

The Potential Effects of the National Broadband Plan



Agenda

- National Broadband Plan – What is it?
- Harmful Proposals
- Timing Issues and Omissions
- National Association Efforts and Recommendations
- What can RLECs do?

National Broadband Plan

What is it?

- The **National Broadband Plan** (NBP) is the FCC's response to a congressional mandate to assure every American household has access to robust and affordable broadband services
- The NBP proposes extensive reforms to Universal Service Funding (USF) and Intercarrier Compensation (ICC)
 - On average, USF and ICC make up **70%** of rural rate of return local exchange carriers' (RLECs') regulated revenues
 - These reforms, as written, will hinder rather than advance broadband service in rural America
 - Fortunately, the NBP is only a set of broadband policy proposals, it is not yet a series of rules

National Broadband Plan Harmful Proposals

- The Plan proposes to establish target broadband speeds of **4/1 Mbps** in most rural areas versus **100/50 Mbps** in most non-rural areas
 - Places rural communities at a disadvantage, affecting:
 - Economic development and job growth;
 - Educational opportunities (e.g., distance learning);
 - Consumer welfare (e.g., telemedicine availability)
 - Limits consumer's use of many current and future internet applications and services (e.g., real-time HD video)
 - Violates the Telecommunications Act (Section 254)
 - Rural service must be "reasonably comparable to those services provided in urban areas"

National Broadband Plan Harmful Proposals

- The Plan proposes to cap future USF at 2010 dollars
 - High-cost support under almost any Plan scenario will be insufficient to support the incremental build-out and maintenance of RLEC broadband networks and services
 - Could lead to a **90% reduction** in RLEC USF *
 - May result in significant consumer rate increases, service cutbacks and/or the elimination of new investment
 - Would likely cripple RLEC's ability to fulfill its Carrier of Last Resort (COLR) responsibilities
 - Violates the Telecommunications Act (Section 254)
 - Support should be "specific, predictable, and sufficient"

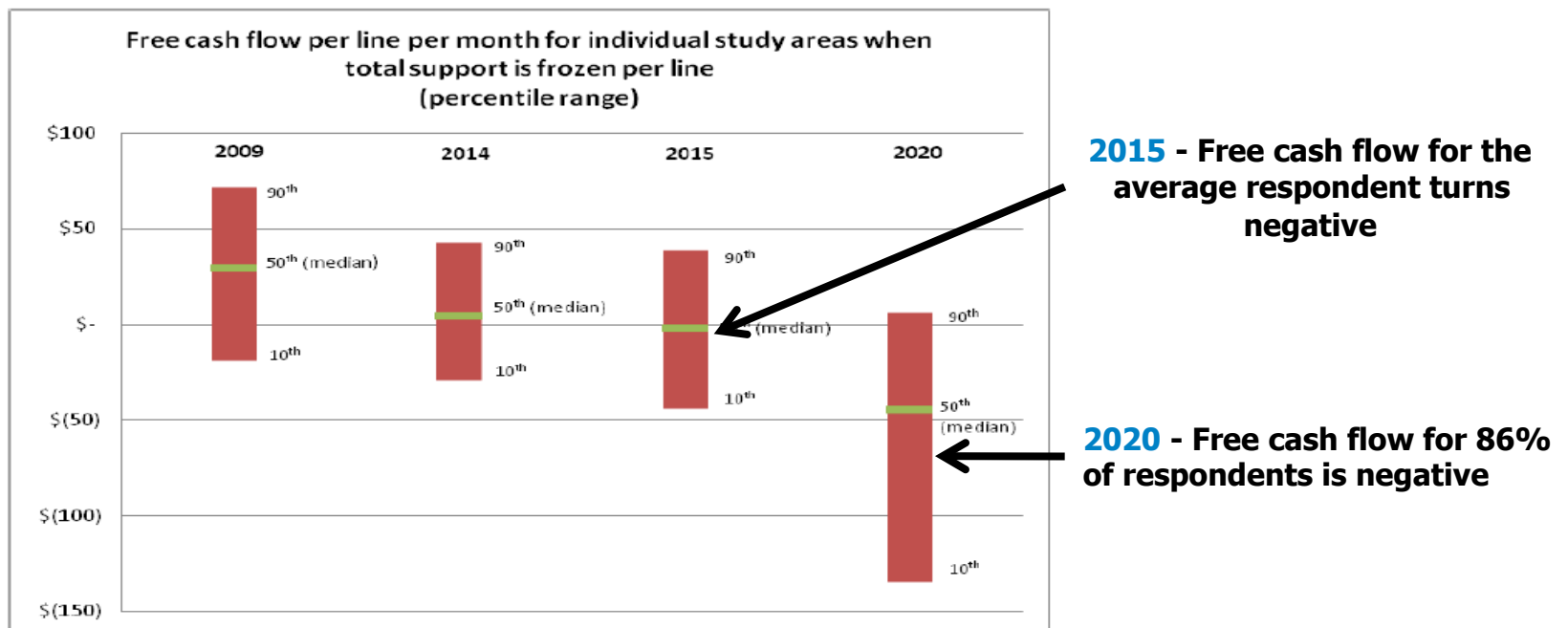
* If funding is limited to the \$23.5 billion the FCC's Broadband Assessment Model estimates is necessary to close the broadband availability gap

