

# **FCC's Reform of the USF and ICC**

**An overview presentation  
to the  
KS House Standing Committee  
on Energy and Utilities**

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# History and Timeline

## ➤ The National Broadband Plan

- March 16, 2010
- Originated from American Recovery & Reinvestment Act (ARRA) – Congress directed the FCC to develop the NBP
- Includes a plan for ensuring every American has access to broadband Capability
- Widely considered to be harmful to ILECs

## ➤ Mobility Fund NPRM

- October 14, 2010
- Proposed to expand voice and data service availability
- Using a market-based mechanism to award one-time support from accumulated USF reserves
  - Mainly from Verizon and Sprint/Nextel commitments to discontinue receiving CETC support

# History and Timeline

- **USF/ICC Transformation Notice of Proposed Rulemaking**
  - February 8, 2011
  - Proposed reforms to ICC and current USF
  - Designated broadband as supported universal service
  - Connect America Fund outlined



# History and Timeline

## ➤ August 3, 2011 Public Notice

- Supplement records based on industry plans
  - Some “consensus” at this time
- Separate support for Mobile Service
- CAF Support for Price Cap Areas
- Reforms for Rate of Return Carriers
- Ensuring Consumer Equity
- ICC Issues
  - RoR
  - Recommended caps

## ➤ November 18, 2011

- FCC released its Report and Order on USF and ICC Reform and issued a Further Notice of Proposed Rule Making

# FCC Order – High Level Review

## What DID Happen

- Extends universal service definition to include broadband
- Establishes “firm” budget for USF
- Creates the Connect America Fund
- Adopts Bill and Keep regime for all Inter-carrier compensation
- Begins phase-down of legacy universal service support
- Adopts specific goals and funding for broadband mobility
- FCC created separate Tribal Mobility Fund
- Addresses Access Stimulation and Phantom Traffic
- Adopts auctions for certain mechanisms
- FCC entry into traditionally state-level regulation



# FCC Order – High Level Review

## What DID NOT Happen

- Total adoption of any industry plan
- Contribution reform
- Long Term CAF considerations for RLECs
- Model-based support for all
- Increase in funding to reflect increased investment to meet NBP goals
- Adoption of target speeds in rural areas of more than 4 meg/1meg

# Overview of the Fund

## Universal Service

- Explicit support for broadband-capable networks
  - Wireline and Mobile
- Comprehensive Budget (\$ in billions)

Total Fund	\$4.5
Price Cap	\$1.8
RoR	\$2.0
Mobility	\$0.5
Remote Areas	\$0.1

- Separate Reforms for Price Cap and RoR Carriers
- Explicit Support for Tribal Areas from Mobility Fund
- Long-Term Reform for RoR carriers not yet adopted



# Overview of the Fund

## Universal Service – Rate of Return Carriers

- **Obligations for receiving support**
  - Legacy high-cost or ICC replacement CAF
  - Offer 4 meg/1 meg broadband upon reasonable request
- **Reforms to legacy support mechanisms**
  - Framework to limit capital and operating expense recovery
  - Extend corporate operations expense cap to ICLS
  - Reduce HCLS for carriers with low rates
  - Phase out Safety Net Additive
  - Eliminate LSS and address via comprehensive ICC reform
  - Phase Out support in study areas with 100% overlapping non-supported service available
  - Cap per-line monthly support at \$250

# Overview of the Fund

## Price Cap Carriers

### ➤ Phase I

- Existing support frozen at 2011 levels
- Additional \$300m in CAF support will be available
  - “Immediate” assistance for un-served areas
- Frozen support subject to performance and build-out requirements

### ➤ Phase II

- CAF – determined via forward-looking cost model and competitive bidding
- Model and competitive bidding process to be adopted by December 2012



# Overview of the Fund

## CAF Mobility

### ➤ Phase I

- \$300m in one-time support, awarded via reverse auction in 3Q2012
- Support for areas without mobile broadband services
- Winners to deploy 4G service within 3 years or 3G service within 2 years
- Separate Tribal Mobility Fund – one time amount of \$50m

### ➤ Phase II

- \$500m annually, including \$100m for Tribal areas
- Mechanism to be adopted in 2012, implemented in 2013
- CAF Phase II support recipients eligible, but not for the same areas

