RLEC-Specific USF and ICC Reform Proposal

Step One: Implement short-term ICC reform measures that confirm intercarrier compensation is due for all traffic originating from or terminating to the PSTN regardless of technology, address "phantom traffic" problems, and deter artificial and uneconomic traffic stimulation.

UPDATE FOR CONSENSUS PLAN: VoIP would pay interstate access to start and then transition with other rates; phantom traffic rules would preclude the use of intermediate numbers to disguise a toll call as local for purposes of avoiding access charges.

Step Two: Effective January 1, 2012, implement short-term USF Reform measures on a prospective basis.

- Impose a limitation on recovery of prospective RLEC capital expenditures based on analyses of booked study area costs, to determine the portion of a carrier's loop plant that has reached the end of its useful life.
- Cap recovery of corporate operations expenses by applying the current HCL corporate operations expense cap formula to all federal high cost support programs.

UPDATE FOR CONSENSUS PLAN: No change.

Step Three: Promptly adopt rules encouraging States to move intrastate originating and terminating access rates for rural ROR carriers to interstate levels, by using incremental federal CAF funding in conjunction with a federal local service rate benchmark for access rebalancing.

UPDATE FOR CONSENSUS PLAN:

- Interstate originating and terminating access rates would be capped.
- Intrastate *terminating* access rates only would be unified at interstate levels in 2 years (including all transport and switching).
- In years 3 to 5, *terminating local switching access rates* only would be reduced to $.005 per minute in 3 equal installments. Transport and tandem switching would remain at the interstate levels.
- In years 6 to 8, *terminating local switching access rates* only would be reduced to $.0007 per minute in 3 equal installments. Transport and tandem switching would remain at the interstate levels.
- The federal benchmark would be $25, reached by $.75 SLC increases for the first 6 years.
- There would be no rate reductions in a given year if there is not sufficient restructure mechanism funding that year to make up the revenue shortfall.
- There would be an earnings test (as long advocated by NTCA) to ensure that any company earning more than 10% in the intrastate jurisdiction has its intrastate restructure mechanism reduced to the extent it is in excess of 10%.
- There would be a "rural transport rule" to help protect RLECs from having to transport traffic outside of their study areas. (Helps but, is not perfect, in addressing concerns about lack of reform on originating access.)

Step Four: Design and implement an RLEC-specific CAF mechanism designed to re-focus existing RLEC USF support on broadband. Support under existing high-cost mechanisms including HCLS and ICLS decline as broadband-focused support phases in.

1. Start with today's interstate revenue requirements.
2. Add support for "Middle Mile" facilities.
3. Revise the separations rules so as to gradually increase last-mile interstate cost allocations based on each company's individual broadband adoption rates, transitioned in over eight years.
4. Compute RLEC CAF broadband funding amounts by subtracting the product of an urban broadband transmission cost benchmark times broadband lines in service, from actual RLEC network broadband transmission costs. Broadband transmission costs include last mile, second mile, middle mile and Internet connection costs.
5. Recover remaining interstate costs (i.e., those not recovered via RLEC CAF support, transitional ICLS, and current LSS or its CAF replacement) via a combination of end user and other customer charges. These would include today's SLCs, switched access charges (to the extent these charges continue to apply under ICC reform), and special access charges, including charges for wholesale broadband services.

UPDATE FOR CONSENSUS PLAN: No changes except:

- The interstate rate-of-return would be reset from 11.25% to 10%.
- The transition of loop costs toward the interstate jurisdiction would be done over 12 years instead of 8 years.
- There would be few, if any, incremental broadband build-out commitments because of these modifications to our USF funding. A carrier could not be expected to build out additional broadband if it is not receiving incremental funding.

Following initial implementation of the RLEC Reform Plan, the Commission should revisit results and consider the need for further modifications in 3 to 5 years.

UPDATE FOR CONSENSUS PLAN: No changes except:

- There would be no firm cap, but the plan with these changes would be calibrated to produce a "budget target" of $2B in combined USF and restructure mechanism support in year 1, and to grow to $2.3B in combined USF and restructure mechanism support by year 6.
- RLECs would clearly be entitled to this incremental funding as needed, as part of their "budget target."
- AT&T and Verizon would defer USF funding to which they are "entitled" per their model to satisfy RLEC or other carrier USF/restructure mechanism needs during the budget period.
- After 6 years, there would be no set budget for USF unless the FCC sets a new one – and the FCC would have to find first that any new budget is in fact "sufficient" under the Communications Act.