



Intercarrier Compensation and Universal Service: This Time We Really, Really Mean It!

NARUC Annual Meeting

New Orleans – November 19, 2008

Larry S. Landis, Indiana Utility Regulatory Commission

ICC and USF: This Time for Sure?

The Simpsons (Grandpa and Homer) meet ICC and USF:

Grandpa: Are we there yet?

Homer: No.



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Homer: No.

Grandpa: Are we there yet?

Homer: No.

Grandpa:Where are we going?





ICC and USF: This Time for Sure?

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- **Oregon PUC Staff**
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- **UBS Investment Research**
- **Balhoff & Williams, LLC**



ICC and USF: This Time for Sure?

- 1. Runup to the FCC Draft Order**
- 2. The Draft Order of October 14 -- process**
- 3. Actions of the Commission November 4**
- 4. Where Are We Now?**
- 5. Specifics**
- 6. Some Key Issues – The Impacts of/on
Pre-emption, Broadband, Finance**

ICC and USF: This Time for Sure?

Runup to the FCC Draft Order

Anecdotal indicators (1) – Wireline

Competition Bureau (WCB) Chief Dana Shaffer speaking at The Pike & Fischer Broadband Summit IV, June, 2008:

“We will have a comprehensive order on [ICC/USF]... our staff has been told not to even think about any summer vacations.”

ICC and USF: This Time for Sure?

Runup to the FCC Draft Order

Anecdotal indicators (2) – Questions posed to various parties in ex parte conversations with the WCB:

“How low [in terms of access charges] can you go?”

ICC and USF: This Time for Sure?

Runup to the FCC Draft Order

Anecdotal indicators (3) – After having virtually sat on the sidelines throughout 2+ years of discussion at the NARUC Intercarrier Compensation Task Force, and having advocated folding the “pre-Missoula” process in late 2005-06, Verizon files its “Plan to Reform Intercarrier Compensation System” on September 12, 2008... becomes a focal point of debate.

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

- 1. 160+ page proposed order circulated to FCC Commissioners late in the day, apparently with little or no prior discussion as to content.**

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

1. 160+ page proposed order circulated to FCC Commissioners late in the day, apparently with little or no prior discussion as to content.

2. Content begins to leak out, reflecting dramatic changes from prior discussions, but draft order is not make public or put out for comment



ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

3. Dramatic flurry of ex partes begins as outsiders attempt to ascertain contents, rebut proposals deemed to be harmful.

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

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proposals deemed to be harmful.

**4. NARUC Telecomm Committee sends letter
October 21: “open covenants, openly arrived
at” (with apologies to Woodrow Wilson)**

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

Key points:

- 1. “...the FCC is rushing to resolve a \$13 billion problem based on insufficient information, an inadequate record and an incredibly compressed deliberative period.”**

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

Key points:

1. “...the FCC is rushing to resolve a \$13 billion problem based on insufficient information, an inadequate record and an incredibly compressed deliberative period.”
2. The new proposal “...raises a host of unanswered questions...” :



ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

Key points:

- **Will it encourage/impede broadband buildout?**

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

Key points:

- Will it encourage/impede broadband buildout?
- Will it encourage/impede wireless buildout?

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

Key points:

- Will it encourage/impede broadband buildout?
- Will it encourage/impede wireless buildout?
- How, if at all, does it benefit consumers?

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

Key points:

- Will it encourage/impede broadband buildout?
- Will it encourage/impede wireless buildout?
- How, if at all, does it benefit consumers?
- Is the legal rationale congruent with Congressional intent?

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

Key points:

- **Will it put upward pressure on local rates?**

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

Key points:

- Will it put upward pressure on local rates?
- What is the impact on USF, existing broadband deployment initiatives?

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

Key points:

- Will it put upward pressure on local rates?
- What is the impact on USF, existing broadband deployment initiatives?
- Does it in effect establish retail rates by constraining state rate design options?



ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

Key points:

- **How does it impact the business models of midsize/small companies serving rural areas?**

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

Key points:

- How does it impact the business models of midsize/small companies serving rural areas?
- Does the FCC have the resources to handle the potential volume of proceedings?

