

Achieving a Stable USF

Reviewing Recommendations for Universal Service

Independent Telephone and
Telecommunications Alliance

March 2007





Overview

- The systemic growth must be addressed
- Alternatives must advance the mandate and benefits of universal service





Process

- Alternatives to today's structure must:
 - Recognize the purpose of USF
 - Recognize the cause of current growth
 - Address the cause of current growth
 - Advance the goals of USF





Purpose of the Program

- The purpose of the universal service program is to ensure the provision of service where absent USF support, service would not be provided
 - Ensure that consumers throughout the Nation have access to advanced telecommunications and information services
 - USF mechanisms must be specific, predictable, and sufficient





Key Drivers of Fund Growth

- CETC funding: an unsustainable mechanism
 - 2000 - \$1 million
 - 2001 - \$20 million
 - 2002 - \$47 million
 - 2003 - \$131 million
 - USAC estimates
 - 2006 - \$1+ billion
 - 2007 – \$1.28 billion
 - 2008 – nearly \$2 billion
 - 2009 – \$2.5 billion

Sources: USAC FCC Filings; Balhoff & Rowe, Inc.; Statement of Chairman Martin, Statement before the Federal State Joint Board, Feb 20, 2007





Purpose of USF

- “ . . . I dissented from the Commission’s policy of using universal support as a means of creating government-managed ‘competition’ for phone service in high cost areas. I was hesitant to subsidize multiple competitors to serve areas in which costs are prohibitively expensive for even one carrier.”

*Chairman Kevin J. Martin, Statement
before the Federal State Joint Board on
Universal Service, Feb 20, 2007*



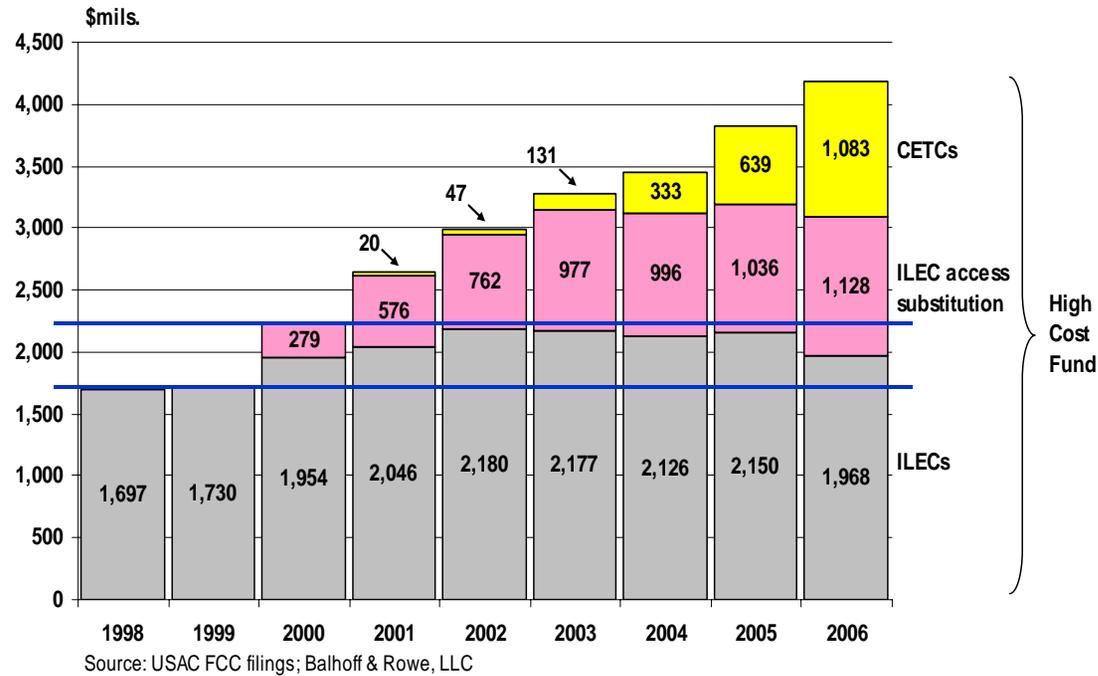


Key Drivers of Fund Growth

- Removal of implicit subsidies from access charges through explicit mechanisms adopted in CALLS and MAG orders
 - Increased USF support offset by decreased access revenues
 - Realignment does not increase total ILEC revenues



