

Association of Communication
Engineers/USDA Rural Development Seminar

**FCC Proposals for Reform of
Rural Universal Service Support**

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Proposals for Reform of Rural Universal Service Support

Federal-State Joint Board Recommendation to FCC

- 1st step in USF Reform Process
- Recommendation released on 11/20/07, FCC NPRM seeking comment dated 1/29/08
- Reply Comments due on 5/19/08 on all FCC reform proposals
- 3 Separate Universal Service Funds Proposed
- New USF for Wireless (Mobility) and Broadband proposed
- Wireline USF continued for “Present”
- Reverse Auctions are endorsed

Proposals for Reform of Rural Universal Service Support

JB Proposes use of Grant Funds

- USF Grants for construction costs in Unserved wireless and broadband areas
- Reverse auctions proposed for Wireless and Broadband USF
- \$300 million of grant funds proposed for Broadband
- Grant funds obtained from phase-out of current \$1 Billion plus Wireless CETC USF
- Grants to be administered by States
- Unserved areas determined by States
- When all unserved areas are served, the wireless and broadband USF would be phased out
- Phaseout disregards evolving services concept

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JB Wireline USF reform

- No significant consensus by JB for wireline USF reform
- Existing wireline USF system to be continued for the “present” – embedded costs to be used, as supported by cost modeling
- FCC should explore Reverse auctions FCC for wireline USF
- Combine Rural USF for loop, switching, and interstate access
- Implied combined national average cost benchmark – with Statewide averaging???
- Rates test as a condition for receipt of wireline USF
- Establish more limits on recovery of high operating costs
- Cap all wireline USF programs at 2007 levels until reforms are adopted (cap should not be at company level)

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JB Wireline USF reform, contd.

- Wireless USF separated from wireline cost based US
- Transition from existing wireless USF system to supporting only wireless in unserved areas
- No resolution of USF for wireline CETCs
- Rural and non-Rural wireline USF systems need to be unified – future business
- Non-Rural USF may need to be fixed to comply with Qwest II court ruling – court said non-Rural USF is not sufficient
- Section 54.305 with regard to non-Rural USF may need to be fixed to comply with uniformity issue
- No mention of use of grants for Wireline USF

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FCC NPRM on Reverse Auctions

- FCC tentatively concludes:
 - Reverse auctions offer advantages over current high cost USF support systems
 - FCC should develop an auction mechanism to determine high cost USF
 - High cost support should be awarded to only single auction winner
 - Reserve price, the maximum allowable auction bid, shall not exceed the current study area USF amount
 - Areas auctioned should correspond to wireline study areas. Disaggregation below the study area would not be allowed to increase USF for the study area.

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FCC NPRM on Reverse Auctions, contd.

- **Addl. Tentative conclusions:**
 - Auction winner must initially offer 768 kbps (one direction) throughout the study area
 - 1.5 mbps must be offered throughout the study area halfway thru the term of the auction
 - Due to auction complexities, comment is sought on whether a pilot program should be used to test reverse auction concept
 - States would implement any pilot program – should be plenty a takers among USF “payer” states
 - Reserve price in any pilot program is also capped at current USF support

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FCC NPRM on Reverse Auctions, contd.

- FCC auction NPRM did not discuss Joint Board auction proposals for wireless and broadband
- Token reference at the end of the Notice to a pilot auction program targeted to the broadband internet access

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FCC NPRM on CETC support

- Tentatively concludes:
 - Eliminate identical support rule
 - Provide USF for CETCs based on their own costs
 - CETCs would need to file cost data to receive support
 - Disaggregated support is difficult to determine for statewide CETCs - why not use statewide average costs (my comment)
 - Use 11.25% rate of return in cost studies
 - In interim, CETCs will no longer receive ICLS and may not receive LSS
 - Modeled rural telco costs may be used to disaggregate support at the wire center level in rural study areas