

Before the
Montana Public Service Commission
Forum on Industry Consensus Framework on Universal
Service/Intercarrier Compensation Reform
August 22, 2011

Comments of the
Montana Telecommunications Association



Background: NBP

- National Broadband Plan
 - Freeze USF, ICLS
 - Eliminate rate of return; shift to “incentive reg”
 - use untested, flawed cost model
 - 100 Mbps for 100M Americans; 4 Mbps. for rural
 - Reverse auctions
 - Where’s contributions reform?
- *Conclusion:*
 - 50% of RLECs would have negative cash flow by 2015; 90% by 2020
 - Violated “specific, sufficient and predictable” standards in statute



Background: NPRM

- Freeze (or reduce) USF at 2010 levels
- One CAF supported provider per area
- Eliminate corporate op ex
- Fund only new cap ex
- Request comment on VOIP access, Phantom Traffic and traffic pumping
- Disaggregation: support to “donut,” not hole
- New CAF based on untested model (nor RoR)
- Residential rate benchmark

Background: NPRM (cont'd)

- Eliminate support in “competitive” areas
- Include non-reg revenues in revenue requirements
- Reverse auctions
- Eliminate ICC over (3-5?) years.
 - Recovery, “where necessary,” with (undetermined) explicit CAF support and possible subscriber rate increases
- *Conclusion:* Shift of USF and effective loss of ICC pose real threat to rural investment, jobs and risk widespread RLEC default

Background: NPRM (4/18/11 Rural Assn. Comments)

- Short Term:
 - Immediately adopt VOIP, Phantom Traffic rules
 - Maintain Rate of Return
 - Support replacement of depreciated loop plant
 - Apply corp op ex limit to HCLS, ICLS and LSS
- Long term:
 - unification of ICC rates, *with restructure mechanism*
 - CAF with “evolved” Rate of Return
 - separations adjustment to recognize broadband adoption
 - Subtract broadband investment (include middle mile and Internet Backbone access) from urban benchmark to determine CAF support



Political Environment

- Little traction for Rural Assn. recommendations
- FCC finalizing Order modeled after NPRM for Fall Release
 - Freeze/reduce USF
 - No action on VOIP access
 - Rapid elimination of ICC (.0007)
 - No restructure mechanism
 - Reverse auctions, disaggregation
 - Consolidation of rural cos. to promote efficiencies
 - 8.5 - 9.0 rate of return
 - Eliminate corporate operating expenses
- Capitol Hill deferring to FCC
 - USF was budget/debt target; all programs are targets

Industry Consensus Framework

- Jointly filed by Price Cap (PC) and RLECs (7/29/11)
 - Delicately balanced holistic approach
 - PCs’ “ABC” Plan and RLEC Plan work together but separately
 - Cannot “pick & choose” without harm
- RLEC Provisions
 - Adopts Rural Assns’ 4/18/11 recommendations, inclu. ROR
 - No USF hard cap: \$2B USF HC “budget” (current level), with growth of \$50M/yr up to \$2.3B in 6 yrs
 - VOIP pays ICC rates at interstate access level
 - Phantom traffic solution: all traffic must be identifiable; no intermediate numbers (will help fix call termination)



Consensus Framework: (Cont'd)

- RLEC Provisions (cont'd)
 - 10% Rate of return
 - (Lower than current 11.25, but higher than threatened 8.5 - 9.0)
 - ICC phase down over 8 yrs (not 6 as proposed)
 - Applies only to terminating local switching
 - Transport and tandem switching at unified interstate rate
 - Restructure Mechanism
 - No rate reduction without RM funding
 - \$25 local rate benchmark, incremental SLC increases over 6 yrs. up to \$25 total local rate
 - 10% intrastate earnings test, RM offset of excess
 - Rural transport rule



Consensus Framework: (Cont'd)

How ABC and RLEC Plans affect USF & ICC

- RLECs will receive \$2.0B USF (about same as today); plus \$50M/yr for 6 yrs (\$300M) to \$2.3B
- PCs will receive \$2.2B USF (about same as today)
- RoR will lose about \$1B of ICC (access); but will recover loss thru Restructure Mechanism (RM)
 - NOTE: 1) ICC rates will not go down if RM is insufficient;
 - 2) transition to .0007 is 8 years (not 6 or less)
- Both ABC and RLEC Plans include RMs
 - ABC access rates fall faster and RM goes away
 - RMs funded by T, VZ USF deferrals, savings from identical support, VOIP access, CETC support [check]

RLEC Plan vs. Status Quo

National Analysis

- Today, RLECs receive \$1.7 - \$2.0B in USF and around \$1B in Access
 - Initially (yrs. 1-6) they'll lose USF/ICC revenues (<\$50M/yr) primarily from RoR reduction from 11.25% to 10.0% and Benchmark-SLC increases
 - By year 7, RLECs will receive roughly the same or more USF/ICC as today
 - NOTE: this assumes status quo is static. However, 1) access revenues are falling by more than 10%/yr 2) analysis above compares Plan vs. *Status Quo*, not NPRM or NBP vs. *Status Quo*, which would result in substantial revenue losses



RLEC Plan vs. Status Quo Local Analysis

- [effects on MTA member?]



