Targeting and USF Reform

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Exchange	Households	Density (HH per sq. mile)	Monthly Cost
Sylvia, KS	207	2.2	$122.56
Kenansville, FL	514	1.1	$143.72
Koon Kreek, TX	415	5.2	$123.42
Reinersville, OH	226	5.2	$152.77

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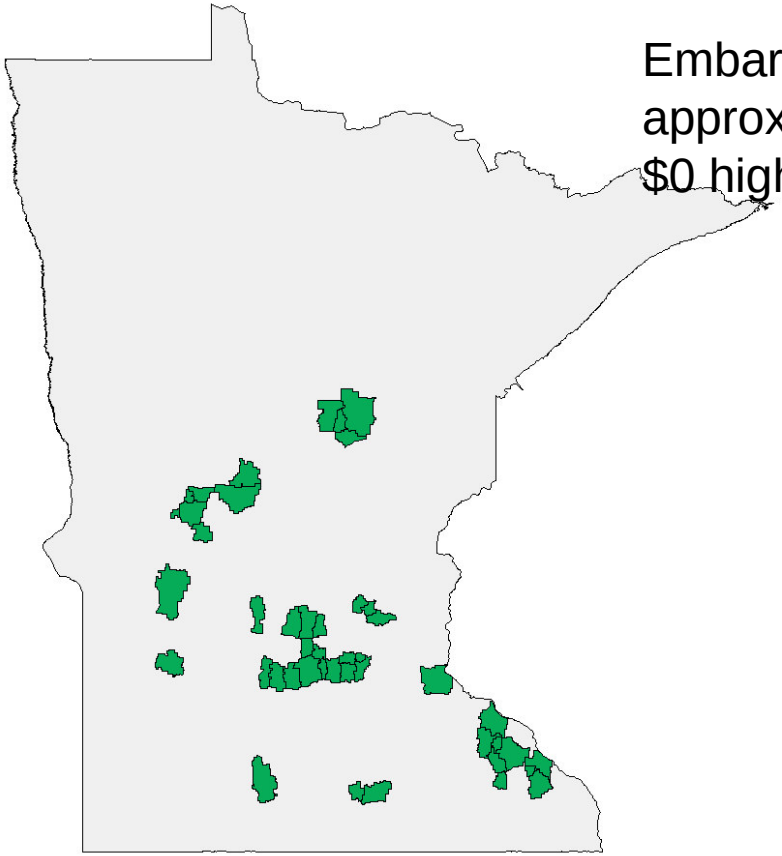
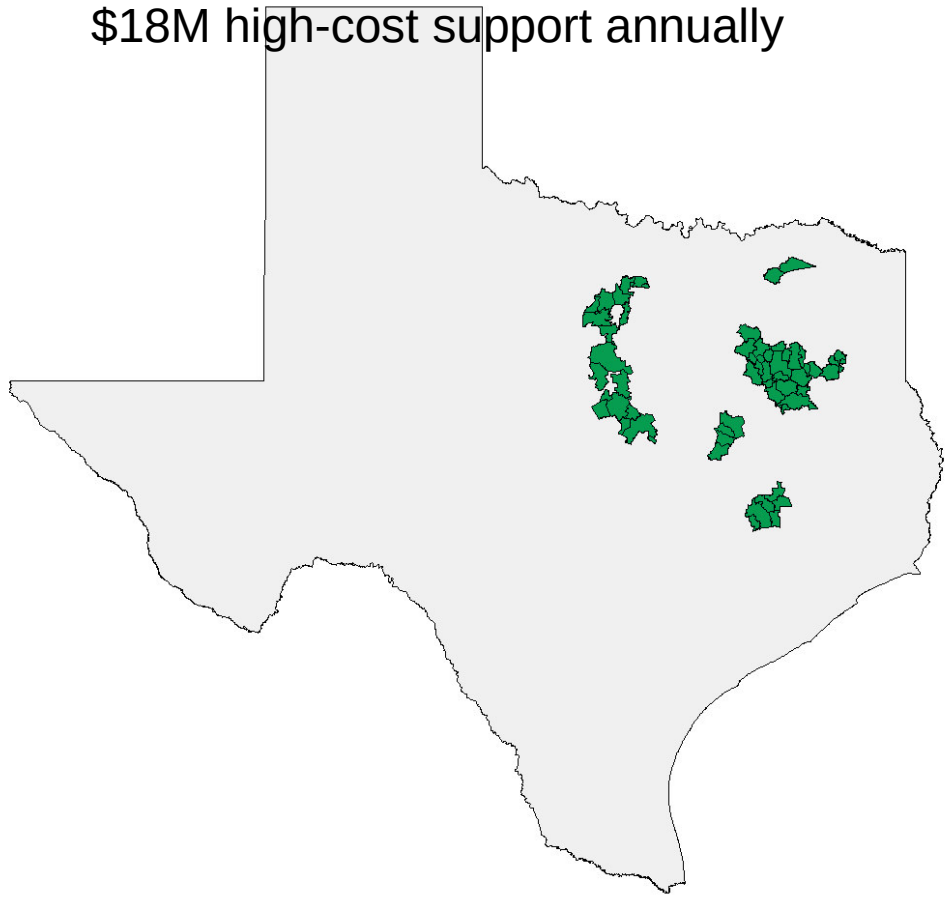


