



***USF and ICC Reform NPRM  
Rural Association Comments  
and Proposals***

Presented by:

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# *Agenda*

- NPRM principles
- NPRM proposals and Association comments
  - Intercarrier Compensation (ICC) reform
    - Access Arbitrage
    - Transitioning rates
  - Universal Service Fund (USF) reform
    - Near term
    - Long term
- Association proposals (the “RLEC Plan”)

## ***NPRM Principles***

- Modernize USF and ICC for broadband
  - **Comments** – Agree reform is needed but must be “specific, predictable and sufficient”
  - **Comments** - Changes must be “surgical and deliberate”
- Fiscal responsibility – freeze USF at 2010 levels
  - **Comments** - Ubiquitous, high quality and affordable broadband service cannot be accomplished at existing funding levels
- Accountability and market driven policies

# *ICC Reform Proposals*

## *Access Arbitrage*

- Amend call signaling rules to address “phantom traffic”
  - **Comments** – Passage of correct CPN or CN is necessary and appropriate, but ability to identify of the financially responsible carrier is also needed
- Amend interstate rules to address access stimulation based on existence of revenue sharing agreements and demand increases
  - **Comments** – Modifications needed, but legitimate revenue sharing agreements and demand increases exist and must be recognized

# *ICC Reform Proposals*

## *Access Arbitrage*

- Decide ICC obligations for interconnected VoIP
  - **Comments** - IP-originated traffic terminating on the PSTN uses the network in the same ways as traffic generated using any other technology
  - **Comments** - Singling out VoIP for discriminatory treatment will encourage further arbitrage
  - **Comments** – The NPRM does not address “self help” techniques employed by some carriers

# *ICC Reform Proposals*

## *Transitioning Rates*

- Reduce then eliminate per-MOU ICC under existing jurisdictional roles or sections 251/252
  - **Comments** - A failure to enable RLECs to recover their lost access revenues would severely impact their ability to transition to an all-IP network
  - **Comments** - Setting ICC rates too low could lead to substantial increases in CAF funding and/or local rates and would cause an uneconomic use of RLEC networks

Scenario:	\$ Increase in Local Rates per month			
	90 <sup>th</sup>	Median	10 <sup>th</sup>	Weighted Mean
1. Intrastate to Interstate	\$16.23	\$4.78	\$0.00	\$5.98
2. All to Reciprocal Compensation	\$25.89	\$11.15	\$4.52	\$11.77
3. Bill and Keep	\$31.17	\$15.62	\$8.43	\$16.47

Assumes all lost revenue is recovered from Local Rates

# ***USF Reform – Near Term Proposals***

## ***ROR Fund Transition***

- Phase out Local Switching Support (LSS)
  - **Comments** - Eliminating LSS would have a dramatic impact on access and/or local rates
- Reduce reimbursement rates for High Cost Loop Support (HCLS)
  - **Comments** - Will have minimal fund size impact but will cause disruptive support shifts
- Eliminate Safety Net Additive (SNA) support
  - **Comments** - More reasonable alternatives exist

# ***USF Reform – Near Term Proposals***

## ***ROR Fund Transition***

- Combine LSS and the HCL support program
  - **Comments** - Would have unintended and adverse consequences
- Eliminate support for corporate overhead expense
  - **Comments** - Would undermine customer service and adversely affect consumer and carrier rates
- Set capital and operating expenses benchmarks
  - **Comments** - A less harmful, more targeted alternative should be used

# *USF Reform – Near Term Proposals*

## *ROR Fund Transition - Impacts*

Scenario:	\$ Increase in Local Rates per month			
	90 <sup>th</sup>	Median	10 <sup>th</sup>	Weighted Mean
Eliminate LSS	\$16.91	\$5.77	\$1.98	\$4.37

Scenario:	\$ Increase in Local Rates per month			
	90 <sup>th</sup>	Median	10 <sup>th</sup>	Weighted Mean
HCLS @ NPRM proposed 55% and 65%	\$7.63	\$0.00	-\$1.56	\$0.60

Scenario:	\$ Increase in Local Rates per month			
	90 <sup>th</sup>	Median	10 <sup>th</sup>	Weighted Mean
Combine LSS and HCLS	\$4.43	\$0.47	-\$6.47	-\$0.19

Scenario:	\$ Increase in Local Rates per month			
	90 <sup>th</sup>	Median	10 <sup>th</sup>	Weighted Mean
Eliminate Corp Operating Expense from HCLS, LSS & ICLS	\$27.35	\$5.88	\$1.63	\$5.08

