




Alternative USF Reform



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The Big Issues - USF

FCC Goals	RLEC Concerns
• Focus USF on broadband	• Recovery of past USF investments
• Reduce waste and inefficiency to control size of USF	• Sufficient and predictable support mechanisms
• Incentive-based policies to promote IP networks	• Sustainable economic model
• Accountability	• Administrative burden



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FCC Goal Accomplishment

FCC Goals	Method
• Focus USF on broadband	➔ ⊗ None
• Reduce waste and inefficiency to control size of USF	➔ ✓ End CETC identical support ⊗ QRA benchmarks
• Incentive-based policies to promote IP networks	➔ ⊗ None
• Accountability	➔ ⊗ More paperwork more accountability



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What Now?

Alternative Plans

- **Small Company Coalition**
- **Rural Association Group:** *an association of NTCA, WTA and NECA representing over 900 small, rural telecom carriers (ntca.org)*
- **ITTA/Home Telephone:** *an alliance of small and mid-size telcos including CenturyLink, Frontier, TDS, Home Telephone, etc. (itta.us)*
- **Nebraska Group:** *15 ILECs in Nebraska*



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SCC Broadband Plan

1. Broadband High Cost Loop Fund (BHCL)
 - Include broadband plant categories and broadband-only loops in modified HCLS algorithm
 - Uses simple Rural Average Cost per Loop
 - Includes data-only broadband connections
2. Fiscal Responsibility
 - Capped to fit high cost budget
 - End users pay “fair share” broadband surcharge which is difference between cap and funding need
 - Sp Access Adjustment avoids double recovery



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SCC Plan

PRO

- Fits fund budget
- Fair share paid by consumer
- Provides for data-only broadband
- Based on actual costs
- Algorithm is understood method

CON

- Combining ICLS is a big loss for some carriers
- Doesn't address FCC concerns with algorithm
- Not forward-looking



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Goal Accomplishment

FCC Goals

- Focus USF on broadband
- Reduce waste and inefficiency
- Incentive-based policies to promote IP networks
- Accountability

SCC Plan

- ✓ Include broadband costs in USF mechanisms
- ⊗ Not forward-looking; based on HCLS
- ✓ Proper incentives: ↑broadband=↑support;
- ⊗ Individual companies not addressed
- ✓ Total fund and consumer



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Rural Associations Proposal

1. Data Connection Service
 - New fund for broadband-only lines
 - Broadband SLC (<\$26 /month) plus a tariffed wholesale transmission rate forms a “fair share” benchmark
 - HCLS and ICLS decrease with migration to broadband-only lines
2. Capital Budget Mechanism (“CBM”)
 - Capital investment is limited to replacement of depreciated plant
 - Narrow, constrained exceptions for small companies, maintenance, greenfield builds, and a waiver for emergency situations

Problems with NTCA Proposals

Data Connection Service



Needs 20% haircut to fit
in high cost budget

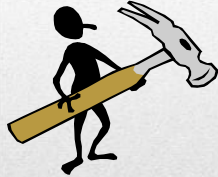
Two funds give incentive to game the system; not forward-looking



Complicated and hard
to understand interplay
between funds

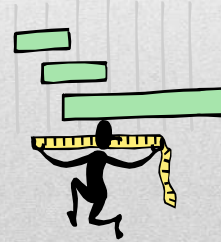
Problems with RAG Proposals

Capital Budgeting Mechanism



Incorrectly assumes depreciated plant is no longer usable

Support is affected by depreciation rates which vary greatly by state (3% to 13%)



Problems with RAG Proposals

Capital Budgeting Mechanism



Support based on prior spending levels instead of current broadband deployment needs

Only addresses loop investment; ignores switching and transport



Goal Accomplishment

FCC Goals

- Focus USF on broadband
- Reduce waste and inefficiency to control size of USF
- Incentive-based policies to promote IP networks
- Accountability



