



IS THIS HOW TO
PROMOTE
AND ENSURE
UNIVERSAL SERVICE?

MAY 2012



Context: Road To USF/ICC Reform

- FCC released NBP in March 2010
 - RLEC-Specific Proposals and Impacts
 - Freeze ICLS; limit other cost recovery elements
 - 50% of RLECs cash-flow negative by 2015
 - 90% of RLECs cash-flow negative by 2020
 - Reverse auction distributions
 - Desired end game of low/zero rates clear, but significant ambiguity re: ICC reform path and restructuring

Context: February 2011 USF/ICC NPRM

- Short-Term Proposals
 - Create “phase 1” CAF to stimulate deployment in unserved areas
 - Address perceived “incentive” issues by cutting HCL and ICLS cost recovery and eliminating LSS
 - Address phantom traffic and traffic stimulation
 - “Clarify” VoIP treatment (but not clear how?)
- Long-Term Proposals
 - Target funding via geographic disaggregation, competitive bidding with models and right of first refusal
 - Possibility of maintaining “evolved” RoR in certain cases
 - Transition ICC to low/zero flat-rates; restructuring method unclear?

RLEC USF Reforms

Executive Summary



RLEC USF Reforms – Order

Mostly Near-Term Changes:

1. New CapEx and OpEx Caps
2. Corporate Operations expense cap extended to ICLS
3. New Rate Floor
4. Phase out(?) safety net additive
5. Unsubsidized Competitor Overlap
6. \$250/line/month cap

RLEC USF Reforms – Order – Cont.

- FCC Estimates of Year 1 Impacts:
 - 10% of RLECs lose >20% of USF support
 - 20% lose >10% to 20% of USF support
 - 24% lose up to 10% of USF support
 - 34% see no change to USF support
 - 12% see increased USF support
- Initial industry estimates of Year 1 Impacts:
 - Approx. 80 carriers lose more than \$10/line/mo, some much more
 - Approx. 7.5% to 10% reduction on average
 - Does not take into account all changes, phase-in of some changes in later years, ICC reductions, or FNPRM proposals

RLEC USF Reforms – Regression Order

- WCB April 25 Caps Order Alters Landscape
 - From 11 cost categories to 2
 - Additional data included; clearer path to fix data further
 - Phase-in: 25% July 2012; 50% Jan. 2013; 100% Jan. 2014
 - 10% HCLS “backstop” through Dec. 2012
 - From net \$55M shortfall to net \$10M shortfall
 - From 280 carriers harmed to 106 carriers harmed
 - From 80 carriers losing more than \$10/line/mo. to under 40 carriers
- But is “somewhat better” really good enough? Many core concerns remain:
 - Retroactivity
 - Unpredictability
 - Compounding impact over time – just drags out losses
 - Cap vs. Trigger for Review?
 - Lack of meaningful waiver opportunity

