A BROADBAND AND CARRIER-OF-LAST-RESORT SUPPORT (BCS) SOLUTION

Term Sheet

I. EXECUTIVE SUMMARY

This proposal—the Broadband and Carrier-of-Last-Resort Support (BCS) solution — would substantially increase broadband deployment without increasing overall Universal Service Fund (USF) expenditures. In addition, it would materially improve the foundation for carrier-of-last-resort service that is mandated by statute to preserve the availability of basic telecommunications services at comparable and affordable rates throughout our nation.

- In a nutshell, the BCS would replace the current Non-Rural High-Cost Support mechanism (and current High-Cost Loop Support in price cap study areas) with a new mechanism that supports wire centers with household densities lower than a national benchmark.
- No new USF would be used to create the BCS. Rather, funding for the new BCS would come from adding access replacement funds received by wireless carriers to the amount in the current Non-Rural High-Cost Support mechanism and the amount of High-Cost Loop support distributed in price-cap study areas.
- This would promote broadband deployment without increasing overall USF and solve two main problems with federal USF today—reducing support where it is not needed, and providing additional support where it is needed.
- BCS support recipients in price-cap areas would make three commitments:
    - to make available broadband of at least 1.5 Mbps downstream to at least 85% of the customers in each wire center receiving support;
    - to provide supported local service at rates that meet the statutory requirements of affordability and comparability; and
    - to build-out and serve the entire wire center using only their own facilities within five years.
- Once the funding level is established, each wire center would receive the same support for five years. Support levels would be revisited thereafter at five-year intervals.
- Consistent with the economics of the carrier-of-last-resort obligation, support levels would not vary with changes in the number of lines served.
- The BCS can be implemented relatively simply and quickly using current information.
- Rate-of-return carriers would be largely unaffected by this reform proposal and, in nearly all cases, they would draw USF support in the same way they do today.
- This proposal does not take away the access replacement support received by wireless ETCs, as the Commission tentatively concluded it should do in the Identical Support NPRM. Rather, competitive ETCs would be eligible for support under the BCS and, in the aggregate, they could receive most of the support they receive today.
- The proposal would rationalize high-cost support in the majority of high-cost areas, promote broadband deployment, facilitate other important USF reforms, and indirectly, but definitively, resolve the outstanding questions posed by the 10th Circuit Remand.

II. THE PLAN FACILITATES BROADBAND AND PROVIDES SUPPORT TO WIRELESS ELIGIBLE TELECOMMUNICATIONS CARRIERS

A. Includes a Broadband Commitment

- Each recipient will commit that 85% of the customers in each supported wire center will be capable within five years of receiving 1.5 Mbps service downstream.
- Any greater broadband commitment would require greater support at current levels of network deployment and technology.
- There will be no broadband commitment in wire centers that do not receive support.

B. Includes a Rate Affordability and Comparability Commitment

- BCS support recipients in price-cap areas would also commit to provide supported local service at rates that meet the statutory requirements of affordability and comparability.
- This commitment would be put into practice through a Commission-designated benchmark range, specifically the range identified by the list of urban rates in the FCC's Reference Book of Rates, Price Indices, and Household Expenditures, Table 1.3.
    - To the extent a recipient's local rate is below the national benchmark range in a particular wire center, that recipient would forfeit support for the difference between its rate and the lowest benchmark rate.
    - To the extent a recipient's local rate is above the national benchmark range, the carrier would not be eligible for support in that wire center.
- The use of range rather than a specific rate is consistent with the long-standing Commission practice of approving rates within a zone of reasonableness, and it should mitigate concerns about intruding on state rate setting.

C. Includes a Build-Out Requirement

- A support recipient must serve the entire wire center using its own facilities (which may include those leased at market rates from other providers) within five years (it can use a mix of facilities and resale during the five-year build-out period).

D. Competitive ETCs Are Eligible for Support

- The BCS would provide support to a CETC in each wire center.
- No more than one CETC would receive support in any given wire center.
- Where there is a single CETC that can meet the broadband and build-out commitments, it will be designated as the supported CETC for that wire center.
- Where more than one CETC seeks to be designated in a wire center, the designating authority (i.e., state commission or FCC) will select a single

CETC in the wire center, for example through an RFP process or auction to award the designation for a defined period of time (such as an initial 10-year term, with five-year renewals there after).