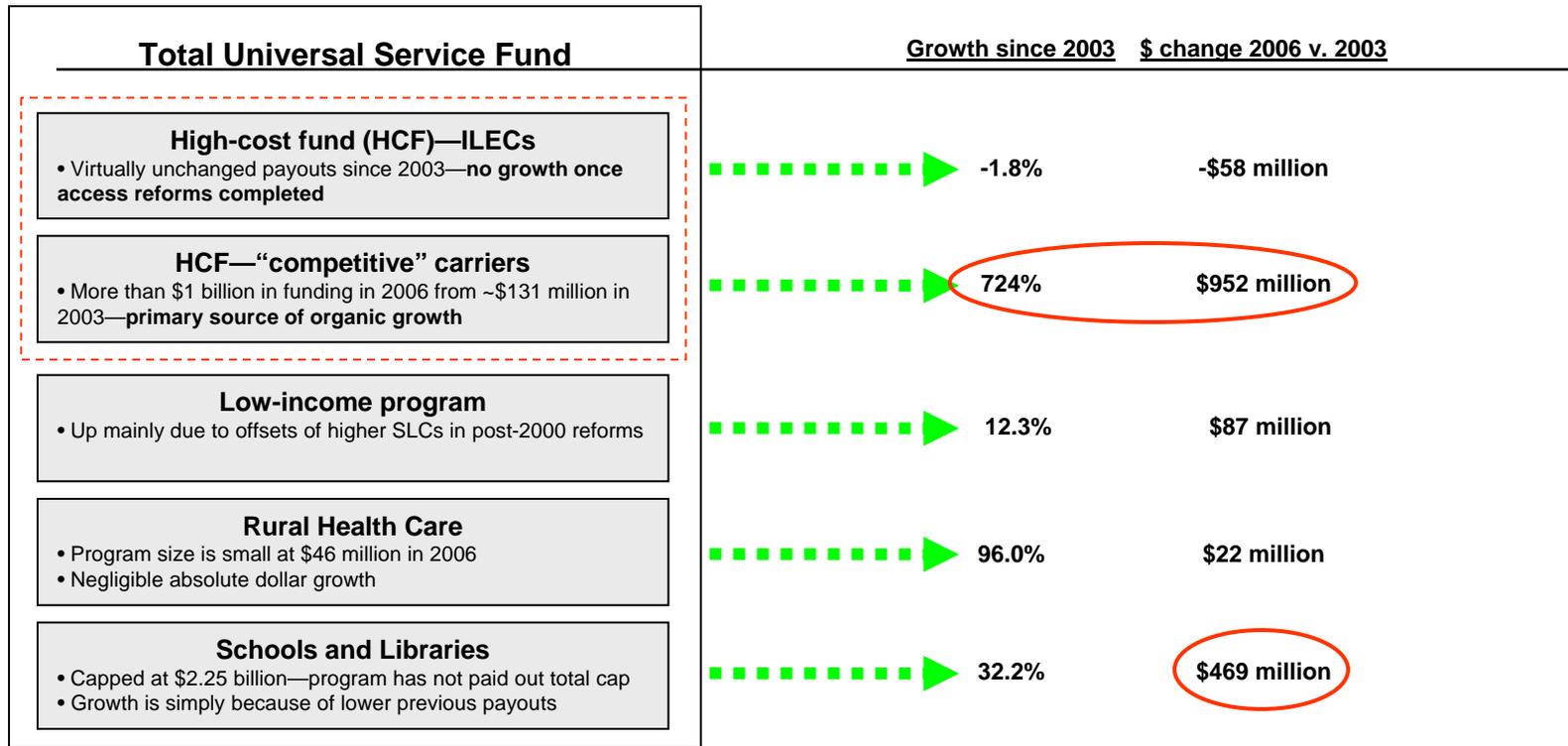
High Cost Fund, 1998-2006



ILEC payments have remained flat or decreased since 2003



Current Growth



Source: Balhoff & Rowe, LLC





The Verizon Plan: A Thoughtful Approach

- Verizon recognizes issues raised by ITTA
 - The “largest source of growth in USF in recent years – new funding to CETCs”
 - Growth that “threatens core universal service goals if not contained”
 - “Fundamentally different cost structures” of wireline and wireless carriers
- Verizon Feb 20, 2007 ex parte at 3, 5, 7*





The Verizon Plan: Important Questions That Merit Further Discussion

- Is the Verizon plan consistent with statutory mandates?
- Is it consistent with ADA requirements?
- Unclear whether state can demand 100% geographic coverage; does not address gaps in coverage
- How will COLR obligations be addressed?
- Is there a risk of relegating rural customers to reduced service?
- How best to reconcile the demand for broadband investment with auction concepts?





ITTA Alternatives To Controlling Fund Growth

- Eliminate identical support rule
- Determine costs of mobility
 - Allocate to wireless carriers loop support only until such time as wireless costs are developed
 - Remove MAG and CALLS access replacement funding from CETCs





ITTA Alternatives to Promote the Public Interest

- Create separate mobility fund based on wireless costs
- Require CETCs to demonstrate how USF receipts from universal service funds were used; CETCs that will not or cannot serve an entire service area after receiving funds would be subject to revocation of eligibility
- CETCs that receive universal service support based on ILEC costs and study area should be required to assume COLR responsibilities for that area
- All ETCs should be required to meet state service quality requirements, demonstrate emergency back up and restoration procedures, and meet 911 capability requirements





