THE CHANGING WORLD OF UNIVERSAL SERVICE

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Goals of Universal Service Reform

- Encourage the buildout of broadband
- Control the size of the high cost fund
How does the Order Encourage Broadband

- Adopts support for broadband-capable networks as a universal service principle under section 254(b)
- Establishes broadband build out requirements for price cap carriers receiving support
- Establishes broadband build out requirements for mobility fund recipients
- Requires ROR carriers to provide broadband service on reasonable request
How does the Order Control the Size of the Fund

- Adopts fund budget
- Eliminates support for CETCs
- Provides support for price cap carriers through cost model and competitive bidding
- Provides mobility support through auctions
- Reduces support for rate-of-return carriers
- No support where unsubsidized competitor exists
Reductions in Support for Rural LECs and Broadband Buildout?

- “...we are careful to implement these changes in a gradual manner so that our efforts do not jeopardize service to consumers or investments made consistent with existing rules.”
- “It is essential that we ensure the continued availability and affordability of offerings in the rural and remote communities served by many rate-or-return carriers.”
- “The existing regulatory structure and competitive trends have placed many small carriers under financial strain and inhibited the ability of providers to raise capital.”
Reforms for Rural LECs

- Reduction or elimination of support in various categories (local switching support, corporate operations expenses, safety net additive)
- Regression analysis to limit reimbursable capital and operations expenses for HCLS
- Reduction in support for carriers with artificially low end user rates
- Elimination of support in areas with 100% overlap
- No support in excess of $250 per line per month
- Reduce rate of return
- Transition to incentive-based regulation in the future

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“Today’s package of universal service reforms is targeted at eliminating inefficiencies and closing gaps in our system, not at making indiscriminate industry-wide reductions.”
“Today, we reaffirm our commitment to these communities. We provide rate-of-return carriers the predictability of remaining under the legacy universal service system in the near-term, while giving notice that we intend to transition to more incentive-based regulation in the near future. We also provide greater certainty and a more predictable flow of revenues than the status quo through our intercarrier compensation reforms, and set a total budget to direct up to $2 billion in annual universal service (including CAF associated with intercarrier compensation reform) payments to areas served by rate-or-return carriers. We believe that this global approach will provide a more stable base going forward for these carriers, and the communities they serve.”
Impact on Rural LECs

- Local rates may go up
- Rural LECs will have less revenue
- New broadband build out will be difficult and may not be possible
- Maintaining existing facilities and operations may be difficult and may not be possible
- May be difficult to obtain loans/ meet requirements of existing loans
“Today’s reforms will help ensure rate-of-return carriers retain the incentive and ability to invest and operate modern networks capable of delivering broadband as well as voice services, while eliminating unnecessary spending that unnecessarily limits funding that is available to consumers in high-cost, unserved communities.”
ROR  ➔  VERIZON
AT&T
Will it work?

- Will everyone have access to a fixed and mobile broadband provider
- Without an increase in the universal service fund
Impact on Consumers

- Local rate increases
- There may be no entity obligated to provide service
- Slower broadband buildout if reside in rural area
- Assessment of new surcharges