



An analysis of the FCC's USF and ICC Broadband Reform Proposals



OPASTCO



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T E L E C O M M U N I C A T I O N S
A L L I A N C E

Agenda

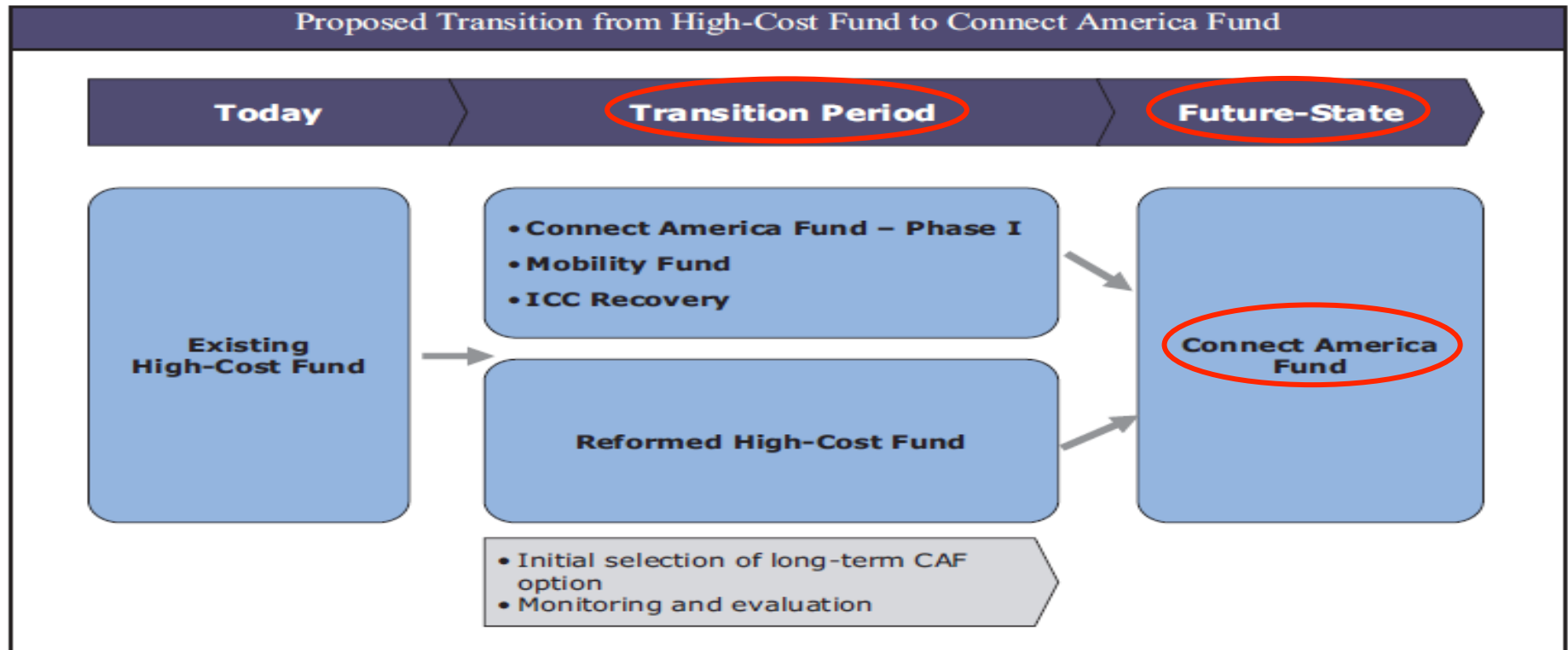
- NPRM summary
- Association response strategy
- Hill update
- Questions and answers
 - Click on the Q&A tab on the top left hand side of your screen to submit your questions

NPRM SUMMARY

Introduction

- ➔ Adopted February 8, 2011
- ➔ Stated principles
 - ➔ Modernize USF and ICC for broadband
 - ➔ Fiscal responsibility
 - Minimize the burden on consumers
 - USF no greater than 2010 levels
- ➔ Accountability
- ➔ Market driven policies

Introduction



Introduction

Proposed Inter-carrier Compensation Transition Path²⁶

Today

Different rates for:

- Intrastate access (states jurisdiction)
- Interstate access (FCC jurisdiction)
- Reciprocal compensation ("local" traffic, FCC sets methodology, states implement)

Near-term

- Adopt rules to address phantom traffic and access stimulation, and determine the treatment of VoIP for purposes of ICC
- Adopt framework for long-term ICC reform, including glide path and recovery mechanisms
- Begin reducing rates, together with implementation of recovery mechanisms

Future-State

- Transition away from per-minute rates is complete, replaced with explicit support where necessary from Connect America Fund under long-term vision