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

Key points:

- How does it impact the business models of midsize/small companies serving rural areas?
- Does the FCC have the resources to handle the potential volume of proceedings?
- **What will be the market (investment) impact of the proposed order?**

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

Key requests/asks:

- **Address the ISP remand narrowly**

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

Key requests/asks:

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- Put the proposed order out for comment, summarizing the issues raised and the Commission's tentative conclusions and legal theories/justifications thereon

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

Key requests/asks:

- Address the ISP remand narrowly
- Put the proposed order out for comment, summarizing the issues raised and the Commission's tentative conclusions and legal theories/justifications thereon
- **Seek comments of interested parties**



ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

5. Dismay and undercurrents on the 8th floor at the FCC... at least one Commissioner not briefed on the order until more than a week after it was “circulated.”

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

5. Dismay and undercurrents on the 8th floor at the FCC... at least one Commissioner not briefed on the order until more than a week after it was “circulated.”

6. Endgame – debates about “who would be the third vote” end as four Commissioners unite to oppose WCB draft identified as “Chairman Martin’s plan.”



ICC and USF: This Time for Sure?

The Draft Order of October 14 – process

Joint Statement (Excerpts) of the four Commissioners:

“Three weeks ago, Chairman Martin first shared with the Commission his proposals ...”
We offered “...bi-partisan, constructive and substantive suggestions...” called for “...notice and comment ...” and a “...vote on December 18.”

We share “...the common goal of modernizing our universal service and intercarrier compensation policies, and commend the desire to tackle some of the most important issues facing this Commission.” We call for “...public notice and comment - especially in light of the difficult economic circumstances currently facing our nation.”

“We remain committed to fulfilling our obligation to tackle... comprehensive reform.
We remain hopeful that the consensus process we have pursued regarding this issue will ultimately lead to a thoughtful, well-reasoned item that will inure to the benefit all Americans.”

ICC and USF: This Time for Sure?

The Draft Order of October 14 -- process

Chairman Martin's November 5 response (excerpts):

“I am disappointed by the Commission’s unwillingness to step up and make tough choices to modernize our intercarrier compensation and universal service programs. I am also doubtful that the Commission will find itself any better equipped to act in another six weeks....”

“It is unfortunate that the Commission could not agree to adopt the comprehensive solution. I had proposed a comprehensive approach that would have transitioned all traffic to a final uniform rate, regardless of the type of traffic or jurisdiction.”

“I do not believe they will be prepared to address the most challenging issues and that the Commission will be negotiating over what further questions to ask in December.



ICC and USF: This Time for Sure?

3. Actions of the Commission November 4-5

Address ISP Remand

Reject USJB Recommended Decision

NPRM Seeks Comments on three draft orders

Two (2) on ICC/USF – Appendices A, C

One (1) on USF – Appendix B

Three “relevant” ex partes

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal (Appendix A)

High cost USF reform:

- **High-cost mechanism capped at 12/2008 annualized**

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal (Appendix A)

High cost USF reform:

- High-cost mechanism capped at 12/2008 annualized
- Reform does not apply to Alaska, Hawaii, territories and possessions

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal (Appendix A)

High cost USF reform:

- High-cost mechanism capped at 12/2008 annualized
- Reform does not apply to Alaska, Hawaii, territories and possessions
- **Broadband redefined (always on, 768 dn, 200 up, etc), 100% buildout mandated over 5 years**

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

High cost USF reform:

- **Incumbent LECs continue to receive support iff build to all customers in 5 years, 20% per year**

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

High cost USF reform:

- Incumbent LECs continue to receive support iff build to all customers in 5 years, 20% per year
- If LEC fails to hit 20% in any year, goes immediately to reverse auction

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

High cost USF reform:

- Incumbent LECs continue to receive support iff build to all customers in 5 years, 20% per year
- If LEC fails to hit 20% in any year, goes immediately to reverse auction
- Competitive ETCs also continue to receive support on own costs if make similar broadband commitment.