Embarq Minnesota, Inc. –
approx. 160,000 access lines
$0 high-cost support annually

United Telephone of Texas d/b/a/ Embarq –
approx. 160,000 access lines
$18M high-cost support annually



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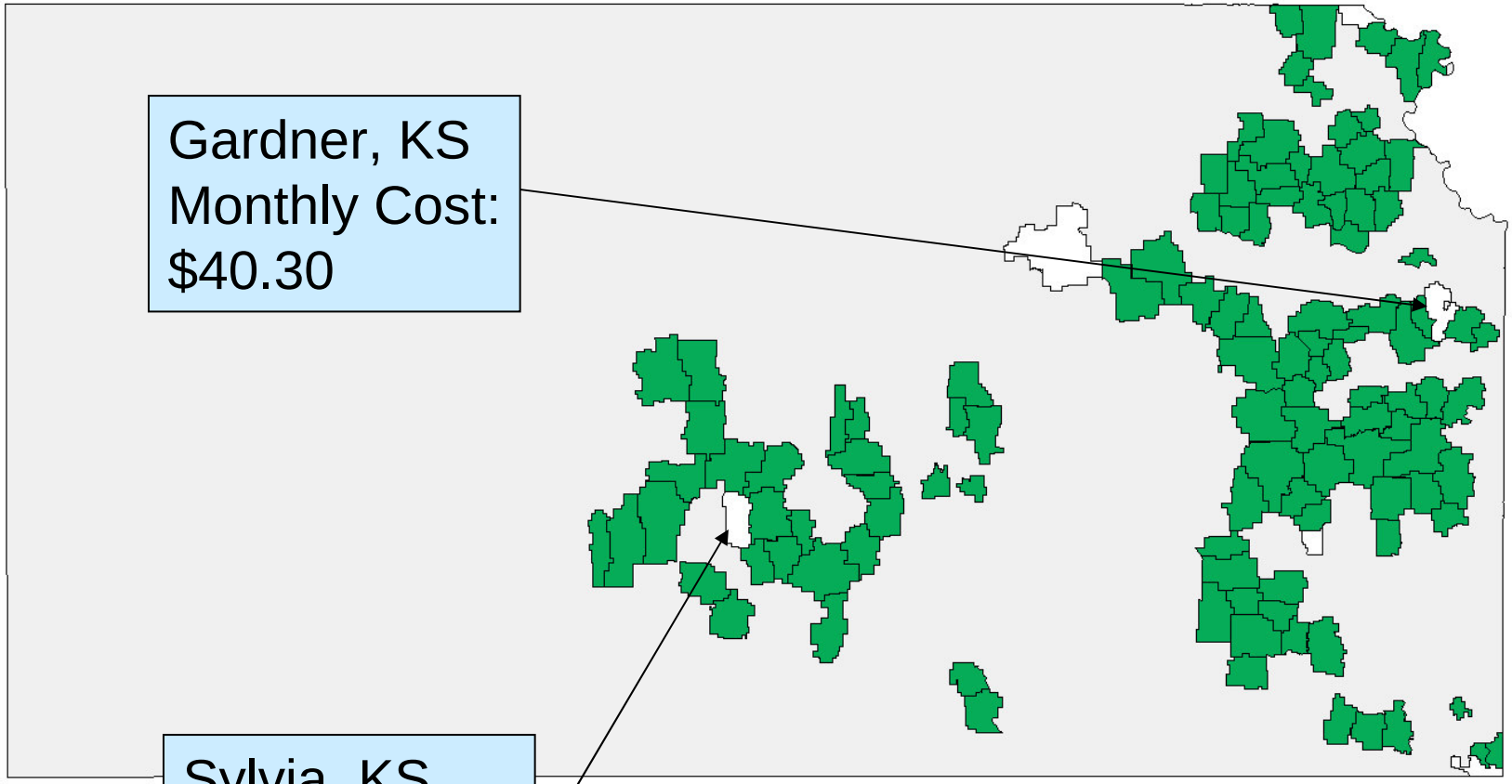