NPRM Effects on TIER Ratios

- (copy slide 9 from RTFC ex parte)

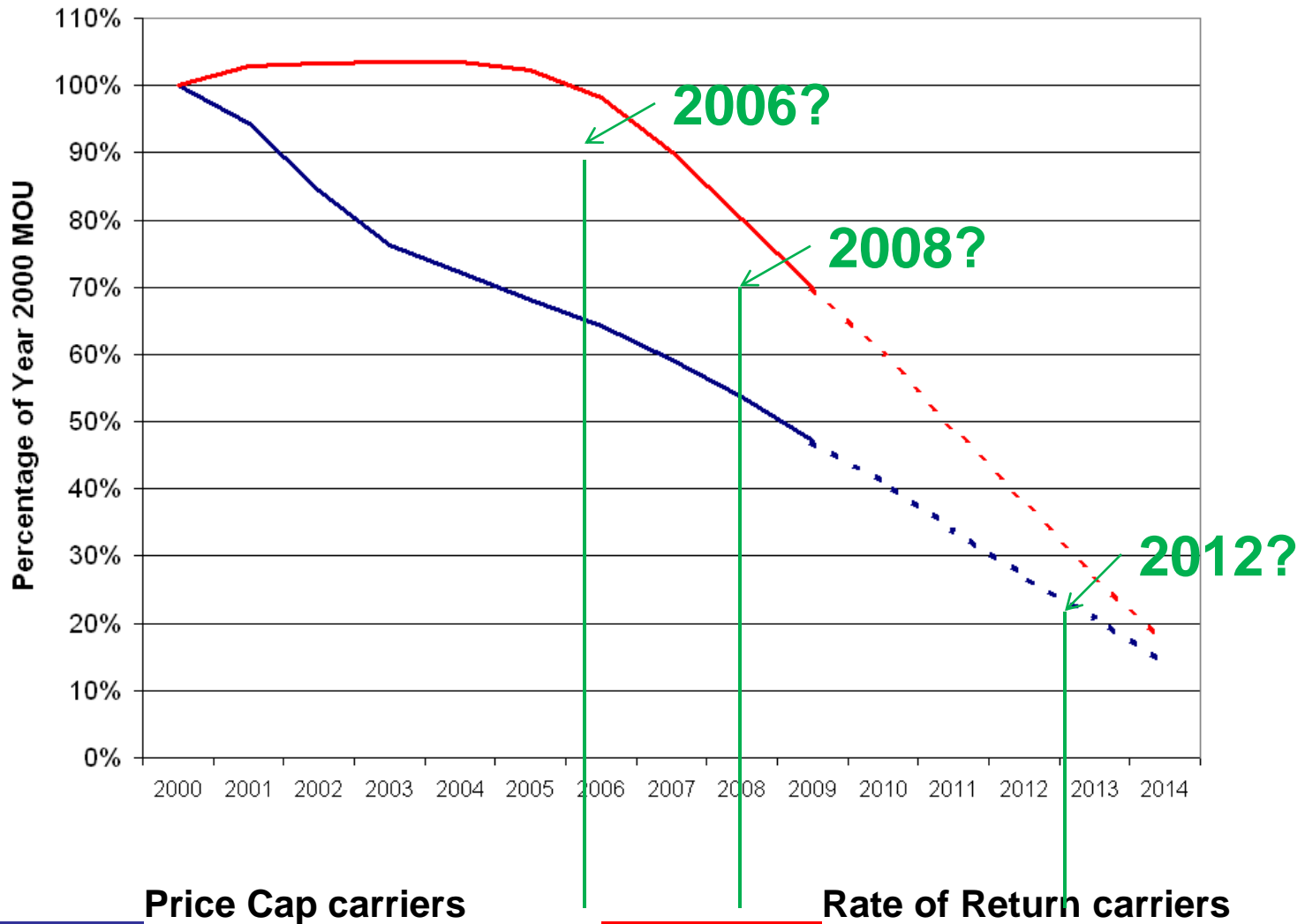


RTFC Conclusions

- RTFC would be challenged to provide future loans to RLECs if established metrics of creditworthiness cannot be satisfied
- TIER ratios are severely affected by NPRM; impact compounded by ICC proposals
- Failure to maintain TIER ratios increases likelihood of payment defaults, covenant breaches
- ***Capital markets and private lenders would react positively to regulatory certainty and cash flow stability by adoption of RLEC assns.’ proposals.***

source: RTFC ex parte, 8/10/11

Access Rates Plummeting



USF & ICC totals

- High Cost Support (2009, \$million)
 - Non-rural Price Cap: \$579.8
 - Rural Price Cap: \$565.7
 - Total Price Cap: \$1,140.5
 - Rural Rate of Return: \$1,945.2
 - CETC: \$1,362.0
 - Total USF: \$4,447.7

source: NECA



USF & ICC: Access Revenues

Access Revenues (2009, \$million)

	Intrastate	Interstate	Total
5 Holding Cos w/ most end user revs	1,838	1,888	3,726
ILECs other than top 5 (Inclu. Rate of Return)	1,621	900	2,521
RoR carriers other than top 5 (excluding RoR)	660	340	1,000
	961	560	1,521
Total:			6,247

source: NECA

USF & ICC: Access Revenues

Access Revenues (2008, \$million)

	Intrastate	Interstate	Total
RBOCs	2,039	2,014	4,053
Other ILECs	1,865	982	2,847
Total:			6,900

Access Revenues (2007, \$million)

RBOCs	2,472	2,156	4,628
Other ILECs	2,019	1,120	3,139
Total:			7,767

Access Revenues (2006, \$million)

RBOCs	2,869	2,391	5,260
Other ILECs	2,202	1,025	3,227
Total:			8,487

source: NECA

“Western Assn.” Comments

- CITC, CTA, ITA, MTA, (NM), OTA, WITA, WTA
- Support Framework
 - Holistic USF/ICC Solution. Both ABC and RLEC Plans should remain intact
- Support RLEC Plan
 - VOIP, Phantom Traffic solutions
- NPRM would be devastating on rates, investment and jobs; and threatens default
- Resolve Call Termination crisis