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

Proposed Transition from High-Cost Fund to Connect America Fund

Today

Transition Period
- Connect America Fund – Phase I
- Mobility Fund
- ICC Recovery

Future-State

Connect America Fund

Existing High-Cost Fund

Reformed High-Cost Fund

- Initial selection of long-term CAF option
- Monitoring and evaluation
## Introduction

### Proposed Intercarrier Compensation Transition Path

<table>
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<tr>
<th>Today</th>
<th>Near-term</th>
<th>Future-State</th>
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| Different rates for:  
- Intrastate access (states jurisdiction)  
- Interstate access (FCC jurisdiction)  
- Reciprocal compensation (“local” traffic, FCC sets methodology, states implement) | 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 | 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
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?
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