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.

2015 - Free cash flow for the average respondent turns negative

2020 - Free cash flow for 86% of respondents is negative
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

Percent of study areas with loans falling below TIER = 1 when total support per line is frozen at 2010 levels

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.

Source: NECA 2010 Broadband Reform Data Request
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 “incents” 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.
National Broadband Plan
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
National Broadband Plan
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
National Broadband Plan
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
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.