

Impacts of the National Broadband Plan (NBP) on COLR Obligations

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Carrier of Last Resort (COLR)

- Requirement to serve all customers in a defined service area
- Requirements for services, quality, reporting, etc.
- Generally, some form of public support for serving otherwise uneconomic areas (e.g., USF, Intercarrier Compensation (ICC), etc.)
- Originated in a regulated monopoly environment

Two Business Models

- **Competitive**
 - Capital flows to its most productive use
 - Ability to freely enter and exit markets
 - Profit maximization
- **Carrier of Last Resort**
 - Requirement to serve all customers
 - Investment in areas that would not otherwise be economically viable
 - Access to public support for serving high-cost areas

The 1996 Act had Twin Purposes

1. Competition

- All telecom markets opened to competition
- Interconnection obligations and unbundled network elements (with certain rural exemptions)

2. Universal Service

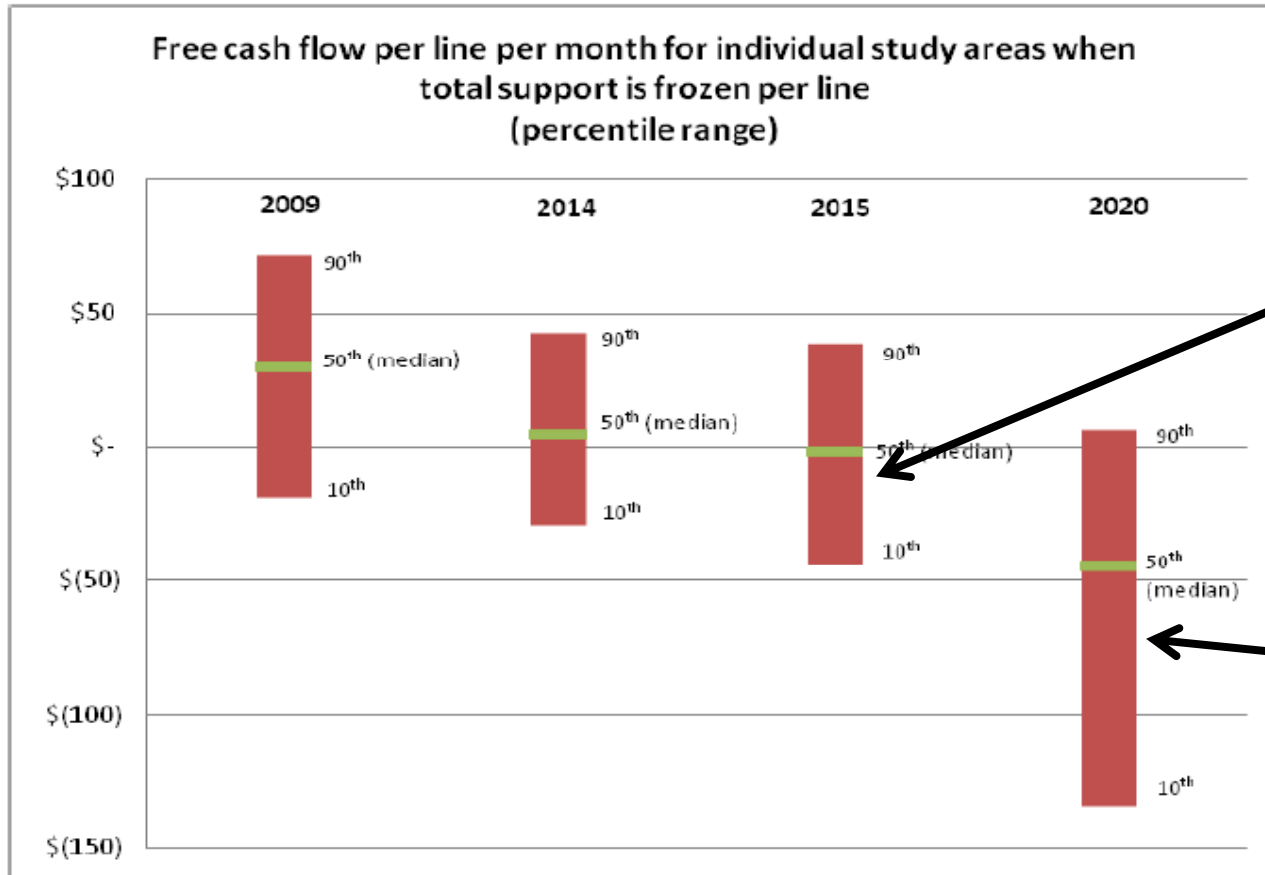
- Consumers in all areas of the nation, including rural, insular and high-cost areas, should have services and prices reasonably comparable to those available in urban areas
- There should be specific, predictable and sufficient federal and state mechanisms to preserve and advance universal service