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Where Are We Now?

Chairman's Draft Proposal

High cost USF reform/reverse auctions:

- **If no LEC elects to build out, a reverse auction is held; successful bidder has 10 years to build out.**

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

High cost USF reform/reverse auctions:

- If no LEC elects to build out, a reverse auction is held; successful bidder has 10 years to build out.
- If no CETC elects to show costs, a reverse auction determines one broadband mobility provider

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

High cost USF reform/reverse auctions:

- If no LEC elects to build out, a reverse auction is held; successful bidder has 10 years to build out.
- If no CETC elects to show costs, a reverse auction determines one broadband mobility provider
- Transition of support occurs when winning ETC certifies compliance; incumbent no longer receives support; if ILEC, is relieved of state and federal COLR.

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

High cost USF reform/reverse auctions:

- If there are no bids (period) the Commission may consider disaggregating the study area on a wire center basis for reverse auction purposes, or increasing the amount of high-cost support set as the reserve price (default = current)

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Where Are We Now?

Chairman's Draft Proposal

Numbers-based contributions:

- **\$1.00 per residential number per month**

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Numbers-based contributions:

- \$1.00 per residential number per month
- **Business semi-punts; contribute based on existing revenue-based system pending further reform, move to a connection basis (undefined).**

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Numbers-based contributions:

- \$1.00 per residential number per month
- Business semi-punts; contribute based on existing revenue-based system pending further reform, move to a connection basis (undefined).
- **Implementation January 1, 2010**

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Numbers-based contributions:

- \$1.00 per residential number per month
- Business semi-punts; contribute based on existing revenue-based system pending further reform, move to a connection basis (undefined).
- Implementation January 1, 2010
- **Provider with retail relationship to residential end user is responsible for contributing.**

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Where Are We Now?

Chairman's Draft Proposal

Numbers-based contributions:

- **Prepaid wireless based on average minutes, \$1 cap**

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Numbers-based contributions:

- Prepaid wireless based on average minutes, \$1 cap
- No reduced assessment for wireless family plans

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Numbers-based contributions:

- Prepaid wireless based on average minutes, \$1 cap
- No reduced assessment for wireless family plans
- Contributors subject to significant reporting requirements

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Where Are We Now?

Chairman's Draft Proposal

Intercarrier Compensation Reform:

- **“Ten year” (80%+ in four years) transition**

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Intercarrier Compensation Reform:

- “Ten year” (80%+ in four years) transition
- All telecomm traffic goes to recip comp 251 (b)(5)

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Intercarrier Compensation Reform:

- “Ten year” (80%+ in four years) transition
- All telecomm traffic goes to recip comp 251 (b)(5)
- Three stages:
 - Intrastate to interstate (2 years) UBS est's 30% \$ cut**

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Intercarrier Compensation Reform:

- “Ten year” (80%+ in four years) transition
- All telecomm traffic goes to recip comp 251 (b)(5)
- **Three stages:**
 - Intrastate to interstate (2 years) UBS est's 30% \$ cut**
 - All rates reduced to interim uniform termination rate (2 years) UBS est's add'l 50% \$ cut**

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Intercarrier Compensation Reform:

- “Ten year” (80%+ in four years) transition
- All telecomm traffic goes to recip comp 251 (b)(5)
- Three stages:
 - Intrastate to interstate (2 years) UBS est's 30% \$ cut
 - All rates reduced to interim uniform termination rate (2 years) UBS est's add'l 50% \$ cut
 - Six-year transition “managed by states” to uniform recip comp rate

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Where Are We Now?

