Oregon Connections
Telecommunications Conference
October 17, 2008

USF Reform and ICC Reform: Together Again?

Ray Baum, Commissioner
Oregon Public Utility Commission
NARUC Telecommunications Committee Chair

Federal Universal Service Fund Programs – 2007 Payments

- **High-Cost** **$4,287 M**
  Support to local service providers
- **Low-Income** **$823 M**
  Discounts on monthly service and installation
- **Schools & Libraries** **$1,808 M**
  Discounts to eligible schools and libraries
- **Rural Health Care** **$37 M**
  Discounts to rural health care providers

Total 2007 Payments = $6,955 M

FUSF Contributions

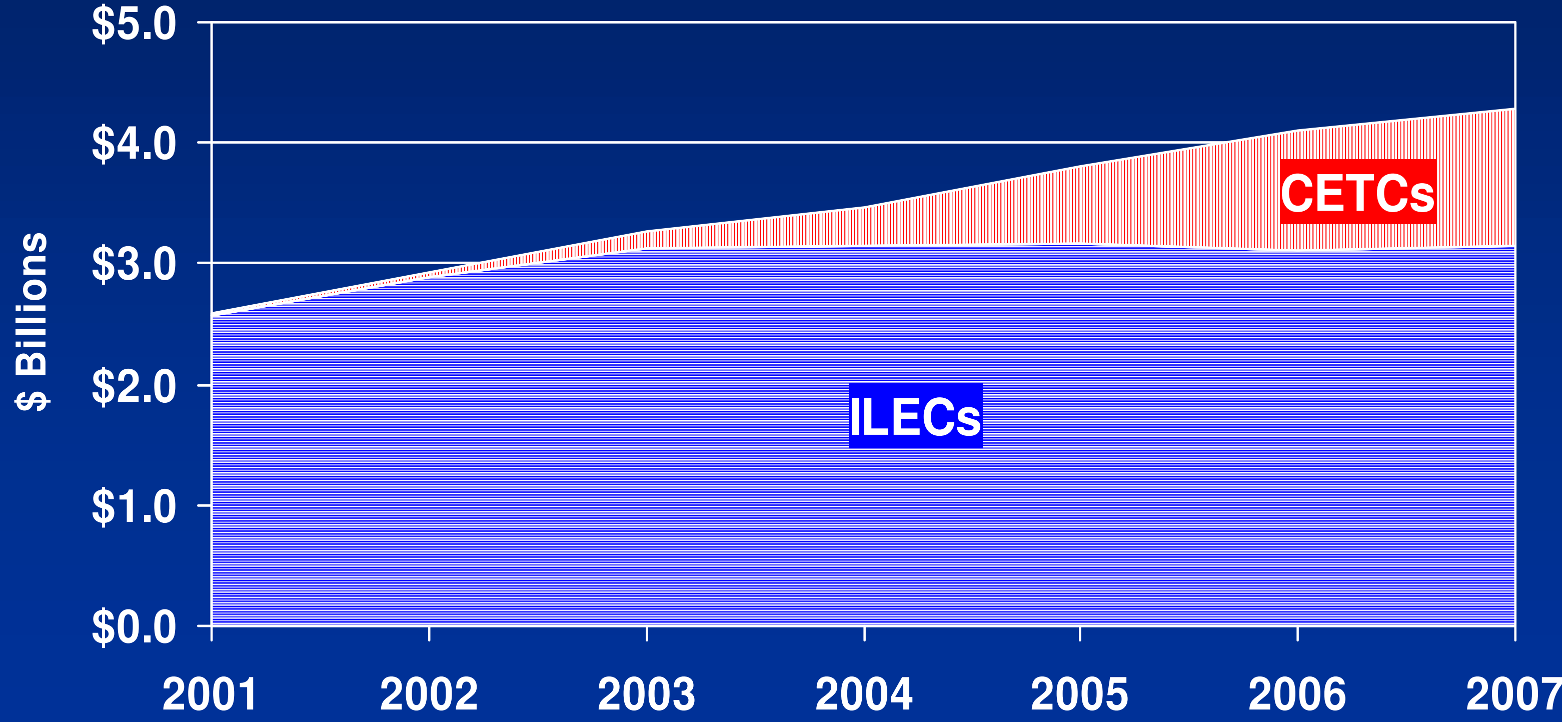
- **Current FUSF Surcharge**
  - 4Q 2008 surcharge rate = **11.4%**
  - Applied to End User interstate and international telecommunications revenues

(continued)

- **Proposed USF Numbers-Based Contribution**
  - Flat monthly charge per telephone number
  - Carrier charges end user for number
  - Non-primary wireless numbers counted at 50%
  - Charge effective 7/1/10, payment on 9/1/10 and every month thereafter.
  - Lifeline numbers excluded from count
  - Estimated number charge $1.00 - $1.10