NBP and the COLR Obligation

- **Rural RoR carriers (RLECs)**
 - Serve remote, sparsely populated, high cost areas (37% of US area)
 - On average, receive 70% of cost recovery from USF and ICC
- **As presently written, the NBP would:**
 - Cap total USF funding at 2010 levels
 - Phase out current USF over 10 years
 - Implement a new Connect America Fund (CAF)
 - Support broadband build-out in unserved areas
 - Utilize some form of proxy model - 4 Mbps down / 1 Mbps up
 - Awarded through a competitive bidding process
 - RoR replaced by “Incentive” regulation
 - ICC phased out with no revenue replacement

Question – Will it be possible for RLECs to continue to serve as COLRs in this environment?

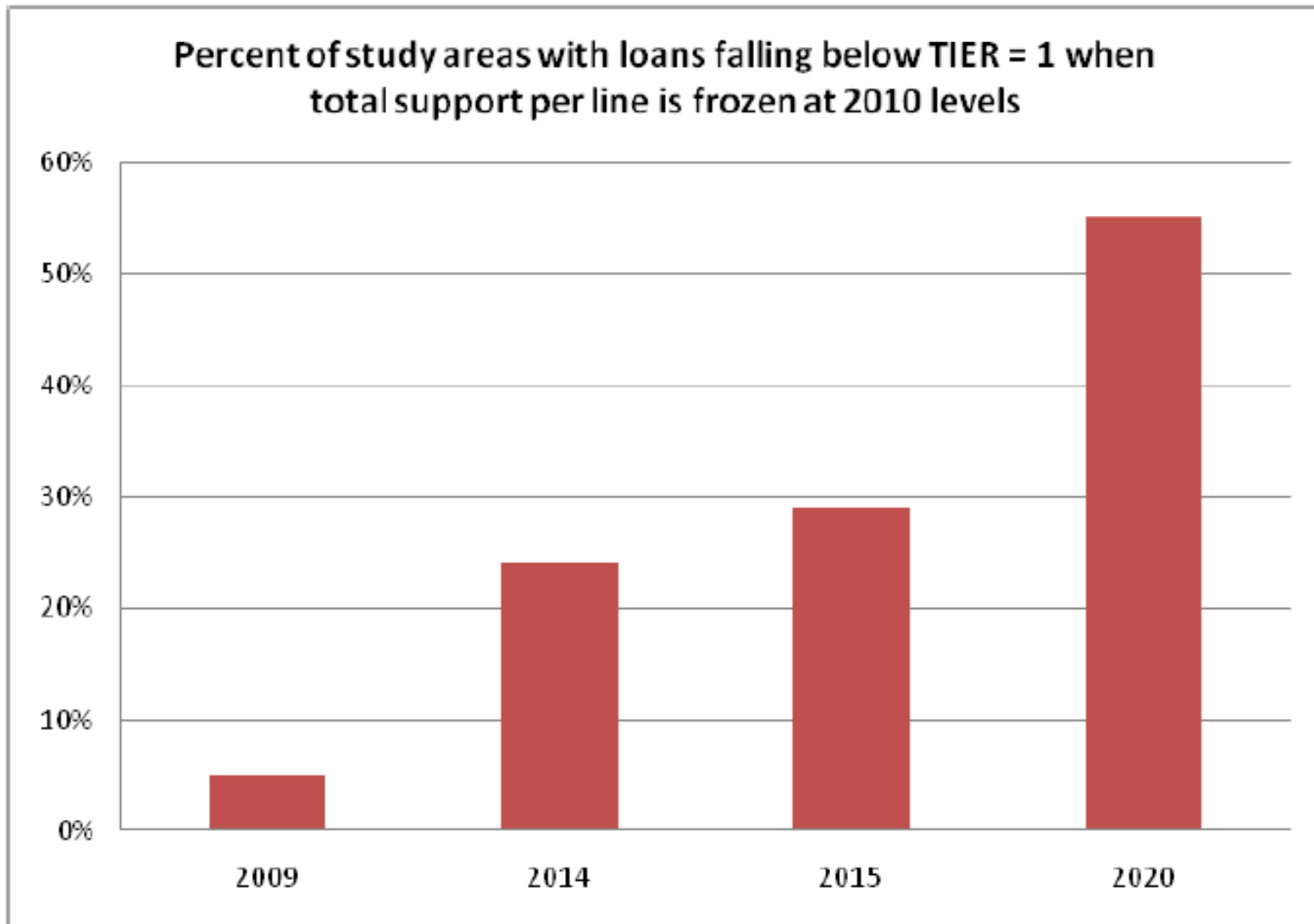
NBP Impacts



2015 - Free cash flow for the average respondent turns negative

2020 - Free cash flow for 86% of respondents is negative

NBP Impacts



What do the States Think?

Many states also see a conflict between the NBP, as currently written, and the continuance of COLR principles



Massachusetts DTC

“The MDTC is troubled by the FCC’s failure to raise the COLR obligation for comment in this proceeding, or, for that matter, to address those obligations more directly in the NBP. The FCC needs to address the impact that USF reforms will have on those obligations.”

Indiana URC

“The IURC is concerned about the potential impact of the FCC’s proposals on the Indiana Universal Service Fund, the willingness or ability of some ILECs to continue serving as COLRs, and, ironically, even the availability of broadband ... if existing ‘legacy’ USF support is withdrawn.”

Ohio PUC

“The NBP does not account for required, ongoing network support in its calculation of the broadband availability gap nor does it take into account the impact on those carriers that presently have a COLR obligation.”

