Equal Per-Line USF Support:
Maintaining Competitive Equilibrium

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Rural ILEC USF – No Incentive to Reduce Costs

- Gains in efficiencies means loss in USF:

  Greater than or equal to 150% of nationwide average loop costs, all reductions lower future USF payment $ for $.

  At or above 115% and below 150%, a dollar reduction lowers future USF payments by $.90.
- No independent mechanism to scrutinize rural ILEC costs, so system protects inefficiency.

Rate-of Return Regulation Leads to Cost Padding, Not Cost Reductions

- Increases in expenses are fully passed through to customer rates.
- Investment expenditures automatically increase profits, regardless of whether the investment was actually warranted.
- Regulators lack information and knowledge to adequately constrain RoR carriers (from FCC's *AT&T Price Cap Order*).

Competition and Equal Support Drive Cost Savings to Customers

- Equal support per line preserves cost relationships that exist in the absence of support.
- Equal support per line allows more efficient carrier to reflect efficiencies in pricing.
- Cost reductions flow to consumer and carrier.
- Carrier prices reveal need for less subsidy to maintain affordable rates.

Competition in Fairbanks – Current (Residential Lines – 2Q 2003)

	ACS-F		GCI		ACS Loop Cost Advantage (Disadvantage)	
	Zone 1	Zone 2	Zone 1	Zone 2	Zone 1	Zone 2
ACS Loop Additional Loop Costs	$16.37* --------	$37.55* --------	$19.19** $12.82	$19.19** $12.82		
Total Loop Costs	$16.37	$37.55	$32.01	$32.01	$15.64	($5.54)
Less ACS Local Rate *Less* SLC	$12.50 $6.00	$12.50 $6.00	$12.50 $6.00	$12.50 $6.00		
Net To Be Recovered Thru Other Rates or USF	($2.13)	$19.05	$13.51	$13.51	$15.64	($5.54)
Less 2Q 2003 USF	$4.21	$9.47	$4.21	$9.47		
Net To Be Recovered in Other Rates	($6.34)	$9.58	$9.30	$4.04	$15.64	($5.54)

*ACS Embedded Cost of $29.50 disaggregated proportionately according to weighted average of embedded costs by Zone, as listed in ACS-F Disaggregation Plan (p.4).

**UNE-Loop Rate

Competition in Fairbanks – If Deaverage UNE-Loops (Residential Lines – 2Q 2003)

	ACS-F		GCI		ACS Loop Cost Advantage (Disadvantage)	
	Zone 1	Zone 2	Zone 1	Zone 2	Zone 1	Zone 2
ACS Loop Additional Loop Costs	$16.37* --------	$37.55* --------	$10.65** $12.82	$24.44** $12.82		
Total Loop Costs	$16.37	$37.55	$23.47	$32.26	$7.10	($0.30)
Less ACS Local Rate *Less* SLC	$12.50 $6.00	$12.50 $6.00	$12.50 $6.00	$12.50 $6.00		
Net To Be Recovered Thru Other Rates or USF	($2.13)	$19.05	$4.97	$18.76	$7.10	($0.30)
Less 2Q 2003 USF	$4.21	$9.47	$4.21	$9.47		
Net To Be Recovered in Other Rates	($6.34)	$9.58	$0.76	$9.29	$7.10	($0.30)

*ACS Embedded Cost of $29.50 disaggregated proportionately according to weighted average of embedded costs by Zone, as listed in ACS-F Disaggregation Plan (p.4).

**UNE-Loop Rate of $19.19 disaggregated proportionately according to weighted average of embedded costs by Zone, as listed in ACS-F Disaggregation Plan (p.4).

Competition in Fairbanks - ACS USF Proposal (Residential Lines – 2Q 2003)

	ACS-F		GCI		ACS Loop Cost Advantage (Disadvantage)	
	Zone 1	Zone 2	Zone 1	Zone 2	Zone 1	Zone 2
ACS Loop Additional Loop Costs	$16.37* --------	$37.55* --------	$19.19** $12.82	$19.19** $12.82		
Total Loop Costs	$16.37	$37.55	$32.01	$32.01	$15.64	($5.54)
Less ACS Local Rate *Less* SLC	$12.50 $6.00	$12.50 $6.00	$12.50 $6.00	$12.50 $6.00		
Net To Be Recovered Thru Other Rates or USF	($2.13)	$19.05	$13.51	$13.51	$15.64	($5.54)
Less 2Q 2003 USF	$4.21	$9.47	$0	$0		
Net To Be Recovered in Other Rates	($6.34)	$9.58	$13.51	$13.51	$29.15	($8.97)

*ACS Embedded Cost of $29.50 disaggregated proportionately according to weighted average of embedded costs by Zone, as listed in ACS-F Disaggregation Plan (p.4).

**UNE-Loop Rate

Wrong Incentives: USF Based on CETC Costs

- Eliminates incentives for the CETC to be more efficient than the ILEC.
- CETC would have same incentives as ILEC to increase costs to increase revenues.
- Continued guaranteed cost recovery through USF masks any competitive incentives to reduce costs.

Difficulties Calculating CETC Costs

- Determining CETC USF payments would require intensive regulation.
- No common accounting system or categories.
- No common network topology (what is a “loop” or geographic scope).
- No regulatory structure for allocating costs, particularly for shared facilities.

Examples of Issues

- GCI has one switch in Anchorage, while ACS has five. What constitutes loop costs?
- Do you use the scope of the ILEC or CETC network, and what about ILEC study area borders?
- GCI's per line additional loop costs decline as lines increase. How do you address the CETC's "lumpy" costs?

What are the Options?

1. Require CETCs to use USOA, Parts 36, 64, and other ILEC allocation methodologies, affiliate transaction rules, and adopt network conventions to fit CETC networks into ILEC nomenclature.
2. CETC self-certification of costs.
3. Set CETC support equal to ILEC support.

Best Option: Equal Per-Line Support for CETCs and ILECs

- No need to impose rate-of-return and incumbent network conventions on non-regulated carriers.
- No need to investigate CETC cost declarations.
- Avoids increase in overall support driven by CETC network costs upon entry.
- Preserves the same competitive dynamics as would exist in the absence of support payments.