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Facts…

1. Implicit subsidies are unsustainable in a competitive environment
2. Using entire study area to determine “need” maintains assumption that implicit subsidies can be relied upon, so…
3. With or without reverse auctions, we must re-visit the area used to determine “need” if USF is to be truly sufficient, specific, predictable.

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Separable Issues

What is the proper geographic area to use to determine the "need" for support?

Reverse Auctions:
Yes or No?

One ETC Per Area?
More Than One?

Broadband included in
set of supported services?

Revenue benchmark?
Cost benchmark?

Wireless carriers: Support
based on own costs? ILEC costs?

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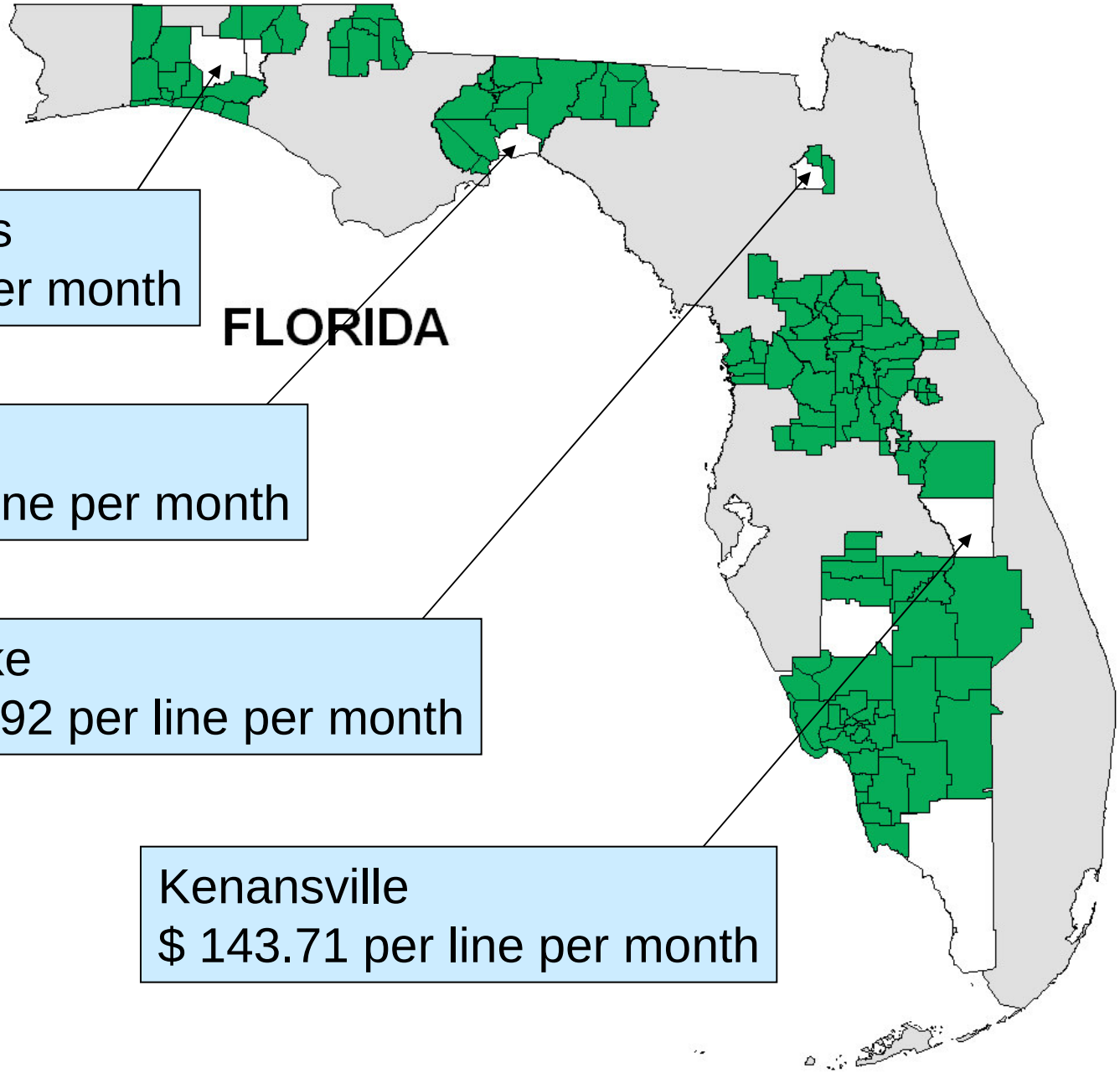