High-Cost Fund

- High-Cost Fund comprises 62% of total FUSF
- Fund grew from $2.6B in 2001 to $4.3B in 2007



CETC Payments Across States

- **Support distribution is skewed and unrelated to need**
  - Top 10 states receive almost half (excludes Alaska & Puerto Rico)

    Examples:

    Mississippi: $147 M   Louisiana: $68 M

    Kansas: $83 M   Wisconsin: $55 M

    = $353 M

(continued)

– Other rural states receive less than 10% of that amount

Examples:

South Carolina: $0

New Hampshire: $0.2 M

Utah: $0.3 M

Tennessee: $1.6 M

= $2.1 M

FCC Cap on CETC Payments

- **Interim cap adopted on April 29, 2008**
  – State-specific
  – Set at level of March 2008 payments (annualized) - $1.329 Billion
- **Two exceptions to cap**
  – Demonstrate own cost - same manner as ILECs
  – Tribal lands or Alaska Native regions

(continued)

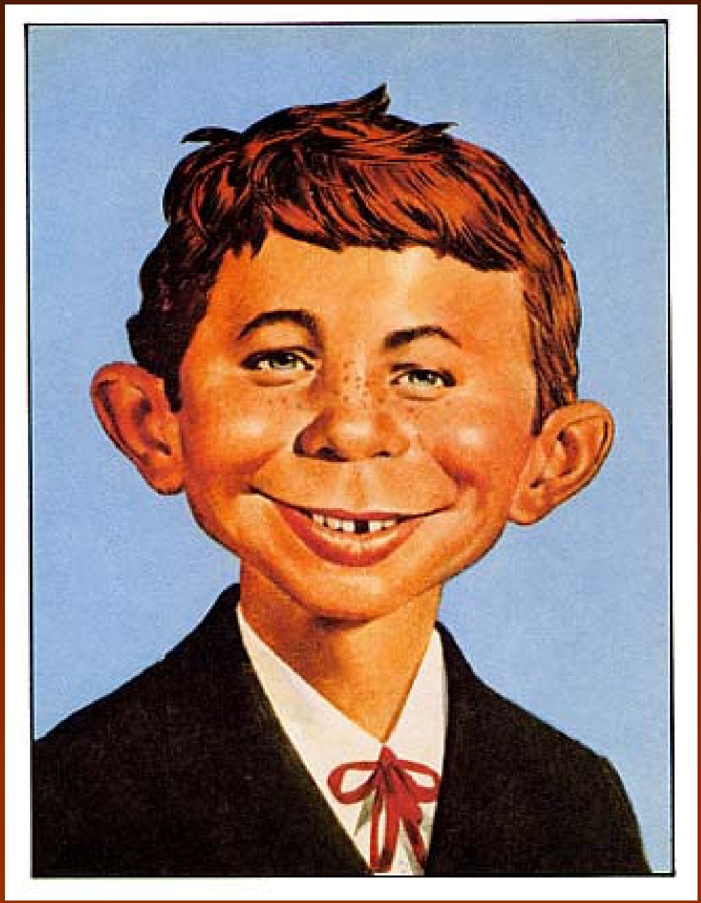
- **CETC support based on proportional share within each state**
- **No sunset date set**
  - Commission will complete a final order on comprehensive reform as quickly as possible after the comment cycle (ended June 2, 2008)

USF Reform & Intercarrier Comp

- **FCC's News Release - May 2, 2008**
  - Cap is critical first step toward comprehensive reform
  - Cap will stabilize the Fund, allowing Comprehensive Reform to move forward expeditiously by November 5, 2008

Intercarrier Compensation

What, Me Worry?



Is it really a Problem?

Yes!

August 6, 2008 letter to the FCC requesting a Unified Intercarrier Compensation Regime

at&t

CTIA The Wireless Association®

Global Crossing

CompTIA. The Computing Technology Industry Association, Inc.

