The New Telecom World: Minnesota’s Industry Perspective

…or, how to survive the death of telephone as a service
Agenda for Today

• About the MTA
• Minnesota’s Regulatory Environment – Today
• FCC’s Transformation Order
• Federal Universal Service Reform: State Roles
• How Are We Dealing with the Order in Minnesota?
• Questions
ABOUT THE MTA?

• A trade association representing over 80 traditional wireline telecom carriers (basically all traditional telephone companies except Frontier and Windstream) as well as over 200 consultants, engineers, & other support entities, and over 40 telcos from neighboring states.

• An “umbrella” group ---- our positions don’t always converge, but we always strive to be a resource to legislators and regulators seeking to understand telecom issues in the context of today’s competitive marketplace – and a forum to work out consensus.
TELCO REVENUES

*Data based on a sample of 74 MTA member companies. MTA member companies predominantly provide service to rural and small town areas, serving over 50% of Minnesota’s land mass.
Minnesota’s Regulatory Environment - Today

• Minnesota Public Utilities Commission
  – Regulatory Decision Maker on Telecom Matters in MN
  – PUC is funded 100% by assessment on regulated carriers and other utilities

• MN Department of Commerce
  – provides PUC with analysis of filings (tariffs, interconnection agreements, complaints, ETC applications, etc.)
  – serves as State’s public interest advocate in all MPUC proceedings.

• MN Attorney General
  – has right to intervene in all MPUC telecom matters on behalf of residential and small business consumers.

• …..AND
The FOURTH REGULATOR

MORE IMPORTANT THAN THE OTHER THREE COMBINED!!
The Regulatory Landscape

– *What They Regulate*

- Federal Jurisdiction (FCC)
  - Interstate voice traffic, Internet traffic
  - Federal Universal Service Fund

- State Jurisdiction (PUC, AG, DOC)
  - Intrastate voice traffic and facilities
  - Wholesale/Interconnection agreements
  - Eligible Telecommunications Status
  - Authorize local and long distance voice providers to provide service in MN
Telco files Tariff w/MNPUC

MNPUC opens docket

MNPUC rules on tariff filing

Dept of Commerce comments on behalf of consumer
A regulatory environment set up to protect Consumer’s interest in a monopoly world
How Others are Regulated

• Cellular
  – Deemed InterState traffic, no State Jursidiction

• VoIP
  – Considered an “Information Service”, therefore not regulated at all
...and along came the spider

aka: The FCC’s Transformation Order
History of FCC Order

Part of the 2009 Federal stimulus package called for FCC to develop National Broadband Plan by February 2010, actually came out March of 2010

Numerous Notice for Proposed Rulemaking and comments in 2010 and 2011, including a joint plan from large carriers (AT&T, Verizon, CenturyLink and others) and small rural carriers represented by NECA, NTCA, OPASTCO, and WTA

FCC adopts USF/ICC reform plan at their meeting on October 27, 2011.

FCC issued written Order (751 pages) on November 18, 2011.

There are 27 requests for reconsideration and 13 lawsuits dealing with the Order.
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FOR THOSE WHO RECEIVE USF SUPPORT

The Order changes compensation for Plain Old Telephone Service (POTS) from the USF fund first, consumers second to consumers first, CAF second, which is not fully defined.
IMPACT OF ORDER ON STATE REGULATION

- Tariffs had to be filed with the PUC before 12/31/11 for VoIP to PSTN Traffic and PSTN to VoIP Traffic.
- Order – Reduces USF dollar for dollar for carriers that maintain “artificially low” voice rates

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*One Time Reporting per year -Lost Support is for Full 12 months

- Effectively increased local rates due to CAF - Access Recovery charge of up to $.50 year/ $3.00 total for residential customers.
IMPACT OF ORDER ON STATE REGULATION (Continued)

- Local service Telephone rates will effectively be $30/month over a 6 year period, regardless of the number of people you can call locally.
- The Order establishes a uniform transitional mechanism for both Interstate and Intrastate calls:
  - All interstate access rates, terminating intrastate rates are capped as of the effective date of the rules adopted pursuant to this Order.
  - Interstate and intrastate terminating switched end office and transport rates and recip comp rates if above the interstate access rates must be brought to parity within two steps, by July 2013.
  - Carriers must reduce their termination (and for some carriers their transport ) rates to bill-and-keep within nine years for rate of return carriers.
  - The schedule for RoR carriers: terminating switched end –office and recip comp rates are reduced to $.005 by July 1, 2016 and to .0007 by July 1, 2019.
  - The FCC will consider transitioning originating access to bill-and-keep at a later date.
Federal Universal Service Reform: Phase I