III. THE MECHANICS OF THE PROPOSAL ARE RELATIVELY SIMPLE

A. Price Cap Wire Centers

- Price cap study areas would be grouped in one mechanism for loop support—the BCS.
- Rather than support the entire cost of local service, BCS support will be calculated only based on forward-looking loop costs.
- The loop is the primary factor causing costs to be high in a low-density area (and low in a high-density area). Ideally, support would be distributed on the basis of household density.
- The Commission can use the current loop output from the Hybrid Cost Proxy Model (HCPM) as a proxy for household density. This is sensible because the primary factor that model uses to determine the cost of providing a loop is line density, and line density is highly correlated with household density on a static basis.
- Support would be frozen for a five-year period without regard to changes in the number of lines served, and then reassessed every five years thereafter.

B. Rate-of-Return (ROR) Study Areas

- The existing rural high cost loop support mechanism would remain unchanged for the ROR carriers that remain in the fund. Similarly, support to rate of return carriers would be unaffected by the creation of the BCS.
- Non-rural ROR carrier study areas would be moved to the rural high-cost loop support mechanism, which would be renamed the Rate-of-Return Support mechanism.
- If a ROR carrier coverts to price-cap, the overall size of support to rate-of-return study areas would be reduced by the amount of support distributed to (now) price cap study areas that are moved out of the fund to the BCS. This would not affect support to the remaining carriers.
- If additional study areas are converted to price cap regulation in the future, they would be moved to the BCS from the rural high-cost loop fund, and the amount of support available for the rural high cost loop fund would be reduced commensurately. Once again, this would not affect support to the remaining carriers.

C. Support for Access Replacement, Switching, etc.

- With the exception of wireless access replacement dollars moved to the BCS, the current access replacement mechanisms (IAS and ICLS), and support for local switching (LSS) would remain subject to the current rules (including the recent CETC Cap decision to the extent it still applies).

IV. HOW SUPPORT IS CALCULATED

A. The BCS Would Initially Distribute Approximately $1 Billion

- As explained below, this total would come from current USF mechanisms; no new money would be added to overall USF as shown in Table 1.
- Even as overall USF does not grow, the BCS portion of overall USF could increase, but only if additional study areas are moved from the rate-of-return high-cost loop mechanism to the new BCS.
- Otherwise, BCS support would be capped (so that there would be no increase in support due to increasing costs for current providers unless implemented through Commission action).

B. Support Would Be Calculated on a Wire Center Basis

- The Commission would calculate and distribute support on a wire center basis.
- Where population densities are low, as is the case in areas needing USF support, wire centers are competitively neutral in practice. All telecommunications networks are built around population centers, so they share common characteristics in low-density areas with few town centers.
- Moreover, most telecommunications (wireless and wireline) and cable networks have similar or even common transport networks in lower density areas.

C. A Proxy for Wire Center Density Would Be Used to Distribute Support

- The need for support under the BCS would be determined initially by comparing a proxy for household density in a wire center to a benchmark density, and distributing support to the wire centers with densities below the benchmark.
- The Commission currently has output showing estimated wire center loop costs in the Hybrid Cost Proxy Model, which could be used as a reasonable one-time proxy for household density.
- Estimated loop costs in the HCPM are highly dependent on the reported loop densities which, in turn, are highly correlated with household density.
- Accordingly, to facilitate implementation, the BCS would use the loop cost estimates in the Hybrid Cost Proxy Model currently used by the Commission as a proxy for household density.
- This calculation is currently produced by the HCPM; no adjustments to the model are needed.
- Because the total amount to be distributed through the BCS would be capped (initially at approximately $1 billion and increased when additional study areas are added), the HCPM would be used only to estimate *relative* support and not actual support. This should reduce the concerns with using a model.

- Future support level assessments could be done (every five years) using a superior model (e.g., CostQuest's model) or some other mechanism.

D. Each Wire Center Would Receive Support Based on the Difference Between Its Density and a Benchmark Density.

- A benchmark would be calculated to produce an approximately $ 1 billion dollar fund when paying out 75% of the difference between the calculated wire-center loop cost and the benchmark, multiplied by the number of lines in the wire center.
- Each wire center would then receive the same amount of support going forward for a five-year period. Support would neither increase nor decrease with changes in the number of lines served. This is consistent with the underlying network costs associated with carrier-of-last resort service, which are borne equally without regard to whether customers switch providers.
- Support levels would be re-evaluated every five years.
- After implementation of the wire-center methodology, the Commission could investigate the possibility of calculating support on an even more granular basis to achieve greater precision.