INFORMATION TECHNOLOGY INDUSTRY COUNCIL

NAM National Association of Manufacturers

NGT New Global Telecom

POINTONE™

Sprint

T-Mobile

TIA® ADVANCING GLOBAL COMMUNICATIONS

The VON Coalition

verizon

Requested Rulings

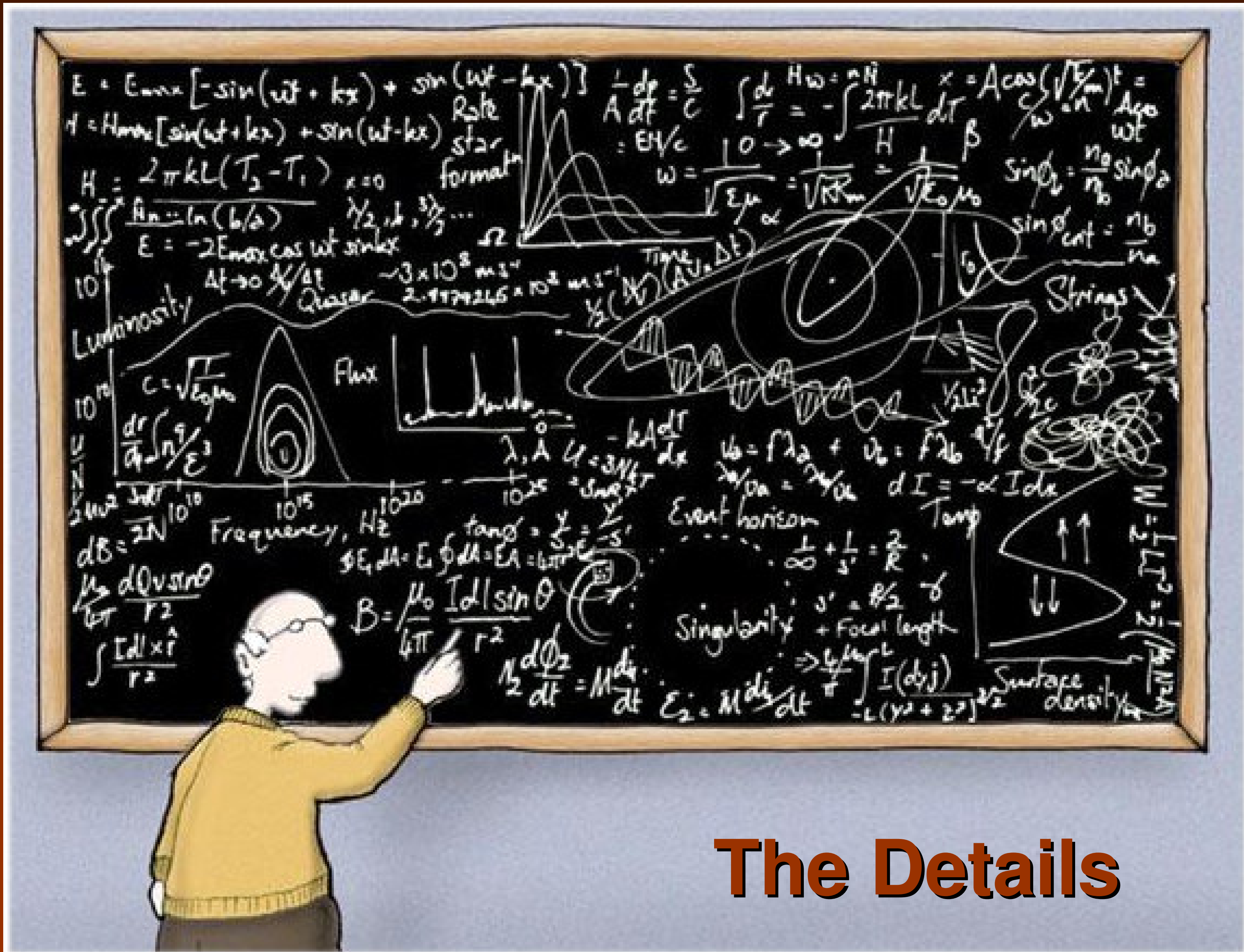
- **IP-based services are exclusive Federal jurisdiction**
- **Uniform Compensation rates for transport and termination of traffic that uses PSTN is $.0007**
- **Prompt transition to unified terminating rates**
- **Appropriate alternative recovery mechanism** (not defined)

Why Now?

- **Financial concerns**
  - Core Communication decision on ISP
  - Traffic pumping
  - Phantom traffic
  - Payment of access charges diverts money from Broadband deployment
  - Avoid application of circuit-switch traffic rules to IP Services