Chairman's Draft Proposal

Intercarrier Compensation Reform:

- **Final transition requires states to undertake a forward-looking economic cost analysis of a stand-alone network performing all functions of a modern network...**

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Intercarrier Compensation Reform:

- Final transition requires states to undertake a forward-looking economic cost analysis of a stand-alone network performing all functions of a modern network...
- States will then perform a similar analysis of a stand-alone network performing all functions except for transport and termination of other carriers' traffic

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Intercarrier Compensation Reform:

- Final transition requires states to undertake a forward-looking economic cost analysis of a stand-alone network performing all functions of a modern network...
- States will then perform a similar analysis of a stand-alone network performing all functions except for transport and termination of other carriers' traffic
- **The difference defines terminating traffic costs**

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Intercarrier Compensation Reform:

- **Carriers should take a “fresh look” at interconnection agreements, including those with no change-of-law provision, and follow 252 process**

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Intercarrier Compensation Reform:

- Carriers should take a “fresh look” at interconnection agreements, including those with no change-of-law provision, and follow 252 process
- Commercial arrangements are left to change-of-law provisions or to negotiations

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Intercarrier Compensation Reform:

- Carriers should take a “fresh look” at interconnection agreements, including those with no change-of-law provision, and follow 252 process
- Commercial arrangements are left to change-of-law provisions or to negotiations
- Phantom traffic is subject to charge of the delivering provider at the highest terminating rate

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Intercarrier Compensation Revenue Replacement:

- **LEC's state retail rates and intrastate SLC must be maxed out before the Fed SLC can be increased**

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Intercarrier Compensation Revenue Replacement:

- LEC's state retail rates and intrastate SLC must be maxed out before the Fed SLC can be increased
- Res SLC goes from \$6.50 to \$8, multi-line bus from \$9.20 to \$11.50

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Intercarrier Compensation Revenue Replacement:

- LEC's state retail rates and intrastate SLC must be maxed out before the Fed SLC can be increased
- Res SLC goes from \$6.50 to \$8, multi-line bus from \$9.20 to \$11.50
- Carriers must make a showing that they are not "over-earning" to qualify for additional support

ICC and USF: This Time for Sure?

Where Are We Now?

Chairman's Draft Proposal

Intercarrier Compensation Revenue Replacement:

- **Paragraph 320 “gotcha” (RoR Companies Exempted in Appendix C order)**

“...we further find it necessary to establish certain requirements that an incumbent LEC must satisfy... incumbent LECs must first demonstrate that their end-user charges are at the maximum allowable... that they are charging the maximum interstate [and intrastate] SLCs... that their retail local rates are at the maximum allowable amount based on applicable state regulation. **Incumbent LECs operating in states where retail rates are deregulated are not entitled to the new universal service funding adopted here.** In this case, these incumbent LECs will be similarly situated to competitive carriers, because **without regulation, they have the opportunity to recover lost access revenues due to intercarrier compensation reform through increased end-user charges.**”



ICC and USF: This Time for Sure?

**“The law, in its majestic equality,
forbids the rich as well as the poor
to sleep under bridges, to beg
in the streets, and to steal bread.”**

-- Anatole France



ICC and USF: This Time for Sure?

Key Issues – Pre-emption, State Authority

1. Access Proceedings

(except mucking out the stalls...the last 15-20% in years 5-10)



ICC and USF: This Time for Sure?

Key Issues – Pre-emption, State Authority

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(except mucking out the stalls...the last 15-20% in years 5-10)

2. Provider of Last Resort Authority/Designation



ICC and USF: This Time for Sure?

Key Issues – Pre-emption, State Authority

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2. Provider of Last Resort Authority/Designation

3. Effective Usurpation of Legislative/Regulatory Form of Regulation (dereg/price cap/RoR)?



ICC and USF: This Time for Sure?

Key Issues – Pre-emption, State Authority

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2. Provider of Last Resort Authority/Designation

3. Effective Usurpation of Legislative/Regulatory Form of Regulation (dereg/price cap/RoR)?

4. Effectively Drives all Rurals to RoR?



ICC and USF: This Time for Sure?

Key Issues – Pre-emption, State Authority

1. Access Proceedings

(except mucking out the stalls...the last 15-20% in years 5-10)

2. Provider of Last Resort Authority/Designation

3. Effective Usurpation of Legislative/Regulatory Form of Regulation (dereg/price cap/RoR)?

4. Effectively Drives all Rurals to RoR?

5. Eviscerates State/Local Broadband Initiatives



ICC and USF: This Time for Sure?