De Funiak Springs
$ 35.50 per line per month

St. Marks
$ 110.96 per line per month

Starke
$ 30.92 per line per month

Kenansville
$ 143.71 per line per month

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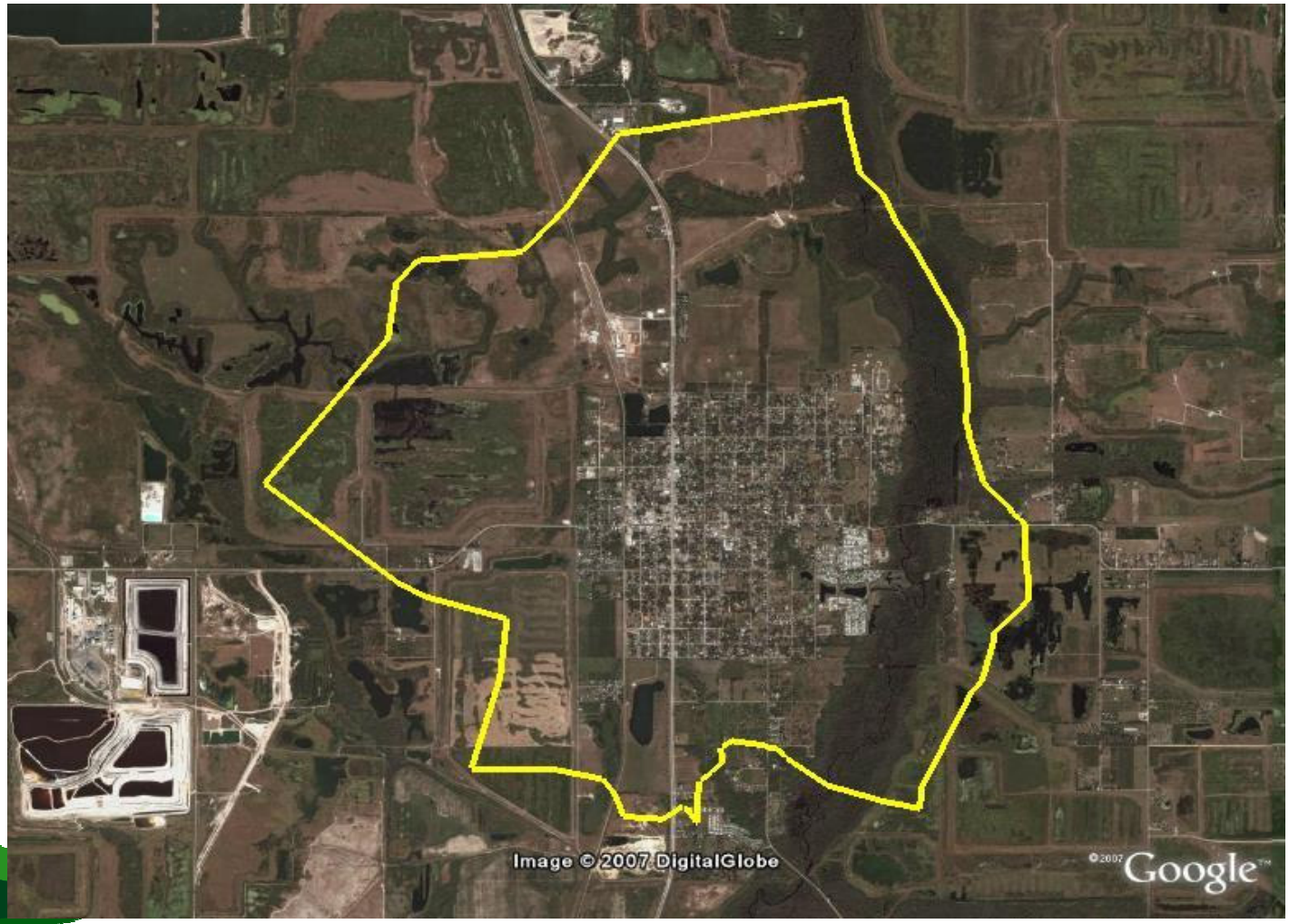
Fort Meade, Florida
City Center



