FCC USF/ICC Reform

Order & Implications

Regulation of Utah Rural Telecoms

- Utah Rural Telecoms are subject to "rate-of-return" regulation.
  - The FCC establishes an interstate "revenue requirement"
  - Public Service Commission of Utah (PSCU) establishes an intrastate "revenue requirement"
- Revenue requirements are based on the amount of revenue sufficient to cover the costs of providing services plus a reasonable rate of return on invested capital.
- Utah Rural Telecoms have 4 streams of revenue available to them to meet their revenue requirements:
  - Subscriber Charges
  - Intercarrier Compensation
  - Federal Universal Service Funds
  - State Universal Service Funds

Status of Advanced Telecommunications Services in Rural Utah

- Under the current regulatory scheme, Utah Rural Telecoms have used earnings (profits), along with borrowed funds based on their profitability, to:
  - Develop and deploy thousands of miles of fiber optic facilities, including a network of geographically diverse fiber rings through the central, southern and eastern portions of the state to provide those areas with redundancy.
  - Provide broadband availability to more than 95% of the residential and business users in the rural telecoms' serving areas.
  - Provide gigabyte services to schools, libraries, hospitals and other health-care related facilities along with businesses with high bandwidth requirements.
  - Provide other advanced telecommunications services to rural areas.

FCC USF/ICC Reform Order ("Transformation Order")

- Transformation Order released Nov 18, 2011
  - Some reforms began Dec. 29 and many reforms start on July 1, 2012
  - Order is 750 pages but a number of issues still unaddressed or uncertain
  - FCC continues to issue additional orders clarifying or modifying the original Order
  - The Order is currently under reconsideration at the FCC and on appeal at the 10th Circuit Court of Appeals

Rate-of-Return USF Reform

- Federal Universal Service Support has been used by rate-of-return carriers to preserve and advance the deployment of telecommunications infrastructure in rural areas of the nation.
- Specific programs for rate-of-return carriers include:
  - High Cost Loop Support
    - Offset local service rates
  - Interstate Common Line Support
    - Recover interstate access costs where rates for services have been reduced
  - Safety Net Additive Support
    - Provide additional support for qualifying carriers to offset local service rates
  - Local Switching Support
    - Provide funding for small carriers where switching costs are high on a per-line basis

Reforms

- Limit ability of carriers to receive HCLS when deploying modern infrastructure in rural areas – investment capped at 12-31-2011 levels; impact carrier of last resort obligations
- Extend limits of corporate operations expenses
- Require that local rates increase to meet national benchmarks
  - Estimated to be $17+ in 2014
- Eliminate Safety Net Additive Support
- Eliminate Local Switching Support
- Impose a per line per month cap on federal support
  - $250 per line per month
  - Does not affect carriers in Utah
- Phase-out all federal support in areas where another provider is offering service
  - Currently competitor must serve entire service area of incumbent

Reform Impacts: Monumental

- Federal USF reforms are significant
  - Some carriers are not affected or affected minimally
  - Other carriers will realize significant revenue shortfalls on revenues that provided justification for infrastructure loans
- Carriers facing significant impact may file for waivers, yet waiver process is structured to offer relief to only those with devastating impact
- Not an environment where the FCC is promoting the investment of additional infrastructure
  - Many carriers must look to projects that "prove-in" with stand-alone revenues
  - Difficult and costly projects designed to provide services in high-cost areas are being delayed or abandoned because of FCC actions

Intercarrier Compensation Reforms

- FCC adopts a bill-and-keep regime.
  - Originating carrier has responsibility to deliver call to terminating carrier.
  - Long-distance provider no longer has a retail relationship with end-user.
  - This change eliminates the access revenues local carriers received from long-distance providers.
- FCC preempts states from regulating the provision of intrastate long-distance calls.
- Reduce Intercarrier Compensation Eligible Recovery Amount by 5% per year for 5 years (possibility that in year 6 the reduction would be accelerated to 10% per year).
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Reform Process

- Gradual transition to bill and keep regime.
  - Under a bill and keep regime, each carrier terminates calls from the other carriers at no charge thereby eliminating reciprocal compensation charges that have been historically paid to the terminating carrier.
- Caps are now effective for most switched access rates (rates paid to local carriers for access to their network for long distance calls)
  - Intra and interstate parity by 2013 in two steps using FY 2011 intrastate minutes for each rate element
  - Reduce termination to bill-and-keep
    - Six years for price cap
    - Nine years for rate of return
  - Reduce origination to bill-and-keep
    - Timeline not yet defined
- FCC phases-out the eligible costs carriers have in providing access services.

Reform process continued...

- Retail customers will see an increase in a federal charge ($3.00 per line per month over six years).
- Carriers will be eligible to receive additional universal service support from a new program if costs exceed revenues for access service—provided funds are available.
- State regulators will be responsible for rate-of-return cost recovery if FCC support is inadequate

Utah Impact

- All rural carriers will see increased need for state support because of federal reforms – how much is uncertain at this time.
- FCC is eliminating carrier rate base for federal support and leaves the funding gap to the states.