5. Key Issues – Impact on Broadband



ICC and USF: This Time for Sure?

5. Key Issues – Impact on Broadband

- A. Distinguishes among intermodal technologies with a presumption of wireline buildout**



ICC and USF: This Time for Sure?

5. Key Issues – Impact on Broadband

A. Distinguishes among intermodal technologies with a presumption of wireline buildout

B. Asks accelerated investment in the highest cost areas with diminished revenue under the most challenging economic conditions in 75 years



ICC and USF: This Time for Sure?

5. Key Issues – Impact on Broadband

C. By “preselecting” LECs as “presumed provider of choice, mandates wasteful uneconomic investment (Wyoming)



ICC and USF: This Time for Sure?

5. Key Issues – Impact on Broadband

C. By “preselecting” LECs as “presumed provider of choice, mandates wasteful uneconomic investment (Wyoming)

D. Rejects both discretionary (traditional risk) investment and public-private partnerships in favor of command and control industrial policy



ICC and USF: This Time for Sure?

5. Key Issues – Impact on Broadband

E. Impairs buildout through demand-side efforts underway in 80% of all states and territories



ICC and USF: This Time for Sure?

5. Key Issues – Impact on Broadband

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F. Introduces 5 years of regulatory-induced uncertainty (will they/won't they?) among intermodal competitors



ICC and USF: This Time for Sure?

5. Key Issues – Impact on Finance

**A. Frank Louthan IV et. al., Raymond
James Equity Research, 10/27/08**

**B. Anna-Maria Kovacs, CFA, Ph.D.,
Regulatory Source Associates, LLC,
11/6/08**

**C. Batya Levi, John C. Hodulik, CFA, et.
al.,
UBS Investment Research, 10/28/08**

ICC and USF: This Time for Sure?

5. Key Issues – Impact on Finance

Louthan et. al.

“The net effect of the order...a decline in access-based revenue...a **materially negative impact on free cash flow (FCF) and capital availability. We estimate...a 10% revenue decline and a 38% decline in FCF.**” *(p. 1)*

“...[under ‘rate balancing’] **the public policy of affordable and highly reliable phone service to all Americans is realized. This has given rural schools, hospitals, governments and citizens (sometimes known as voters) high quality phone service with reasonable basic local rates.**” *(p. 2)*

ICC and USF: This Time for Sure?

5. Key Issues – Impact on Finance

Louthan et. al.

“...we very conservatively demonstrate that the [midsize] rural ILECs in our coverage universe would stand to lose about **\$1.05 billion in revenue** from switched access per line.... Take the other 900 ILECs and other carriers, and **the number is substantially higher than the FCC chairman’s \$500 million [public] estimate....**” (p. 2)

“...we do agree that this implicit support needs to be moved to a more explicit support...[H]owever, **the idea that the access can be lowered at least 90% overnight and only be replaced with a \$1.50 increase in the residential SLC and a \$5 increase in the business SLC does not hold water.**” (p. 2)

ICC and USF: This Time for Sure?

5. Key Issues – Impact on Finance

Louthan et. al.

“This is a typical Washington political situation in our opinion. It is hard to explain the sudden urgency of the Commission to move on a highly complex set of issues after 10 years, giving only 2 weeks [for review] and throwing out other programs that at least had some semblance of agreement within the industry and the states. Such a move appears irresponsible to us given the potential financial impact and the current market conditions.” (p. 4)

ICC and USF: This Time for Sure?

5. Key Issues – Impact on Finance

Kovacs

“Not only the Free Press filing but the Alternate Proposal advocate for **reductions...without necessarily replacing those fully from fixed-rate increases.** They also advocate that **companies who pay dividends and/or who have recourse to other revenue sources from their unregulated operations should not receive universal service support unless they meet a rate-of-return test for their entire business.**

“That is a danger to investors, of course, because **regulation premised on monopoly [i.e., *11.25% rate of return established in a pre-competitive climate 18 years ago*] cannot appropriately reward the risks inherent in competitive markets.**” (p. 2)

ICC and USF: This Time for Sure?