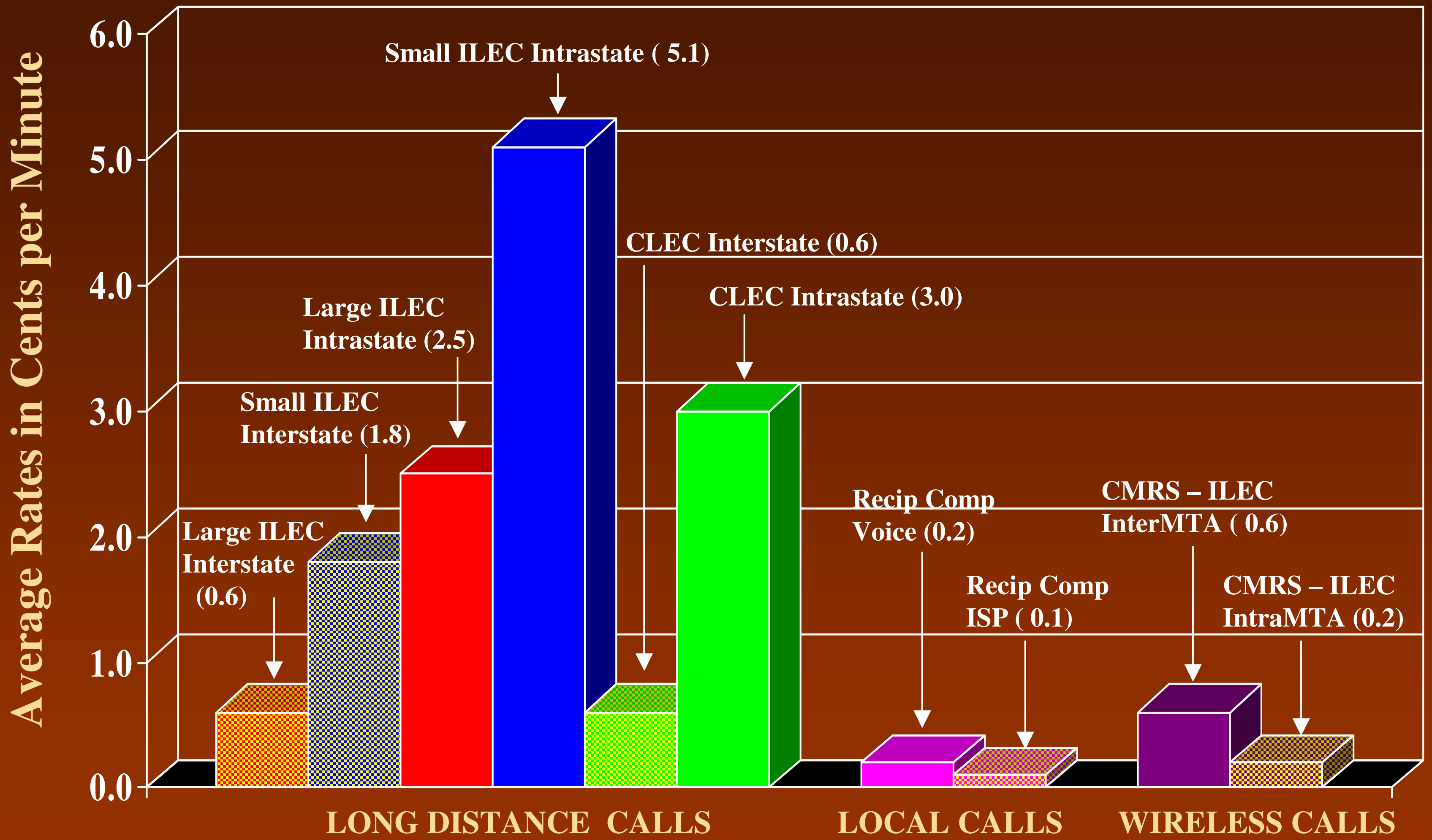
Other Pressures

- Wireless companies don't pay Intercarrier Compensation to each other for terminating calls and they have more numbers
- VOIP to VOIP voice pays nothing per minute
- In the future, voice will be free and minutes won't matter


Luminosity
Quasar
Flux
Frequency, Hz
Time
Strings
Event horizon
Singularity
Temp
Surface density