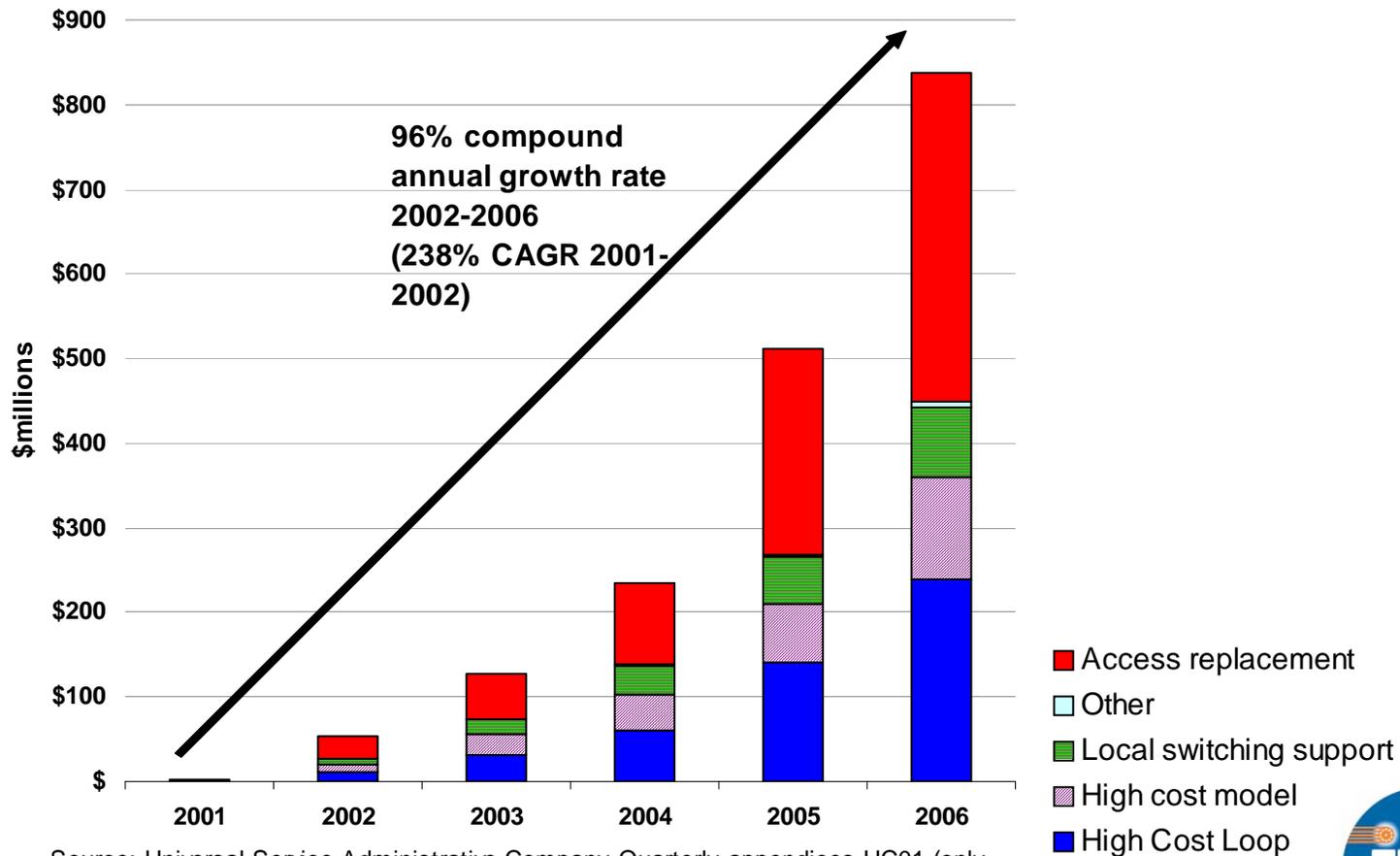
Parity Among Supported Entities

- “. . . competitive ETCs seeking universal service support should have the same ‘carrier of last resort’ obligations as incumbent service providers in order to receive universal service support. . . is fully consistent with the Commission’s existing policy of competitive and technological neutrality amongst service providers.”

Dissenting Statement of Commissioner Kevin J.
Martin, *Virginia Cellular*



Loop Support for Mobile Carriers



Source: Universal Service Administrative Company Quarterly appendices HC01 (only eligible and ETC-approved funding); Balhoff & Rowe, LLC.





Broadband

- The underlying wireline network is the best and most immediate route for additional rural broadband deployment, and is the basis upon which other services rely
- ILECs provide the greatest assurance of providing customer-focused and cost efficient technology solutions, reliable 911, and overall service quality
- Good stewardship of existing universal service dollars, a commitment to rural markets, and strategic investment are key drivers of a broadband future





Broadband

- The Act recognizes supported services as evolving
- Broadband has been recognized as “a key driver of economic growth”
- “. . . broadband technologies support services essential to education, public health and safety”

Statement of Chairman Martin to Federal State Joint
Board on Universal Service, Feb 20, 2007





Broadband and USF

- “Our universal service program must continue to promote investment in rural America’s infrastructure and ensure access to telecommunications services that are comparable to those available in urban areas today, as well as provide a platform for delivery of advanced services tomorrow.”

Statement of Kevin Martin to Federal
State Joint Board on Universal Service,
Feb 20, 2007





About ITTA

ITTA represents the Nation's mid-sized carriers. Its members are CenturyTel, Commonwealth, Comporium, Consolidated, Embarq, Fairpoint, Iowa Telecom, Madison River, Matanuska, and TDS.

Collectively, ITTA members serve 7.13% of loops in the US; individually, ITTA members serve between .04% and 4.51% of the Nation's loops.

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