CAF: Phase I

- Existing High Cost Support Mechanism: Legacy support levels will be frozen at 2011 levels and announced on February 15, 2012. These amounts will be distributed on a monthly basis effective January 2012 until Phase II has been implemented.
- [Phase I Incremental Support: Up to $300M additional funding will be made available to price cap carriers for the deployment of broadband]
- Available funding amounts will be announced by the FCC; carriers could accept all, some, or none (Frontier accepted all, AT&T and Verizon accepted none, CenturyLink and Windstream accepted some and filed waiver relating to existing fixed wireless coverage).
- Within 90 days, the carrier had to provide notice to the states of the amount of support it accepts and identify the areas by wire center and census block that it intends to deploy broadband.
- CenturyLink accepted 11.8 Million in Minnesota and will receive an additional 8 Million if the waiver is approved.
CAF Phase I Obligations

• Frozen high-cost support must be used in a manner consistent with achieving universal availability of voice and broadband. If Phase I support is extended beyond 2012, the requirement to use frozen support for expanding broadband into currently unserved locations will phase in.

• Recipients of incremental CAF Phase I support must deploy broadband to at least one unserved location for each $775 in support it receives.
  – Deployment of at least 4/1 Mbps must occur in areas shown in the National Broadband Map as unserved at 768/200 Kbps
  – Two thirds of location must be built within 2 years and 100% within 3 years

• Prior merger or AFOR obligations do not count.
Federal Universal Service Reform: Phase II

CAF Phase II

- During 2012, the FCC will develop a forward looking cost model to estimate the cost of deploying broadband capable networks in high cost areas and to identify at a granular level where support will be available. Currently targeted for introduction in 2013.
- Supported locations will be in areas not served by an unsubsidized wireline competitor.
- Total available support for price cap carriers will be limited to the $1.8B budget. For rate of return carriers, the cap is $2.2B
- Annual support, as determined by the cost model, for a period of five years will be offered to each price cap carrier on a state by state basis in exchange for a commitment to offer voice service throughout its service area and broadband service to supported locations.
- Support will be awarded through a competitive bid auction for all areas where a price cap LEC declines the Phase II support.
Federal Universal Service Reform: Phase II

CAF Phase II Obligations

• By the end of the 3rd year, carriers must offer at least 4/1 Mbps broadband service to at least 85% of the high cost locations

• By the end of the 5th year, carriers must offer at least 4/1 Mbps broadband service to 100% of the high cost locations and 6/1.5 Mbps to a portion of the locations (to be identified by the CAF Model)

• Waivers can be sought for the 1 Mbps upstream requirement to the extent a carrier can demonstrate that the support is insufficient
Federal Universal Service Reform: State Roles

• Eligible Telecommunications Carrier (ETC) Certification

• States maintain an ongoing role in annual ETC certifications.

• States now must certify all high-cost support was used in the preceding year and will be used in the coming calendar year consistent with purposes for which the support is intended.

• Beginning April 1, 2012, the FCC rules now require all ETCs that receive support to annually file specific information with the FCC, USAC and the states.

• Annual certifications by the state must be filed by October 1 of each year in order for carriers to receive full support in the succeeding year.
Federal Universal Service Reform: State Roles Continued

• Commissions will need to act on issues relating to phase down of Intrastate access rates and VoIP to PSTN access rates.
  • Intrastate Access Tariff filings related to FCC ordered billing of Interstate Access rates for Intrastate Toll VoIP-PSTN traffic. (Done)
  • RLEC access filings to implement Interstate Transport restructure for Intrastate Access billing (early 2nd qtr. 2012?).
  • Tariff filings to implement 1st year terminating Intrastate Access Rate reductions – effective July 1, 2012.

• Increased number of Local rate increase filings.

• Changes in ETC certification & timing process.

• Potential arbitration issues related to wireless to wireline interconnection agreements.
So, How Are We Dealing with the Order in Minnesota?

• Run in Circles, scream and shout!
• Broke up the order and assigned to Subcommittees of RTS
  – USF/AR Subcommittee
    • ICC Workgroup
    • Financial Reporting
    • Operational Reporting
So, How Are We Dealing with the Order in Minnesota?

- Started getting information out to members
- Began meetings with MNPUC & DoC Staff
- Held an in-person training session for Telco owners and managers, invited regulators
- Put out information to members in bi-weekly e-newsletters
So, How Are We Dealing with the Order in Minnesota?

- Worked with DoC on required wording of increases on customers’ bills
- Continue to work with National Associations on advocacy at the FCC and Congress
- Working on PR campaign to make customers aware of changes
In Short.....

We are making friends with Change!
QUESTIONS?