The Details

Current Intercarrier Compensation Rates
The System is Broken

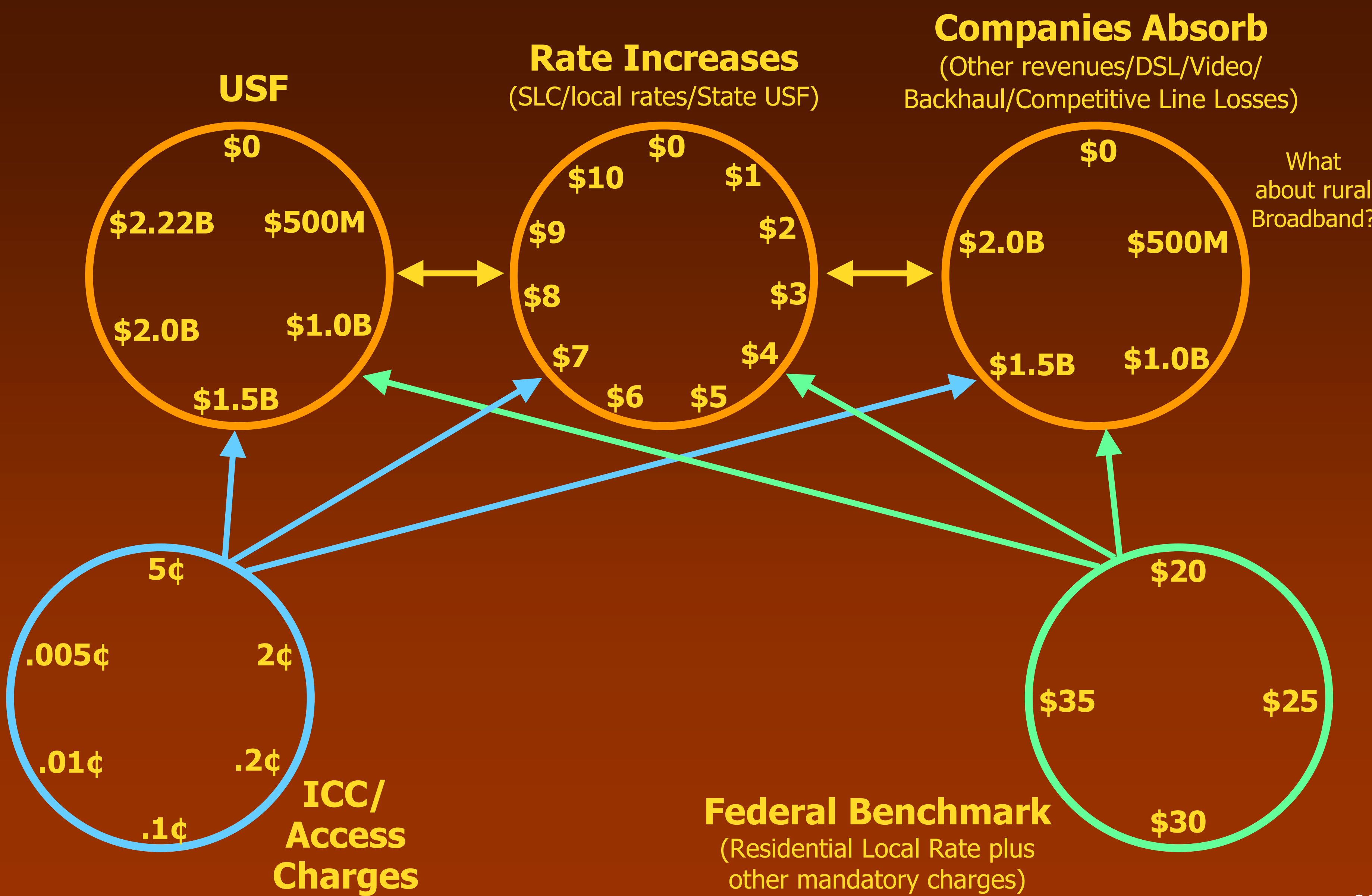


High (¢/min):	1.5	8.9	9.9	34.9	6.8	35.9	0.3	0.1	8.9	0.3
Low (¢/min):	0.5	0.3	0.4	0.7	0.2	0.4	0.0	0.0	0.2	0.0