Assumes all lost revenue is recovered from Local Rates

# ***USF Reform – Near Term Proposals***

## ***Other***

- Eliminate the identical support rule,
- Modify the study area waiver process and
- Revise the “parent trap” rules
  - **Comments** - These proposals have merit and should be acted upon (with some revision)
- Mandatory support disaggregation
  - **Comments** - Would be costly, overly burdensome and has no clear purpose

# *USF Reform – Near Term Proposals*

## *Other*

- Eliminate or reduce support to those portions of a study area where an unsubsidized competitor(s) exist (the hole in the donut)
  - **Comments** - Pressures on the fund will increase and the efficiencies that come from averaging of costs over an entire study area will be eliminated

## *USF Reform – Long Term Proposals*

- Connect America Fund (CAF) support awarded based on forward looking cost model or reverse auctions to a single provider
  - **Comments** – Developing accurate forward looking cost models is highly problematic for RLECs
  - **Comments** - Reverse auctions could lead to serious service quality problems, significant unpredictability for carriers and lenders and rural areas without suitable COLRs
  - **Comments** – Support must be distributed only to carriers having strong COLR responsibilities

## ***RLEC Plan***

- Serves FCC reform objectives
  - Also serves statutory objectives
- Maintains reasonable RLEC CAF costs growth
- Sustain broadband-capable networks
  - Provides reasonable opportunity to recover costs associated with existing investment
- Promote responsible edging out of broadband to into unserved areas
- Maintains recognition of COLR obligations

## ***RLEC Plan***

### ***Step 1 – Address Access Arbitrage***

- Require passage of CPN/CN and responsible carrier detail (e.g., OCN or CIC)
  - Prohibit substitution of CPN/CN (e.g., gateway number)
  - Adopt the “telephone numbers rule” as a default
  - Ensure adequate enforcement
- Institute reasonable access stimulation rules
  - Recognize legal revenue sharing arrangements and legitimate demand increases
    - Develop reasonable volume-based triggers

## ***RLEC Plan***

### ***Step 1 – Address Access Arbitrage***

- Subject VoIP traffic to the same ICC rules as all other traffic
- Confirm it is not a violation of the Act to discontinue service for nonpayment of properly-billed access charges
- Institute procedures to resolve disputes more quickly

## ***RLEC Plan***

### ***Step 2 – Near Term USF Reform***

- Impose a limitation on recovery of prospective RLEC capital expenditures
  - Based on the portion of a carrier's loop plant that has reached the end of its useful life
  - Prospective "USF budget" tied to loop plant depreciation
  - Based on study area accounting data
- Apply the current HCLS corporate operations expense cap formula to ICLS and LSS

## ***RLEC Plan***

### ***Step 3 – Longer Term ICC Reform***

- RLEC intrastate and interstate switched access rates should be unified
  - On an individual company basis
  - At the discretion of each state commission
  - Must be coupled with sufficient USF Restructure Mechanism (RM)
    - $\text{Carrier RM} = \text{Intra Revs} - (\text{Intra MOU} * \text{Inter rate})$
    - RM available only in states that unify intrastate and interstate rates and raise local rate to \$25.00 benchmark
- Reexamine 3-5 years

## ***RLEC Plan***

### ***Step 4 – Longer Term USF Reform***

- Implement a cost-based “RLEC-specific” CAF mechanism
  - Separate but complementary component of CAF mechanism
  - Transitions existing high cost programs to the CAF in a logical manner
  - Encourages broadband adoption efforts
  - Recognizes COLR responsibilities

# ***RLEC Plan***

## ***Step 4 – Longer Term USF Reform***

### **Calculate Broadband Network Transmission Cost**

(subject to “RLEC Plan” USF reforms)

(Includes last mile, second mile, middle mile & Internet access costs)

(Includes additional regulated loop costs based on increased adoption)

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**(Urban benchmark x RLECs working broadband lines)**

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**RLEC CAF Support**

Total regulated interstate costs not recovered via RLEC CAF support and remaining transitional support (or its CAF replacement) recovered via end user and other customer charges

## ***RLEC Plan***

### ***Step 4 – Longer Term USF Reform***

- Legacy High Cost Fund transition
  - HCLS - Phases down as broadband adoption increases
  - ICLS - Recovered for voice-only lines
    - Phases down as broadband adoption increases
  - LSS – Transition coordinated with ICC reform
- Commission should revisit results and consider the need for further modifications in 3 to 5 years

## *Summary*

- The reforms proposed in the USF and ICC NPRM while well intentioned, will be harmful to rural carriers and their subscribers
- The RLEC Plan proposes measured and reasonable alternative approaches to USF and ICC reform and affords RLECs the opportunity to recover current investment costs