Pennsylvania PUC

The PAPUC does not support revisions that merely reduce legacy support for the transfer of such support to build-out programs aimed at providing broadband network infrastructure in unserved areas. Transferring a substantial portion of those funds would penalize early broadband adopters, particularly rural carriers that rely of federal support.

The proposed reforms that limit support to broadband deployment, as opposed to ongoing voice and broadband support, are self-defeating [since] if support for the provision of service is eliminated, then the carriers that are currently providing service will no longer be able to do so.



Maine PUC

“The need for COLRs has always existed for rural voice communications and, going forward, will be equally necessary for rural broadband. However, COLRs must be afforded a realistic opportunity to obtain the financial return necessary to enable them to carry out their responsibilities. “

The NBP Should Be Modified

1. Ensure that sufficient universal service funds are available

- Eliminate the “Identical Support Rule” for non-ILEC ETCs
- Fund only one fixed and mobile PLOR in each geographic area
- Avoid arbitrary caps, and broaden the funding base to provide the funding needed to do the job

2. Appropriately structure the Connect America Fund (CAF)

- For small rural carriers, the CAF would work in conjunction with RoR regulation to provide incentives to build and operate networks, and include appropriate provisions to ensure efficiency and accountability
- For larger carriers serving rural and urban areas, the CAF would be tailored to support broadband deployment in an efficient and accountable manner

3. Ensure that all Americans have access to reasonably comparable broadband services per Sect. 254(b)(3)