms will make available should be redirected to the new Connect America Fund, the Commission should also aggressively pursue reductions in cost of universal service to consumers.

⁹ See Public Notice, DA 00-2764 (Dec. 8, 2000).

¹⁰ See Public Notice, DA 10-427 (Mar. 12, 2010).

¹¹ *Connect America Fund NOI-NPRM* at 21 ¶ 51.

¹² See National Cable & Telecommunications Ass’n, Petition for Rulemaking, RM-11584 (Nov. 5, 2009).

Conclusion

Vonage fully supports the goals of universal service, and stands behind the Commission in its attempts to reform the USF program. If, as part of its efforts, the Commission decides to use a model to quantify universal service support levels for broadband networks, that model should recognize and permit competition for voice and video services. Vonage also strongly supports the Commission's efforts to reduce the burden of universal service on consumers.

Respectfully submitted,



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