# Overview of the Fund

## Remote Areas Fund

- \$100m per year
- Supports service through alternative technology platforms
  - Satellite and unlicensed wireless
- Expected to be implemented in 2013



# Overview of the Fund

## Identical Support Rule

- Frozen on a per-study area basis at Y/E 2011 levels
- Phased-out over a five year period, beginning 7/1/2012
- Phase-out is done in conjunction with the implementation of Mobility Fund
- Ensures ongoing support to CETCs in the event Mobility Fund implementation is delayed past 2013

# Where We Stand Today

## ➤ **Still a long way to travel**

- Many decisions were left to Bureau staff or put into a FNPRM

## ➤ **Two thematic concerns**

- Lack of clear path forward for broadband future
- Does not restore regulatory certainty



# ICC Reforms

- FCC adopted “bill and keep” pricing theory to justify rate reductions
  - Rates for terminating end office switching will go to ZERO over 6 years for price cap carriers and 9 years for RLECs
    - Terminating transport will go to ZERO too where the terminating carrier owns the tandem switch
  - Other rate elements will follow as part of a to-be-defined transition

# ICC Reforms

## ➤ Reductions to Terminating End Office Switching Rates will be recovered through a Restructure Mechanism

- RLEC RM will be based upon 2011 baseline of revenues/revenue requirements, subject to a 5% per year stepdown (blend of intrastate and interstate pace of reduction)
- Price Cap RM is based upon 90% of 2011 revenues, and reduced further by 10% per year until phase-out in 8 years.



# ICC Reforms

## ➤ FCC also addressed several near-term “arbitrage issues”

- VoIP is subject to interstate access charges or reciprocal compensation rates, as applicable
- Phantom Traffic rules require passage of CPN and CN (but not carrier identification info)
- Access stimulation subject to tariff and contract limitations intended to deter such conduct

# Rural Concerns

## ➤ Preemption of State Commission Jurisdiction

- Require increases in local rates if below a threshold or lose the revenues
- Require reduction in rates charged to toll and wireless carriers for use of the intrastate network

## ➤ Unfunded Mandates

- Loss of Federal support revenue for investments already made. For just one of the changes, collectively Kansas rural ILECs could lose \$17.4M, (14.3%)
- Elimination of all revenue over time for use made by toll and wireless carriers of the telecommunications network



# Rural Concerns

## ➤ Effect on Kansas Rural Telecommunications Carriers

- At a minimum, most Rural ILECs will have to suspend further network investments.
- If the loss of federal revenue is significant enough, individual rural ILECs will have difficulty (a) maintaining the existing network and the services it provides and (b) paying back the loans made (largely by RUS) to build the existing network.

## ➤ Effect on Rural Consumers

- Possible loss of quality and affordable voice and broadband service – at a minimum, increased rates – at a worst, loss of services
- Reduced possibility for rural economic development if reliable broadband service is less available.

# Rural Concerns

## ➤ Basis for FCC Order Causing these Effects

- In Kansas, rural ILECs have used federal and state funds to maintain and upgrade their networks so that they can provide quality voice and broadband service at affordable rates comparable to those offered in urban areas (the goals of Section 254 of the Federal Act and State statutes)
- In Kansas, the notion that funds have been misused or spent inefficiently is belied by the fact that each of the ILECs receiving state funds has been thoroughly audited by the KCC
- The FCC (Presentation at NARUC on 11/15/11) claims that the changes will provide:
  - New and Improved job opportunities
  - Increased competitiveness of American businesses
  - Better education and healthcare capabilities
  - Enhanced communication tools for all Americans, including individuals with disabilities
  - Improved access to emergency services and communications tools for first responders
- The loss of Federal Support revenue will guarantee that the opposite will be true in many of the rural areas serviced by rural ILECs in Kansas



# Important Dates

## ➤ Universal Service

- Comments January 18, 2012
- Reply comments February 17, 2012

## ➤ Intercarrier Compensation

- Comments February 24, 2012
- Reply comments March 30, 2012

# Other

- Petitions for Reconsideration – Over 20 filed; not specific deadlines for resolution
  - Reply comments February 17, 2012
- Court Appeals – At least 16 now filed; will be heard in Tenth Circuit – Denver; identification of issues just underway



# Questions ???