National Broadband Plan Harmful Proposals

- The Plan proposes to cap, redirect then eliminate existing USF support mechanisms
 - Fails to recognize the positive effect these programs have had on RLEC's broadband deployment
 - 92% broadband availability using multipurpose networks *
 - Incorrectly assumes that existing plant will somehow remain in place, unaffected when funds are redirected or eliminated
 - Dismantles existing programs before determining how future USF mechanisms (e.g., the Connect America Fund) will work

National Broadband Plan Harmful Proposals

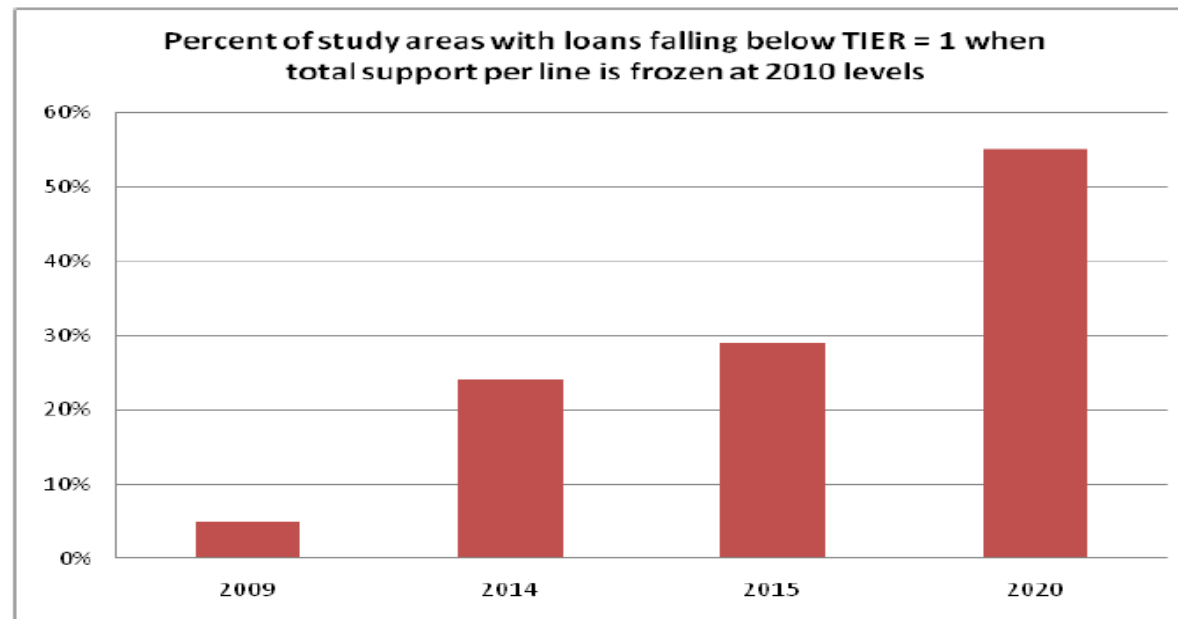
- The Plan proposes to cap, redirect then eliminate existing USF support mechanisms (cont'd)
 - Will cause many RLECs to experience negative free cash flow*



*Free Cash Flow is often used to measure the financial health of a company and is a good predictor of a company's ability to maintain and expand its network. Analysis does not include the effects of the Plan's ICC Reform proposals.