5. Key Issues – Impact on Finance

Kovacs

“...Verizon’s divestiture of FairPoint – which Free Press points out is grossly underearning... -- would be replicated throughout the country. Telcos who currently still cross-subsidize their high-cost areas...would spin out their highest cost exchanges, creating many more tiny companies like those within OPASTCO who can show the kind of rate-of-return that [still, under limited conditions] qualifies for subsidies...They would have no other way to shield the broadband operations that compete with cable or... wireless.”

(p. 4)

ICC and USF: This Time for Sure?

5. Key Issues – Impact on Finance

Kovacs

“...corporate organization that is based purely on the need to move economic assets out of the reach of regulators is not likely to lead to efficiency. Nor will discouraging investors by reducing cash flow and dividends fulfill the original goal of the exercise: providing high-quality services including broadband to high-cost areas.” (p. 5)

ICC and USF: This Time for Sure?

5. Key Issues – Impact on Finance

Kovacs

“The FCC is tasked with bringing about rapid, universal broadband deployment, but does not have the power to raise taxes to accomplish that. Thus, it needs to encourage investment capital that is not easily available, and treating investors punitively is much more popular than rewarding them.” (p. 5)

ICC and USF: This Time for Sure?

5. Key Issues – Impact on Finance

Hodulik/Levi et. al.

“...we also use FCC’s data for interstate and intrastate revenue mix for carrier’s revenues. The...MOU mix is roughly 70%/30% while their revenue mix is 52%/48%, as intrastate access fees per minute are more than 4x the interstate rate....We estimate that the four RLECs [UBS covers] generate roughly \$600M in terminating intrastate access revenues, representing 37% of switched access revenues.”
(p. 3)

ICC and USF: This Time for Sure?

5. Key Issues – Impact on Finance

Hodulik/Levi et. al.

“ We estimate that the four RLECs we cover [Century Tel, Embarq, Frontier and Windstream] generate roughly 12% of their wireline revenues, 24% of their wireline EBITDA and 60% of total FCF from switched access revenues (including originating and terminating interstate/intrastate access and local reciprocal compensation).” (P. 2)

ICC and USF: This Time for Sure?

5. Key Issues – Impact on Finance

Hodulik/Levi et. al.

“The proposed increase in the surcharge will raise the carriers [sic] SLC revenues by roughly 26%, however, this equates to just 20% of lost access revenues, far from making the RLEC revenue neutral....increasing the surcharge to almost \$8 per line will likely add to pressure on line counts.” (p. 4)

ICC and USF: This Time for Sure?

5. Key Issues – Impact on Finance

Hodulik/Levi et. al.

“The ICC proposal [stages 1 and 2], the USF plan, net of the SLC increase, we calculate...[at] **\$1.6B RLEC revenues at risk in the first 4 years...the RLECs currently pay out roughly 50% of their FCF in dividends...In sum, we estimate... if implemented...would prevent CenturyTel (stand-alone), Frontier and Windstream from continuing their dividends in their current form due to the dramatic effect on FCF. The implications for share prices are clear.”
(p. 6).**

ICC and USF: This Time for Sure?

Winners and Losers?

- **RBOCs**
- **Tier 2 Price Cap Carriers**
- **Tier 2 RoR Carriers**
- **Rural RoR Carriers**
- **Dereg Rural Carriers**
- **Competitive Wireless Carriers (non-AT&T/VZ)**
- **Competitive LECs**

Winners and Losers?

- **Cable Companies**
- **Fixed Wireless (WiMAX)**
- **Freestanding IXC's**
- **Residential Customers**
- **Small Business Customers**
- **Enterprise Customers**
- **State Commissions**
- **Consumer Advocates**

ICC and USF: This Time for Sure?

- **Support it?**
- **Save it?**
- **Reform it?**
- **Rewrite it?**
- **Stick with USF?**
- **Go for the low-hanging fruit?**
- **Blow it up?**
- **Kick it out to the Obama administration?**