NTCA Plans

- ⊗ CBM may do the opposite;
✓ DCS does
- ⊗ DCS a RoR mechanism
✓ CBM controls support predictably
- ⊗ DCS has perverse incentives; CBM only addresses loop costs
- ⊗ DCS invites game playing;
✓ CBM does

ITTA/Home Plan

Voluntary three-part plan:

1. **Frozen High Cost Support**
 - 40% capital and 60% expense related
 - Capital portion phased out over 10 years (4% per year); expense portion remains frozen
2. **Jump-start funding available to companies that opt-in the first year**
 - Added incentive; suggesting \$100M from USF reserve funds
 - Based on model costs for eligible areas

ITTA/Home Plan

3. Rural Connect America Cost Model

- Eligible locations are those with service costs between \$52.50 and very high cost areas (~\$200) without unsubsidized competitors whether currently served or not
- Competition determined on a census block basis
- Model funds = transitioned frozen funds (4% of current HCF accumulating each year)

Special Access considerations

- First *ex parte* moved special access to price-cap, although that is not mentioned in the most recent plan.

ITTA / Home Plan

PRO

- Fits fund budget
- Forward-looking
- Recovers past investment under old rules
- Covers ongoing operating costs
- Voluntary option
- Predictable support

CON

- Data-only broadband only covered for those opting into plan
- Price-cap SpA big problem for some small carriers
- Census block unsubsidized competition measure
- CACM inaccurate for smaller service areas

Nebraska Plan

- Designed to move to model-based support as soon as possible
- Optional Model Support (RCAM)
 - Interim mechanism while Rural CAF model finalized
 - Must build out 95% of area within 10 years
 - CAM run with no upper limit (“Alternative Technology Cost”)
- All carriers subject to “excess expense” limit determined by modeled costs
- Total fund capped by a per loop/location reduction in support
- Phase-in from legacy to model support



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Nebraska Plan

- Areas with less than \$60 model cost assumed to be competitive and receive no support

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	After
FCC Actions	Proceeding to establish permanent RoR CAF support										
RoR CAM Option	50% frozen support & 50% RCAM	100% RCAM									100% RCAF
Legacy Support Option	Frozen Support = Legacy Capital Support + Model Expense Support			80% Frozen + 20% RCAF	60% Frozen + 40% RCAF	40% Frozen + 60% RCAF	20% Frozen + 80% RCAF	100% RCAF	100% RCAF	100% RCAF	



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Nebraska Plan

PRO

- Fits fund budget
- Forward-looking
- Data-only broadband addressed

CON

- 95% build obligation
- Expense adj threatens sufficiency & predictability
- Capping mechanism
- Forces model for everyone
- CAM inaccuracies
- No ATC pushes support to most expensive areas



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**WE CANNOT
SOLVE OUR PROBLEMS
WITH THE SAME
LEVEL OF THINKING
THAT CREATED
THEM**
-Albert Einstein

Concepts to Consider

- ✓ Recovery of prior investments
- ✓ Support for ongoing operating costs
 - Income taxes and depreciation rate issues
 - Customer service
- ✓ Predictable support
- ✓ “Forward-looking” = model?
- ✓ Funding thresholds and capping mechanisms
- ✓ Unsubsidized competition
- ✓ Recovery of costs when rate-of-return is not a viable option
 - Special access and ICLS
- ✓ Data-only broadband support
- ✓ Fiscal responsibility measures

Options Going Forward

- No changes to Plan
 - Pro: consistent approach
 - Con: rejected by FCC; limited support from peers
- Rebrand
 - Make minor changes and rename
- Revise
 - Come up with better solution that meets rural carrier needs and may be accepted by FCC and other carriers

Marketing Strategies

- Somewhat determined by Plan option
- Keep doing what we are doing
 - Meetings with FCC and Congress
- Ally with other rural parties
- Attract broader base of support through more attractive plan
- Grass roots campaign



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Questions?

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