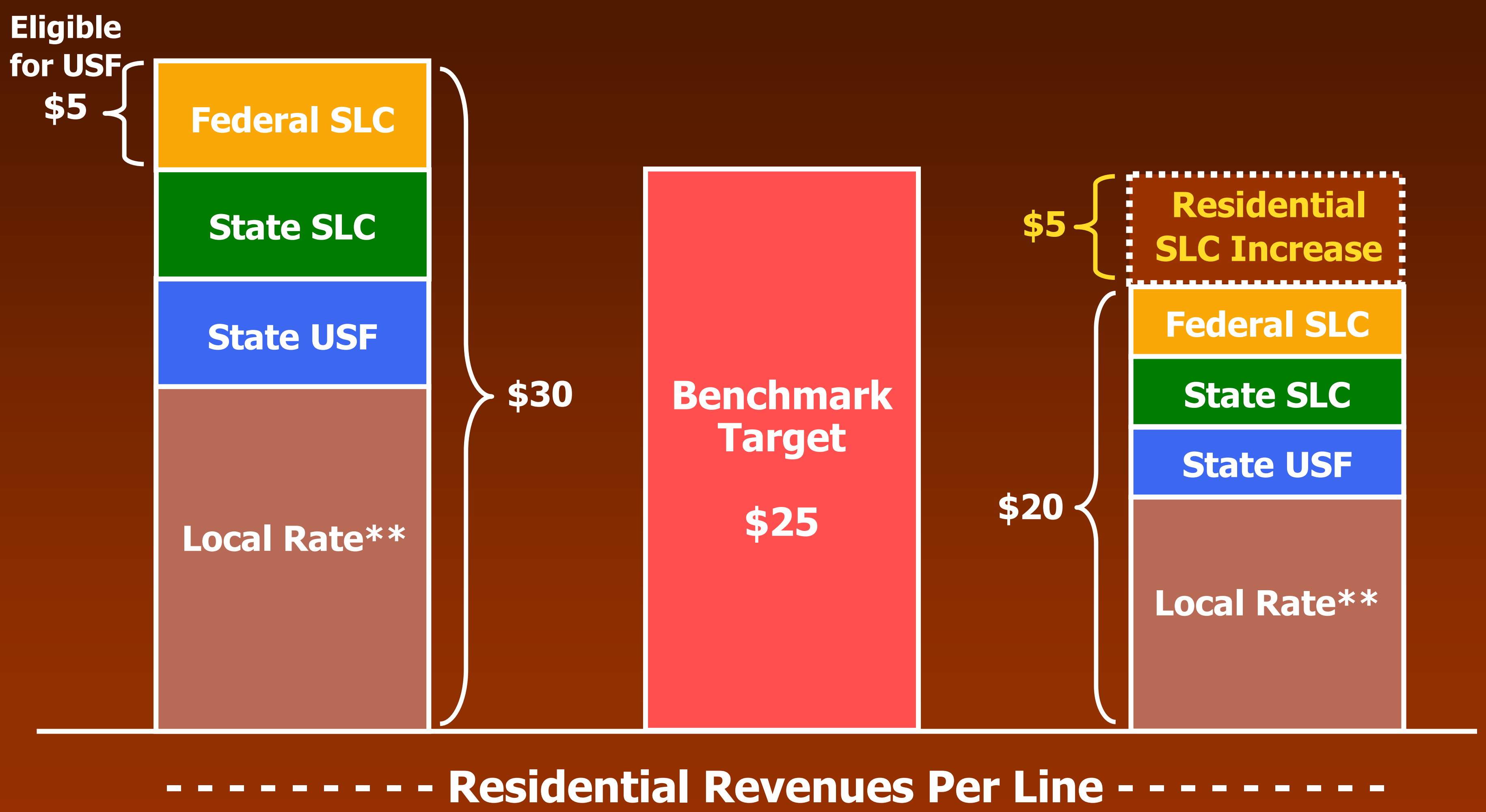
Why is this so Doggone Hard?

- **It's about the money!**
  - $8 billion in access
  - $4.3 billion in High Cost Fund (HCF)
  - $12 billion in Subscriber Line Charges (SLCs)
- **Different payments for use of local networks –originating and terminating calls**
  - Regulated monopoly environment to meet various jurisdictional and ratemaking purposes
- **Competition from wireless and VOIP are eroding access charges**