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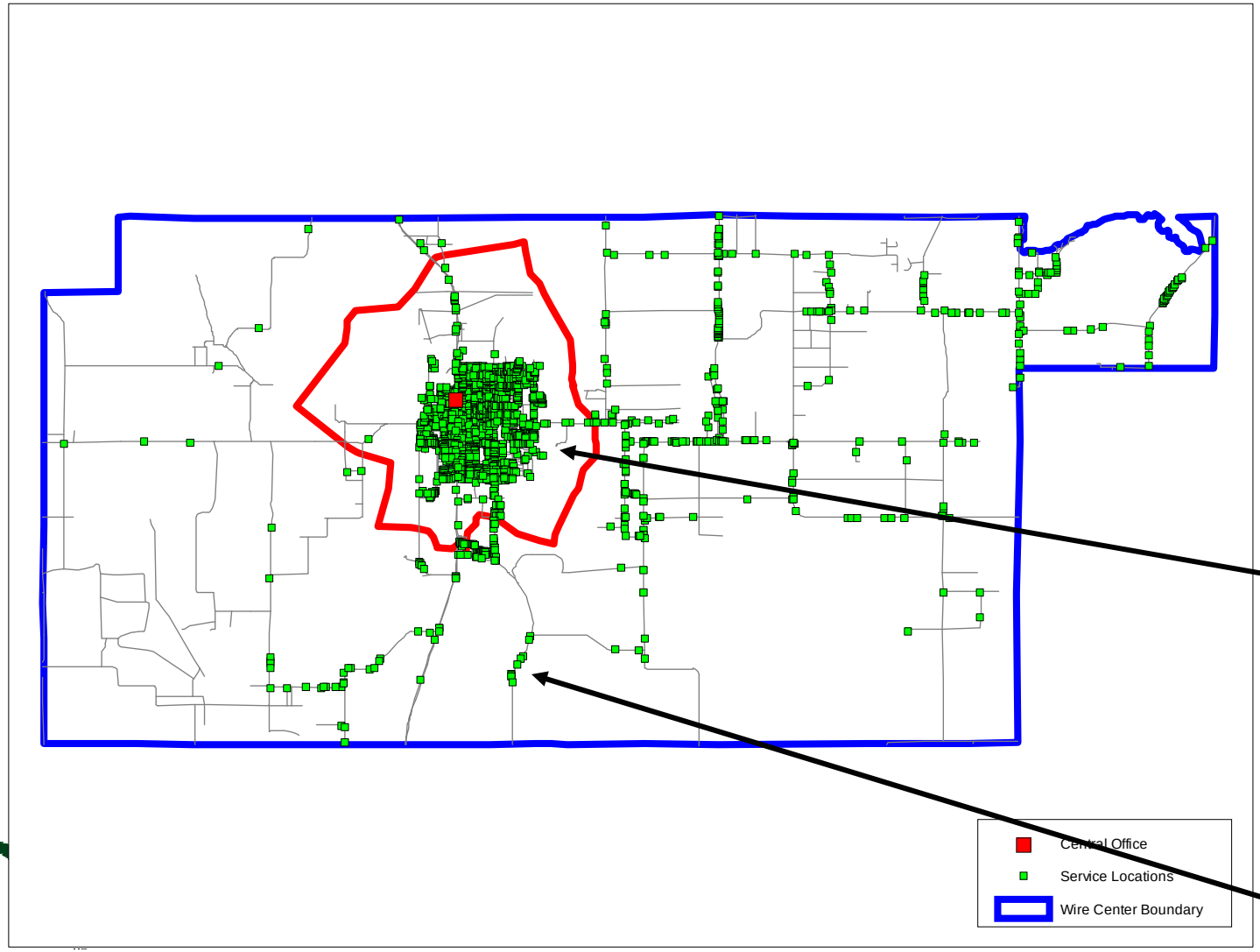
Fort Meade, Florida
Investment Overview



Wire Center

Total Lines Served

2,893

Investment per Line

$2,650

City Center

Total Lines Served

2,188

Investment per Line

$1,308

Outside City

Total Lines Served

705

Investment per Line

$6,820

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Targeting: Why the need for support must be calculated more granularly…

1. Implicit subsidization exists
   - ***between*** wire centers
   - ***within*** a single wire center
2. Neither form is sustainable
3. Must re-determine which areas are uneconomic to serve; create zones within individual wire centers
   - Call it a donut-and-hole approach
   - Call it zone-based approach
4. Support—however it is then calculated, whatever it is based on, and whatever services it includes—is then provided to these uneconomic areas
5. …***and it's not that hard to do***

