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Testimony of Ken Schifman on the FCC's ICC/USF Order Before the Kansas Senate Utilities Committee January 25, 2012

Thank you Chairman Apple and Members of the Committee. My name is Ken Schifman and I am the Director of Regulatory Affairs for Sprint. Thank you for the opportunity to present Sprint's comments on the FCC's order dealing with Intercarrier compensation (ICC) and the federal Universal Service Fund (FUSF).

The order is the most comprehensive overhaul of the FUSF and ICC systems since their inception and its overarching goal is to ensure that "robust, affordable voice and broadband service, both fixed and mobile, are available to Americans throughout the nation." ¶ 1. The FCC's Order is in effect now and companies are making compliance filings at the federal and state levels.

The FCC's Order reduces intercarrier charges over time and provides universal service support to build and maintain broadband and basic voice service networks focusing on providing money to locations where broadband currently does not exist and to providing accountability and obligations to build broadband in exchange for receiving the public's money. The FCC's Order is comprehensive and the FCC expects its Order to result in over $1.5 Billion annually in benefits to consumers. ¶ 14.

Although the FCC expects the states to be key partners in these reforms in areas like carrier of last resort obligations, (¶ 15) there is nothing in the FCC's Order that requires states to replace through state funding mechanisms any funds subject to the federal reform. To the contrary, the lost intercarrier compensation revenues are replaced with a federal access replacement charge ("ARC") ¶ 849 and funds from the Connect America Fund ("CAF") ¶ 853. Adding to the Kansas State Universal Service Fund (KUSF) would contradict the FCC's policy. Moreover, the existing KUSF should be reviewed (as the Kansas Corporation Commission is doing) to determine if the KUSF conflicts with the federal CAF. Sprint's view is that the federal CAF ensures that broadband will be deployed in currently unserved area (which according to the KCC is only 7% of Kansas households. Chairman Sievers testimony, January 10) and that there is no need to continue the high cost portions of the current KUSF and assess Kansas customers on an intrastate basis.

<u>Intercarrier Compensation</u>

The FCC finally took long overdue steps toward modernizing regulations in a manner designed to benefit consumers and competition by abandoning the outdated idea that a carrier must pay other carriers for network use and has adopted a bill-and-keep methodology under section 251(b)(5) of the Act as the end state of ICC reform. Sprint is pleased with the eventual elimination of competition-distorting, monopoly-era, excessive access fees that are fundamentally incompatible with today's packet networks.

The FCC has preempted the states and replaced what was classified as access traffic with the reciprocal compensation framework of section 251(b) (5). That said, the FCC has given the states certain "responsibilities" including:

1. Oversight of the tariffing of intrastate rate reductions during the transition period.
2. Oversight of interconnection negotiations and arbitrations pursuant to sections 251 and 252 of the Act.
3. Responsibility for determining where the network "edge" is located that will serve as the carrier-to-carrier demarcation point for purposes of bill-and-keep.

While the FCC has established the pace of reductions to traffic termination rates, the states are permitted to reduce terminating intrastate access rates more quickly than the FCC schedule and to reduce additional intrastate rate elements (e.g., originating access elements).

Sprint's Policy Position:

Sprint thinks the FCC is taking the right direction long term, but has lingering concerns near term about traffic pumping schemes and we are disappointed the FCC took a step backwards by starting to apply the old access rate system to Voice over Internet Protocol, or VoIP, traffic. We are also pleased the FCC recognized it is not finished yet and still needs to address high transport rates and take additional steps to promote Internet Protocol (IP) Interconnection.

Sprint is opposed to any state adopting measures to replace any lost intercarrier compensation revenues. The FCC states that "carriers should first look to limited recovery from their own end users, consistent with the principle of bill and keep and the model in the wireless industry." (¶ 849). The ARC and the reforms to the federal fund are explicitly intended to provide sufficient support to carriers for recovery of both federal and state traffic termination rate reductions. Specifically, the federal mechanism "will provide carriers with recovery for reductions in interstate *and* intrastate revenue. As a result, states will not be required to bear the burden of establishing and funding state recovery mechanisms" (¶ 795). Moreover, the Order provides new funding targeted to support broadband and carriers receiving CAF recovery must extend broadband to areas that currently don't have it. In short, state universal service funds are unnecessary to deploy broadband in unserved areas.

Connect America Fund

In general, the FCC is capping the amount of money in the current federal USF at $4.5 Billion annually and receipt of CAF money for incumbent LECs will be contingent upon building broadband in currently unserved areas. The FCC also establishes a mobility fund to support mobile broadband in unserved areas but allocates much less money for mobility than for deploying fixed broadband.

Sprint's Policy Position:

Sprint is pleased the FCC is phasing out the broken, outdated, narrowband fund in favor of targeted broadband funding focused on areas currently not served by broadband. Sprint is pleased that the CAF will be on a strict budget and that there are reforms reducing the draw from the fund by rate of return carriers with strict reporting requirements. But Sprint still questions whether $4 Billion annually should be provided to incumbent carriers with much of the funding coming from wireless carriers. Sprint is disappointed that more CAF funding appears to be allocated to fixed wireline technology rather than to mobile broadband.

Thank you for your time and I would be happy to address any questions members may have.