USF Reform

Transition Period – Funding the CAF

- Reduce rate-of-return (ROR) carrier funding by “putting them on the path towards incentive regulation”
 - ➡ Phase out Local Switching Support (LSS) or combine it with the High Cost Loop (HCL) program
 - ➡ Reduce reimbursement rates for HCL support
 - Phase out Safety Net Additive Support
 - ➡ Reduce or eliminate support for corporate overhead expense
 - Cap total per line support at \$3,000 per year
 - ➡ Set capital and operating expenses benchmarks

USF Reform

Transition Period – Funding the CAF

- ➔ Reduce remaining traditional support
 - ➔ Interstate Access Support (IAS) and High Cost Model (HCM) support
 - ➔ Competitive Eligible Telecommunications Carrier (CETC) support
 - Identical support rule
- ➔ Reduce “barriers to operating efficiencies”
 - Modify study area waiver process
 - Revise “parent trap” rules
- ➔ Disaggregate support

USF Reform

Transition Period – CAF Availability

- Conduct reverse auctions for a one-time infusion of support in 2012 - additional auctions to follow

➡ To unserved geographic areas identified in National Broadband Map

- One wireline or terrestrial wireless provider
- Winner may partner with others including satellite

➡ If winner is the incumbent, it can continue to receive existing support subject to reforms

USF Reform

Final State

- ➡ All High Cost funding through the CAF
 - Recommends only one recipient per area
- ➡ Availability – Two options for areas requiring ongoing support
 - 1) Reverse auctions everywhere
 - 2) Right of first refusal to voice COLR
 - Support based on model
 - Reverse auction if voice COLR declines
- ➡ Continuation of Rate-of-Return (ROR)?

ICC Reform

Near Term – Reduce Access Arbitrage

- ➡ Proposes to amend call signaling rules to address “phantom traffic”
- ➡ Amend interstate access rules to address access stimulation
 - LECS entering into revenue sharing agreements must recalculate rates/file new tariffs
 - Trigger analysis
- ➡ Decide ICC obligations for interconnected VoIP – Three proposed options

ICC Reform

Near Term - Transitioning Rates

➡ Reduce rates in conjunction with the states

- Proposal One - FCC modifies interstate access and reciprocal compensation rates and states modify intrastate access rates under own authority
 - Backstop mechanism
- Proposal Two – FCC establishes transition methodology for all rates

➡ Reduce rates in sequence or all at once?

- Cap interstate rates during intrastate transition?

ICC Reform

Near Term - Recovery Mechanisms

Reasonable recovery from end users

- Increase the Subscriber Line Charge (SLC) cap
 - SLC disaggregation?
- Benchmark local or local/broadband rates?

Recovery via CAF

- Seeks comments on how to recognize states who have already lowered access rates

ICC Reform

Future State

➡ Complete transition away from per minute-of-use charges

- Flat-rated intercarrier charges?

➡ CAF recovery

- Further incentives for ROR carriers?

Other NPRM Topics

- Broadband Definition
- Legal authority
- Increased accountability
- Support for the middle mile
- Separations reform
- IP-to-IP interconnection arrangements
- CETC designation and obligation

ASSOCIATION RESPONSE STRATEGY

“30 day” and “45 day”
NPRM Issues

Primary Issues

30 Days

- Interconnected VoIP
 - Subject to same compensation rules as other traffic
 - Record is complete, arbitrage should stop
- Phantom Traffic
 - Complete record with proposals that require provision of identifying information
 - Ensure enforcement mechanisms

Primary Issues

30 Days

- Access stimulation
 - Address revenue sharing agreements with re-filed tariffs, impose refund obligations
 - Recognize legitimate business arrangements
- Ending “self-help”
 - Clarify obligations of carriers, end incentives for self-help
 - FCC should become active participant in dispute resolution

Primary Issues

45 Days

- Positive steps from FCC on certain issues
 - “Parent trap” rule
 - Study area waivers
 - Revisions to CETC mechanisms
- Important signals on certain issues
 - Reverse auctions for Phase I CAF
 - Overlays incumbent support

Primary Issues

45 Days

- Critical issues implicated by NPRM
 - Appropriate cost recovery mechanisms
 - Proposed caps on support, op-ex
- Need to encourage investment in rural areas
 - Provide proper incentives and certainty
 - Transitions that protect investment

HILL UPDATE

Hill Update

- House and Senate communications policy makers (Commerce Committees) are concentrating on net neutrality and spectrum issues
- Rural carriers have the opportunity to further educate Congress regarding positions on the evolved NBP and pending NPRMs
- Ongoing Hill visits and contacts are a necessity
 - Legislative conferences scheduled

Hill Update

- Work to build Senate “Farm Team”
 - Reenergize House Rural Caucus
- Associations plan to send a detailed letter to Congress regarding rural carriers’ positions on pending NPRMs
- Implement a grassroots letter campaign

QUESTIONS AND ANSWERS