National Broadband Plan ***Harmful Proposals***

- The Plan proposes to cap, redirect then eliminate existing USF support mechanisms (cont'd)
 - Will adversely affect RLECs' ability to obtain or service loans



Times Interest Earned Ratio (TIER) is a measure of interest coverage from operations used by RUS to assure adequate loan security. For loans, RUS regulations specify a minimum ratio of 1.0 is required as a loan guarantee

National Broadband Plan Harmful Proposals

- The Plan proposes to use a market based distribution mechanism (**reverse or procurement auctions**) to determine future high-cost fund recipients
 - Will cause funding to become unpredictable and unstable
 - Rewards those providers who minimize expenditures on service quality and customer service
 - Short auction intervals could adversely affect a RLEC's ability to obtain loans and/or result in stranded investment
 - Long auction intervals won't allow winning bidders to account for changes in technology

National Broadband Plan Harmful Proposals

- The Plan proposes to shift rate-of-return (RoR) carriers to incentive regulation
 - RoR regulation has been far more effective in promoting broadband investment in high-cost rural areas than incentive regulation
 - Incentive regulation “incent” carriers to increase profitability by decreasing investment
 - There is no evidence to support the Plan’s claim that RoR regulation is wasteful, inefficient or that it stifles competition
 - RoR regulation is critical to obtaining loans and capital
 - A mandatory shift destabilizes pooling and the many benefits it provides (e.g., reliable revenue flow)

National Broadband Plan Harmful Proposals

- The Plan proposes to phase out per minute of use ICC
 - Does not assure adequate revenue replacement
 - Suggests lost ICC revenue be recovered through local rate increases
 - Local service rates or the interstate Subscriber Line Charge would need to be increased between \$1.46 and \$64.65 per line per month * to cover this loss

* By 2020 depending on the carrier.

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Timing Issues and Omissions

- New rulemaking procedures to address **USF contribution reform** and **access arbitrage** (including phantom traffic and the treatment of VoIP traffic for access purposes) will not be started until the fourth quarter of 2010
 - Proceedings on these issues began years ago and the record is more than ample to develop an order
 - Continued delay addressing these issues will make it more challenging for RLECs to meet the NBP's goals
- While the Plan recognizes the importance of video bundles to broadband adoption, it fails to address rural providers' disparate access to video content

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National Association Efforts

- The National Associations (NECA, NTCA, OPASTCO, WTA and the Rural Alliance) formed the “Rural Group”
 - Draw attention to harmful provisions of the NBP
 - Work with the FCC to identify constructive alternatives
 - Conduct unified “Hill” advocacy efforts – speak with “one rural voice”
 - Involve members companies and other stakeholders and assist them with their advocacy efforts

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Rural Group Recommendations

- The proposed 4/1 Mbps target must be replaced with one that ensures reasonably comparable broadband services for rural customers
- New funding mechanism size must be sufficient to accomplish the NBP's goals
- Existing USF mechanisms should not be dismantled without a clear understanding how future broadband mechanisms will work
- The Plan's proposal to require RLECs to shift to incentive regulation should be abandoned
 - Instead, develop optional approaches to create additional incentives within RoR regulations

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Rural Group Recommendations

- The FCC should immediately:
 - Broaden the base of USF contributors to include all providers of broadband Internet access services, over all technological platforms;
 - Strengthen its call signaling rules to mitigate phantom traffic and confirm that traffic originated by VoIP providers and terminated on the PSTN is subject to appropriate ICC;
 - Promote broadband adoption by ensuring RLECs have access to video content on reasonable and non-discriminatory terms and conditions

National Broadband Plan

What can RLECs do?

- Educate employees and directors
- Reach out to local business and government leaders
 - Discuss what the Plan, as written, will mean to rural Americans
- Reach out statewide to Utility Commissioners, the Governor's office and Legislature
- Write to the FCC and Congress
 - Encourage subscribers and stakeholders to do the same

National Broadband Plan Summary

- While well intentioned, the NBP contains many proposals that will harm, rather than advance, rural broadband deployment
- The Associations' Rural Group was formed to point out harmful provisions of the Plan and to work with the FCC to identify constructive alternatives to achieving the Plan's goals
- Rural stakeholders and consumers must get involved in NBP advocacy efforts to assure the Plan's goals are met in rural America