The FCC's ICC and USF Order
Pennsylvania Public Utilities Commission
Workshop Presentation

Jeff Lindsey
Director, Federal Public Policy
April 20, 2012

Goals of the FCC’s Transformation Order

- Expand broadband networks
- Maintain universal voice service
- Begin reform of the intercarrier compensation system
- Manage impacts of change over a transition period

CenturyLink™

Expanding Broadband Networks

- The FCC Order makes many aspirational statements regarding the expansion of broadband networks
  - Sufficient, explicit funding without overly burdensome conditions will be required to make these statements a reality
- The FCC wisely established a reasonable transition period to enable and accomplish broadband network expansion
- The CAF I allocates an incremental $300M; intended to “jump start” broadband investment in unserved areas served by price cap ILECs
  - However, the FCC Order contains several “poison pills”
    - Limit of $775 per location (household), limited to completely unserved census blocks and vastly overstates coverage of fixed wireless providers
    - These factors, among others, significantly limit areas of broadband network expansion
- The purpose, description, and economic principles of the CAF II cost-model based support appear to be sound
  - The qualifying areas and outputs of the model (and related distributions) will largely determine the success of the CAF II
  - ILECs have an option to exercise a study-area wide Right-of-First-Refusal (“ROFR”)
  - Reverse auctions to be held for areas of ILEC ROFR

Maintaining Universal Voice Service

- Once the CAF II is operationalized, some areas that previously received federal USF support, will lose it
  - Census blocks that are not sufficiently high-cost to receive CAF II funding to support voice and broadband obligations will not receive federal support
  - The FCC does nothing to remove state obligations unique to ILECs
  - ILECs will be left with unfunded COLR mandates
- States must choose one of two policy options:
  - Fund ILEC COLR obligations in these areas, or
  - Remove COLR obligations
- Obligations should be tied to the receipt of USF dollars; not to carrier type
  - Areas receiving USF should be subject to reasonable obligations; areas without funding should not be bound to obligations beyond those subjected to all carriers
- State USF should be considered and utilized to fill the gap
  - State USF provides options for the states to tailor support to their unique needs and circumstances to fulfill broadband and voice policy goals

Reforming Intercarrier Compensation

- A reasonable transition period is critical to allow consumers and carriers time to absorb the massive systemic changes resulting from the FCC's Transformation Order and changes arising post Order
- PUC's should recognize the transitional nature of ICC reform
  - Flexibility is critical
  - Focus on literal interpretation and overly proscriptive solutions will likely bog down the process, waste resources, and produce a loss of focus on long-term CAF reform and will disadvantage Pennsylvania consumers
- The FCC Order mandates rate changes via state and federal tariff processes beginning July 1, 2012
- CenturyLink will comply with the Order and timely file tariff rate changes in Pennsylvania
  - The FCC is developing a template to calculate ICC reductions; CTL will utilize this template to support its tariff filings
  - To the extent that resolution of any ambiguities need to be clarified, the filing of the tariff should instigate this process
  - CenturyLink is willing to meet with PUC staff, if desired, prior to submitting its tariff filing for review purposes
  - CenturyLink is willing to file certain rate and revenue information, on a confidential basis, to support its tariff filing

CenturyLink™

Reforming Intercarrier Compensation – ICA Impacts

- Interconnection Agreements (“ICA”) amendments are necessary to effectuate the new rules from the FCC Transformation Order
- Many carriers are currently negotiating amendments to the LEC/CMRS ICAs to implement Bill and Keep (B&K) for IntraMTA usage to be effective July 1st, 2012
- Many carriers are also currently negotiating ICA amendments with CLECs to implement Percent VoIP Usage factors to cap access VoIP usage at interstate rates (unless intrastate rates are lower)
- Carriers will also be amending ICAs to reflect reductions in reciprocal compensation rates effective July 1st, 2012 to the extent the current reciprocal compensation rates exceed interstate levels

CenturyLink™

Reforming ICC: Informal Dispute Resolution

- PA PUC's 3/22/2012 Order seeks comment on a resolution process for: (1) verifications of rates/amounts; and (2) Intercarrier disputes within or outside interconnection agreements
- CenturyLink is not opposed to an informal dispute resolution process whereby promptness and certainty are end goals
- Components of Informal Dispute Process:
  - Letter pleadings to PA PUC
  - Confidentiality
  - Ability to request formal resolution
  - Burden on seeker to demonstrate PA PUC jurisdiction and discretion warranted
  - PA PUC action, or determination of no action, based upon pleadings & within a specified time period.