Dialing for Dollars

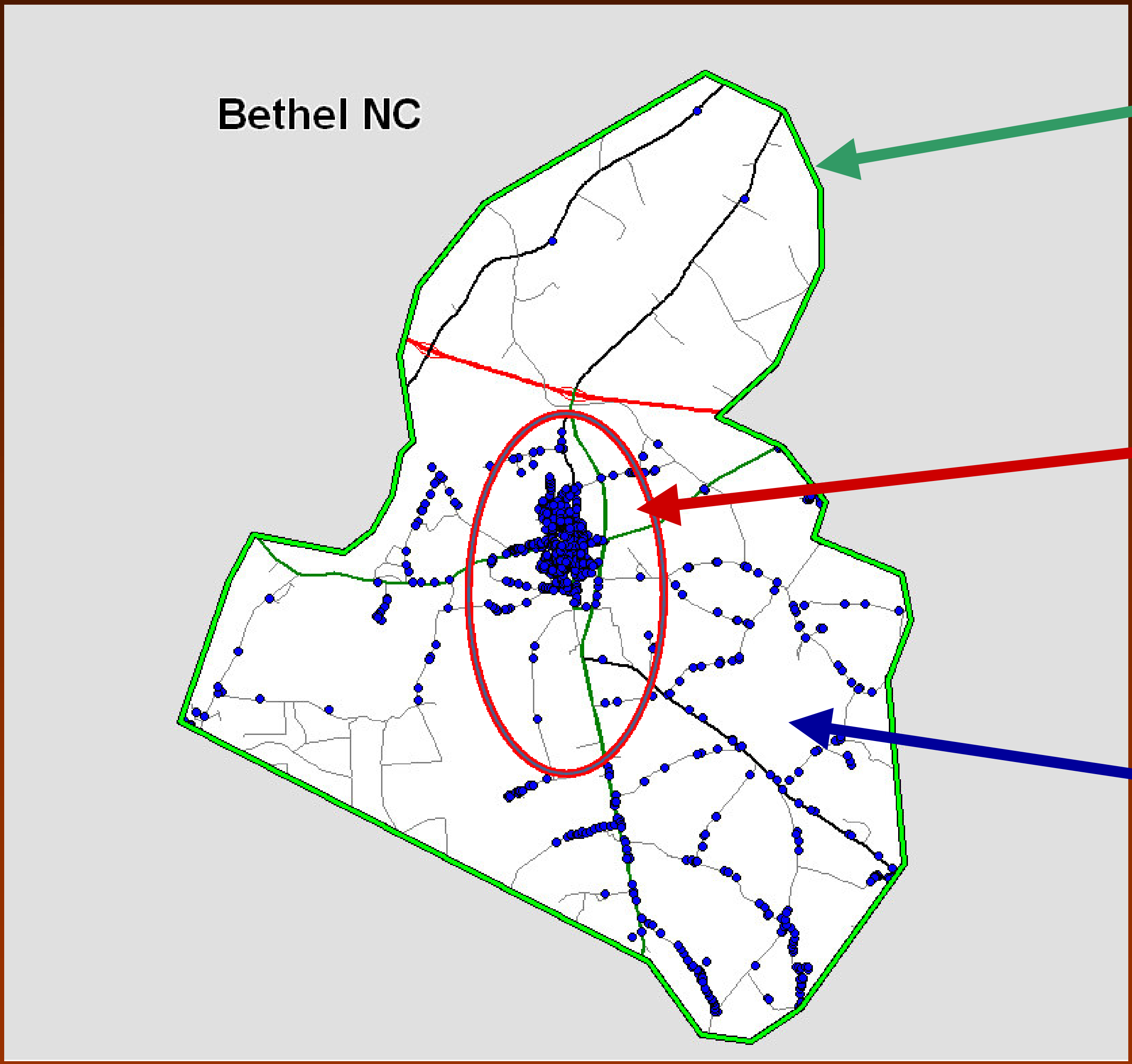


Federal Benchmark Mechanism



** Includes Mandatory EAS

Bethel, North Carolina: Sub-Wire Center



Wire Center

Total Lines Served - **1,668**

Cost per Line - $56.19

City Center

Total Lines Served - **960**

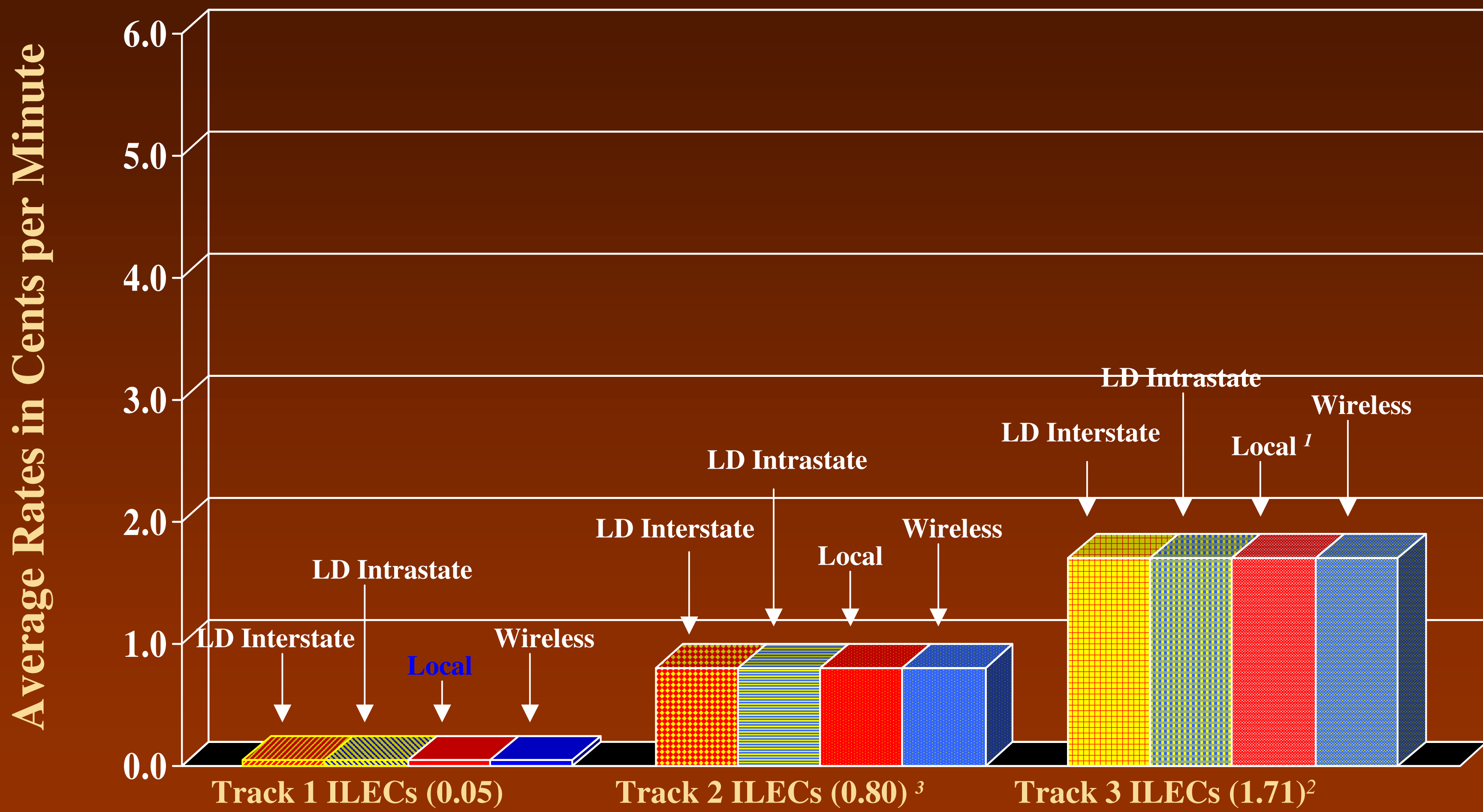
Cost per Line - $16.77

Outside City

Total Lines Served - **708**

Cost per Line - $109.40

Terminating Intercarrier Compensation Rates Missoula Plan Solution



1. Compensation for EAS traffic remains under existing arrangements.
2. Reciprocal compensation rates for 251(b)(5) traffic capped at interstate access rate levels. Access traffic capped at interstate access rate levels.
3. Assumes end office switching rate of 0.05 (same as Track 1 rate) and 0.75 for common transport and tandem switching.

Intercarrier Compensation Reform Under the Missoula Plan

	TRACK 1	TRACK 2	TRACK 3
1. Transition: Target Intercarrier Rates ($/Access Minute)			
Termination Rates	$ 0.0005	$ 0.0080	$ 0.0171
Origination Rates	$ 0.0045	$ 0.0095	$ 0.0171
2. Transition: Rebalanced End User Rates ($/ Month/ Line)			
Interstate SLC Cap Increases	$ 3.50	$ 2.25	$ 2.25
3. Transition: Restructure Mechanisms ($ Millions)			
Restructure Mechanism	$1,500		
Additional Items: Transition			
Early Adopter Fund	$200		
Lifeline Increases	$225		
High-Cost Fund/USF Mechanism Adjustments	$300		
Sub-Total : RM Plus Additional Items*	$2,225		

* Illustratively, if covered on telephone numbers and connections basis, then it would be a charge of $0.30 per unit per month

Options