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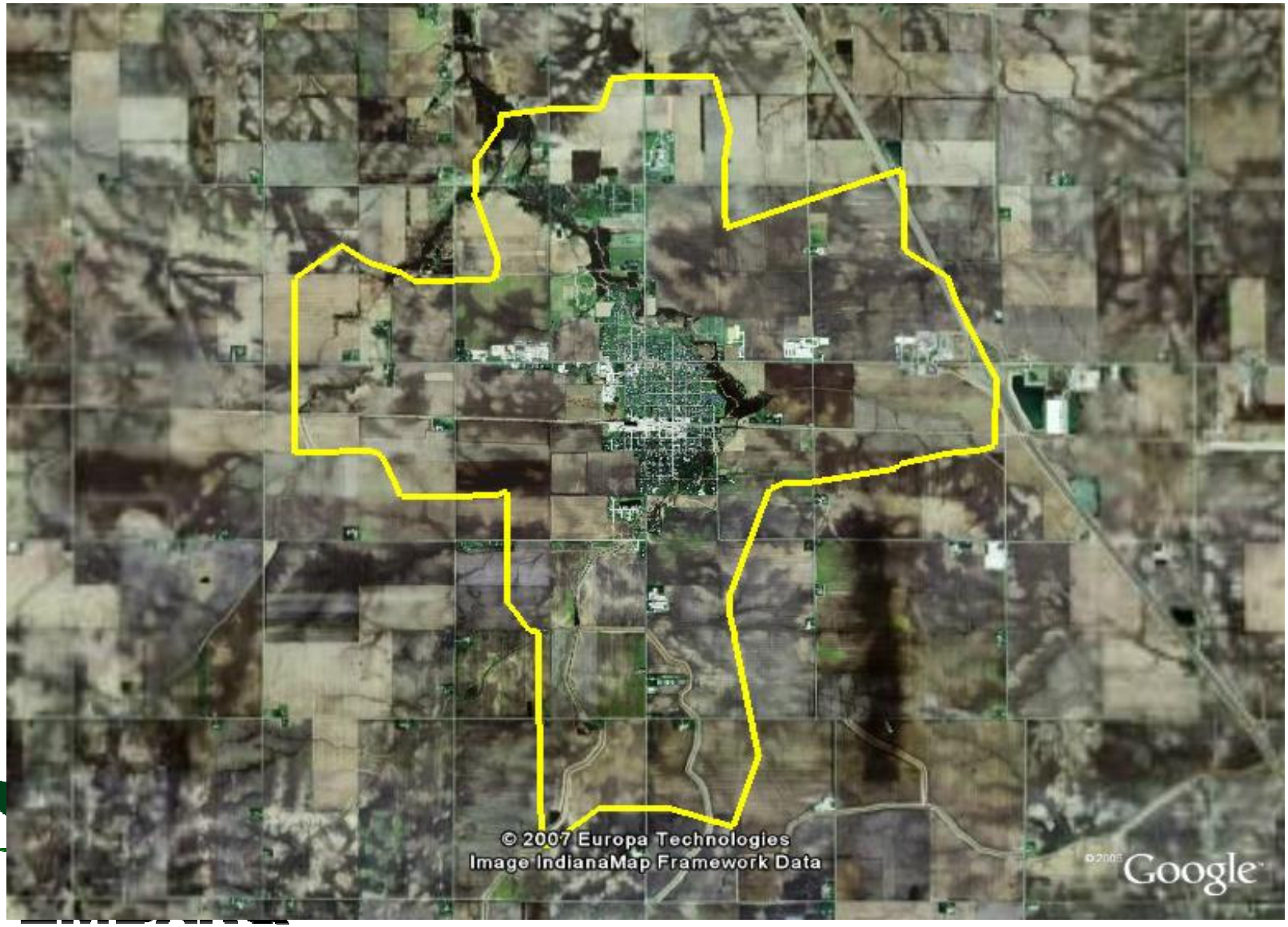
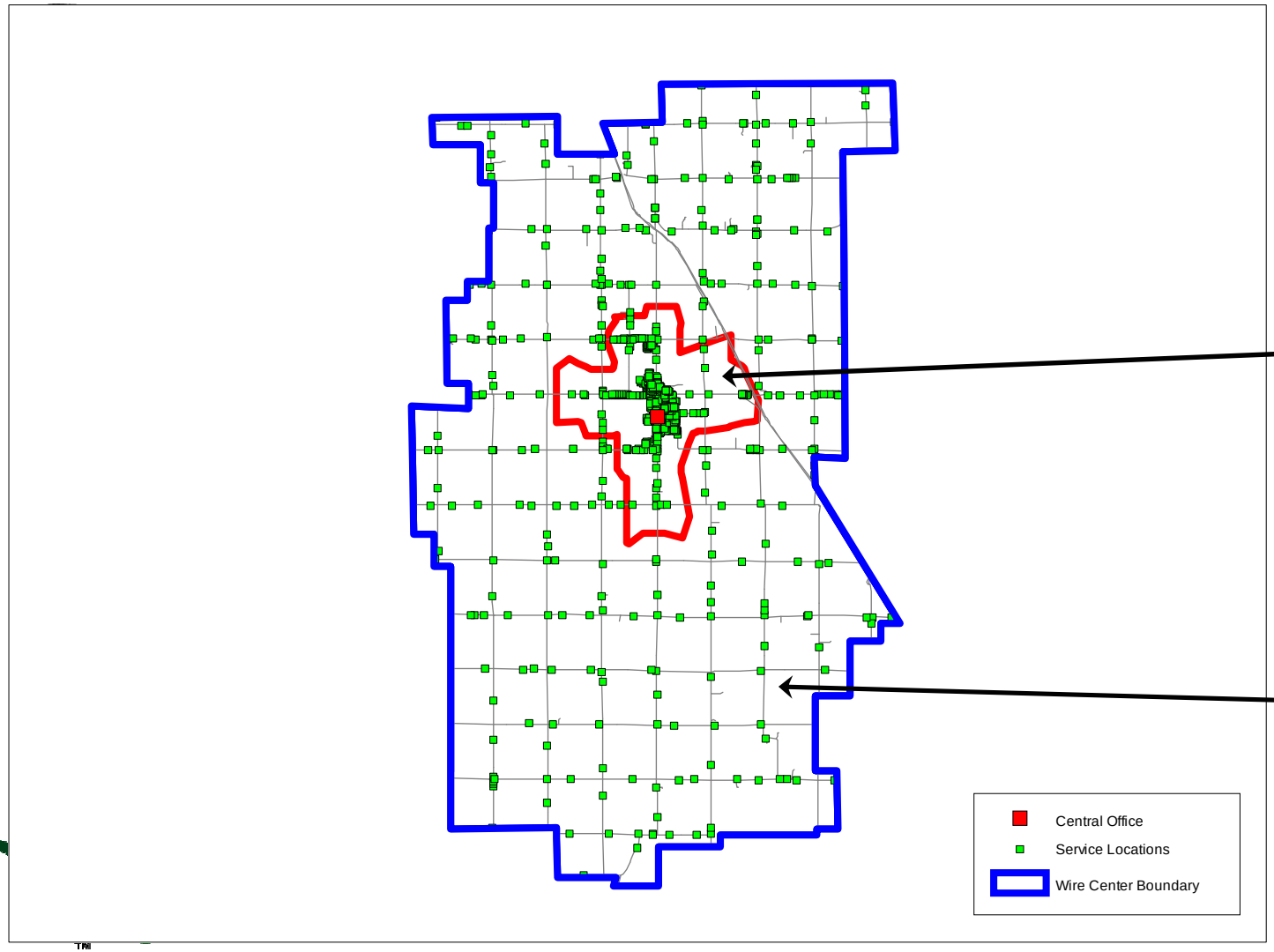
Not just dis-aggregation…

Remington, Indiana



Remington, Indiana
Investment Overview



Wire Center

Total Lines Served

1,415

Investment per Line

$4,600

City Center

Total Lines Served

970

Investment per Line

$1,440

Outside City

Total Lines Served

445

Investment per Line

$11,490

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Summary and Conclusions

- Current USF system incorporates implicit subsidies.
- Assumes implicit subsidies can be used to offset costs of serving uneconomic areas.
- They can't.
  - Competition prevents low-cost wire centers from subsidizing high-cost wire centers.
  - Competition prevents low-cost portions of a wire center from subsidizing high-cost portions of the same wire center.
- Therefore support must be calculated at a more granular level: sub-wire center.

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Summary and Conclusions (cont.)

- This is not the same as dis-aggregating existing support to a sub-wire center level.
- A sub-wire center approach can be implemented today.
  - Models currently exist that are more than capable.
  - Advances in modeling make almost any form of increased granularity possible.
- Sub-wire center approach is separable from almost every other policy issue.

Whatever services, whichever companies end up being supported, this is proper method for determining where support belongs and where companies must provide service in order to earn that support.

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