Avoid Calls to Reform Originating Access

- The FCC has an active FNPRM for originating access
  - Pennsylvania should not move ahead of the FCC and risk actions that may be inconsistent with its future decisions
- Originating access is a service performed for the IXC and is a valid cost input
  - It would be economically irrational and market distorting to require originating carriers to provide this input for free to other carriers upon request
  - Ultimately, it would be impossible to recover the cost of building and maintaining those networks
  - If there were no charges for originating traffic for IXCs pursuant to equal access obligations, the appropriateness of equal access regime would come into question
- Rebalancing or eliminating originating access rates on top of the substantial reform of terminating access rates would be disruptive and burdensome to consumers
  - Retail customers already face the prospect of significant rate increases through terminating access reform

CenturyLink™

Pitfalls to Avoid

- Unnecessary Focus on ILEC "Over-recovery"
  - The FCC's rules effectively preclude ILECs from a reasonable chance of full recovery of displaced ICC revenues
- Premature or bad IP-Interconnection policy
  - Independent of universal service policy
    - Conflicting goals: universal service = availability, not competition
  - Competitive policy issue
    - ILEC-centric policy is obsolete; Cable, wireless, CLECs, OTT are VoIP leaders – not ILECs
    - Exchange of IP traffic is growing rapidly and is not LATA-based
- Failure to Align Funding and Obligations
  - The order will remove funding from some previously supported areas for voice services
  - Policy must fund COLR obligations in these areas or remove them
  - Explicit funding will produce broadband networks in high-cost areas, subject to obligations
- Failure to Recognize the Transitional Aspects of ICC Reform
  - The ICC system is largely going away and USF/CAF will be the primary federal universal service policy tool going forward
  - Overly proscriptive rules and processes for ICC tariff filings will not be productive

CenturyLink™

The FCC's Rules Preclude a Reasonable Chance of Full Recovery of Displaced ICC Revenues

- Use of static demand analysis for computation purposes
  - Dynamic demand analysis produces more realistic results
  - Static demand fails to account for consumer reaction to the Order
- 10% arbitrary reduction of otherwise recoverable displaced intercarrier compensation ("ICC") revenues
- Additional 10% reduction for original CALLS carriers
- Retail recovery is capped; methodology overly proscriptive
  - Further reduces recovery of displaced revenue
  - Adds unnecessary complexity
- CAF ICC recovery phases out after a transition period
- On a positive note, the FCC Order describes the ARC at a holding company level, permitting an increased level of flexibility

CenturyLink™

Conclusion

- Universal Service Policy pits rural vs urban/suburban interests
  - Urban/suburban areas do not need a universal service policy to thrive
  - Consumers in rural high-cost areas are dependent upon an effective universal service policy
  - Once competition enters the market, internal carrier-based support erodes and explicit universal service funding – targeted to high cost areas - is required
  - Such funding must be obtained from all carriers/consumers on a competitively equal basis
    - FCC expected to launch contribution reform soon
  - The CAF II attempts to meet these principles, but may fall short of its aspirational goals
- *What actions will Pennsylvania policymakers take to participate in the federal process and ensure that PA gets its "fair share" of CAF?*
- *What actions will Pennsylvania policymakers take to reform state policies to complement and support the FCC's ICC/USF order?*
  - State USF is a critical tool to fulfill broadband and voice universal service policy goals

The ultimate success or failure of this order will depend on the outcome of the CAF II

CenturyLink™