ICC Reforms

Executive Summary

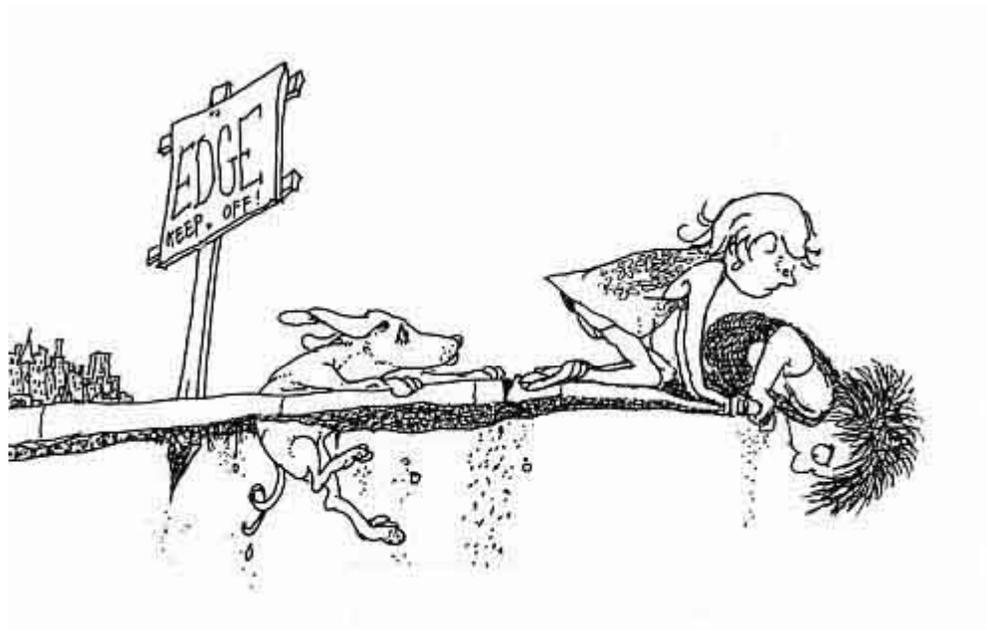


ICC Reforms

- FCC adopted “bill and keep”
 - Rates for terminating end office switching will go to zero over 6 years for price cap carriers and 9 years for RLECs
 - Other rate elements to follow
 - Originating access for PSTN-to-VoIP – special case
 - IntraMTA flash-cut as of July 1
 - Scope still subject to some discussion
- Recovery Mechanisms
 - 2011 baselines subject to % per year stepdowns
- Carriers must look to end users first
 - \$30 rate ceiling
 - Benchmark is not a flash-cut – reached through several years of \$0.50/month ARC increases
- Arbitrage Issues: VoIP, Phantom Traffic, Access stimulation

RLEC Reforms – FNPRM

Executive Summary



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RLEC Reforms – FNPRM

- The “Other Shoe”
- Proposals include:
 - Extend regression analysis to ICLS
 - Represcribe (lower) rate of return
 - Develop/extend unsubsidized competition theory
 - More bill-and-keep
 - More performance mandates
 - New CAF?

RLEC Next Steps

Executive Summary



In the
UNITED STATES COURT OF APPEALS
FOR THE FOURTH CIRCUIT

NATIONAL TELECOMMUNICATIONS)	
COOPERATIVE ASSOCIATION)	
<i>Petitioner,</i>)	No. _____
v.)	
FEDERAL COMMUNICATIONS)	
COMMISSION)	
<i>Respondent.</i>)	

PETITION FOR REVIEW



RLEC Next Steps

- Two Primary Themes
 - How does this promote broadband?
 - When is regulatory certainty restored?
- Four Primary Asks to Policymakers
 - Get any caps right
 - Shelve the FNPRM
 - Develop a Targeted CAF
 - Adopt a meaningful waiver mechanism
- In addition to appeals/recons of course . . .

RLEC Next Steps – Cont.

- Get Any Caps Right
 - Is “somewhat better” good enough?
 - Caps that apply to prior investment spook lenders and investors
 - Caps that change year-to-year chill certainty
 - Will data ever be correct?
 - Use as triggers rather than caps?
- Shelve the FNPRM
 - Delay is no good – only perpetuates uncertainty
 - FCC should implement changes just made and then evaluate them *before* even considering further reforms
 - Compounding effect of caps and ICC reductions have yet to be understood – will affect rates and service quality
 - Role of states and consumer advocates important here!

RLEC Next Steps – Cont.

- Develop a Targeted CAF
 - FCC testing CAF Phases 1 and 2 for Price Cap Areas
 - FCC testing Mobility Fund Phases 1 and 2 for Wireless
 - Where’s the Broadband Future-Focused Mechanism for RLEC Areas?
 - RLEC Plan is 1 option; targeted mechanisms as alternative
 - Standalone Broadband
 - Middle Mile
- Adopt a Meaningful Waiver Mechanism
 - “TSA Search in exchange for a lottery ticket”
 - Make more of a mechanism and less of a process
 - Tie waiver availability to Universal Service and Reform Objective
 - Universal Service requires reasonably comparable services at reasonably comparable rates; FCC reform objective is to promote broadband
 - Yet no waiver available for loss of or inadequate broadband, or unaffordable voice or broadband service?

RLEC Next Steps – Cont.