- **Adopt, with or without modifications**
  - Missoula Plan
  - JB recommendation on USF reform
- **Do nothing - revisit later - problem becomes smaller**
  - Ongoing line losses are reducing access charges
  - Carriers maintaining/increasing profitability
  - Deployment of Broadband lagging/non-existent

(continued)

- **Interim Proposal**
  - – Adopt phantom traffic solution
  - – Deal with traffic pumping
  - – Using a tiered approach:
    - Reduce intrastate access rates (5¢) to interstate level (2¢) or (1¢) for RLECs
    - Reduce intrastate access rates (5¢) to $.0007 for RBOCs

Options – Interim Proposal (continued)

- Deal with Core Communications decision
- Consider further access charge reductions later
- Actual cost for all CETCs
- Change USF contribution mechanism to numbers

Options (continued)

- **Comprehensive Proposal (Verizon)**
  - Terminating rate set at $.0007
  - Optional revenue recovery through FSLC increases
  - New Recovery Mechanism (RM)
  - Residential FSLC cap increased to $10.50
  - RM conditionally tied to National Benchmark Rate
  - 3 year transition of access reductions and FLSC increases
  - National Benchmark Rate $22-$26

Options (continued)

- **Minimal approach**
  - – Numbers-based contribution mechanism
  - – Reverse auctions for Broadband in unserved areas
  - – Actual costs for all ETCs
  - – Deal with Core Communication v. FCC – ISP Order

It is an Election Year

21 Days Left

and counting

Is Comprehensive Universal Service and Intercarrier Compensation Reform possible this year?

Or... Is the Interim Cap as good as it gets?