- Appeal of at least 7 issues
 - Retroactive caps
 - Dynamic caps
 - Waiver standards
 - Bill and Keep
 - Unrecoverable switching costs
 - 251(f) “guidance”
 - Lack of record/APA
- Reconsideration of multiple issues
 - “Recycling” of USF “savings”
 - Phase-out of Safety Net
 - Unfunded mandates for broadband performance
 - Reporting requirements
 - Phantom traffic and VoIP traffic clarifications
 - Bill-and-keep flash-cut for intraMTA traffic
 - RM determination

RLEC Next Steps – Cont.

- USF Comments
 - Nearly 450 pages explaining concerns re:
 - Regression analysis
 - Rate of return prescription
 - Unsubsidized competition
 - Lack of CAF but new performance mandates
- ICC Comments
 - Nearly 100 pages explaining concerns re:
 - Migrating Remaining ICC Elements to Bill and Keep
 - Interconnection Obligations in Bill and Keep World
- Ex Parte Meetings
 - NTCA – 26 FCC meetings since March 8
 - Topics have included caps, safety net additive, FNPRM issues, waivers, new CAF, reporting requirements, originating access, recovery mechanisms, and intraMTA traffic

RLEC Next Steps – Cont.

- “Surround Sound”
- Need others to hear concerns including:
 - Congress (member-driven!)
 - USDA and RUS
 - White House Rural Council
 - White House Ofc. of Science & Technology Policy
 - NTIA
 - Office of Management and Budget
 - Third Party Outreach
 - States/NARUC

RLEC Next Steps – Cont.

- Key Highlights

- January 2012 – Rural Associations’ Letter to Secretary Vilsack
- February 2012
 - N.D. Governor Letter to Chairman Genachowski
 - Reply from Secretary Vilsack
 - Participation in multiple NARUC presentations re USF/ICC reform
- March 2012 – Multiple Congressional Letters to Chairman Genachowski
 - Main Letter – 19 Senators and 44 House Members
 - Save Rural Broadband Advertising Campaign Launched – “Mixed Messages”
- April 2012 – Vendors’ Letter to Chairman Genachowski
- NTCA Attendance at Rural Council Stakeholder Meetings, etc.

RLEC Next Steps – Cont.

From the White House... to your house

there's a promise of broadband.

But will that promise reach rural America?

President Obama wants it. The Secretary of Agriculture wants it. Every American wants it.

But the federal government is sending mixed messages on its commitment to broadband in rural America. Policy changes now being considered threaten to undermine the ability of small, community-based rural telecom companies to deliver—and keep delivering—on the President's promise. The federal government must demonstrate its firm commitment to true universal service, or many rural consumers could end up with unaffordable fees or no broadband at all.

Policymakers: Show every American that you support affordable, high-quality broadband that reaches every consumer in America. Demonstrate your commitment to true universal service by urging sensible reforms that will promote economic development, job creation and strong rural and urban communities.

Visit www.saveruralbroadband.org

NTCA
The Voice of Rural Telecommunications

Context: Other USF Reforms

Executive Summary



Price Cap Reforms - USF

- Phase I
 - Frozen line support at 2011 levels
 - Additional \$300M Support conditional on:
 - 4/1 speeds (and up)
 - Deploy broadband to unserved locations - \$775 per location in additional high cost support
 - Rate Floor

Price Cap Reforms - USF - Cont.

- Phase II
 - CAF support will be determined through cost model and competitive bidding
 - Model determined by Bureau staff
 - Right of First Refusal for Model price
 - If no RoFR, go to reverse auction
 - 5-year limit on payments
- Don't forget ICC . . .

Mobility Fund

- CETC Phase-down
 - Frozen per study area at end of 2011
 - Transition 5 year period starting July 1, 2012
- Phase I
 - Up to \$300M in one time support to be awarded through a reverse auction
 - One time Tribal Mobility Fund to award additional \$50M to Tribal Areas
- Phase II
 - Up to \$500M per year including \$100M for Tribal areas
 - FCC expects to move on Phase II in 2012 and implement it in 2013

Conclusion