E. Competitive ETC Support Would Be a Share of the Wire Center Total

- Where there is one CETC that meets all the requirements, the BCS support for the wire center will be divided equally between the ILEC and the CETC.
- Where there is more than one CETC that meets all the requirements, the BCS support for the wire center will be the amount set by the designating authority (i.e., state commission or FCC) through the selection process, such as an RFP review or an auction.
- In any event the CETC will receive no more than one-half of the support available to the wire center.
- Rather, competitive ETCs would be eligible for support under the new BCS mechanism and, in the aggregate, they could receive most of the support they receive today in addition to continuing to receive their capped amount of support through the rural high-cost loop support mechanism (or its successor).

V. WHERE THE MONEY COMES FROM

The approximately $1 billion would be funded by adding (1) access replacement funding currently received by wireless carriers to (2) the current Non-Rural Mechanism and (3) High-Cost Loop (Rural) Support funding in price cap study areas. This is shown on Table 1, which provides estimates based on Embarq's analysis of year-end 2007 receipts and distributions.

TABLE 1: ESTIMATED AMOUNTS FROM EACH FUNDING SOURCE

Source	Current Amount (approx)
High-Cost Model (Non-Rural) (incl. CETCs)	$346,000,000
High-Cost Loop (Rural) (incl. CETCs)	$101,000,000
Interstate Common Line Support to Wireless	$406,000,000
Interstate Access Support to Wireless	$141,000,000
Total	$994,000,000

Notes for Tables 1-3:

- All figures in these tables are estimates and are presented for illustrative purposes only. If the BCS were implemented, USAC would use actual figures.
- All estimates are based on year-end 2007 figures from the Universal Service Monitoring Report.
- All figures are rounded and, accordingly the components may not add up to the total due to rounding errors.
- Embarq does not provide an estimate for the price cap wire centers in Puerto Rico in this filing although they would qualify for support under the BCS. Should the Commission adopt the BCS, Puerto Rico Telephone (PRT) should submit its line counts by wire center and the HCPM should be adjusted to measure wire center loop costs appropriately. Any wire centers that qualify for support will be included among the recipients of support from the BCS, and other recipients will see their totals adjusted accordingly.

TABLE 2: ESTIMATED DISTRIBUTION BY WIRE CENTER

Wire Centers Grouped by the Serving Price-Cap Regulated Carrier	Approximate Support Available to ILEC and CETC (if any) Serving the Wire Center
Verizon	$ 227,000,000
AT&T	$ 216,000,000
Windstream	$ 148,000,000
Frontier (excluding Rate of Return areas)	$ 107,000,000
Embarq	$ 101,000,000
Qwest	$ 78,000,000
Century (excluding Rate of Return areas)	$ 58,000,000
Iowa Tel	$ 27,000,000
Fairpoint	$ 27,000,000
Consolidated	$ 5,000,000
Cincinnati	$ 500,000
Hawaiian Tel	$ 300,000
	$ 994,000,000

TABLE 3: ESTIMATED DISTRIBUTION BY STATE

State	Loop/Model Support	Wireless Access Replacement	Current Total Affected Support	Proposed BCS Support
Alaska	$ -	$ 30,000,000	$ 30,000,000	$ -
Alabama	$ 47,000,000	$ 8,000,000	$ 54,000,000	$ 34,000,000
Arkansas	$ 800,000	$ 12,000,000	$ 12,000,000	$ 26,000,000
Arizona	$ 6,000,000	$ 5,000,000	$ 12,000,000	$ 15,000,000
California	$ 10,000,000	$ 900,000	$ 11,000,000	$ 48,000,000
Colorado	$ 1,000,000	$ 3,000,000	$ 5,000,000	$ 8,000,000
Connecticut	$ -	$ -	$ -	$ 400,000
DC	$ -	$ -	$ -	$ -
Delaware	$ -	$ -	$ -	$ 200,000
Florida	$ 200,000	$ 16,000,000	$ 16,000,000	$ 13,000,000
Georgia	$ 7,000,000	$ 7,000,000	$ 13,000,000	$ 27,000,000
Hawaii	$ -	$ 11,000,000	$ 11,000,000	$ -
Iowa	$ -	$ 24,000,000	$ 24,000,000	$ 32,000,000
Idaho	$ 4,000,000	$ 1,000,000	$ 6,000,000	$ 18,000,000
Illinois	$ 3,000,000	$ 1,000,000	$ 4,000,000	$ 41,000,000
Indiana	$ -	$ 5,000,000	$ 5,000,000	$ 24,000,000
Kansas	$ 9,000,000	$ 26,000,000	$ 35,000,000	$ 22,000,000
Kentucky	$ 17,000,000	$ 12,000,000	$ 29,000,000	$ 29,000,000
Louisiana	$ -	$ 21,000,000	$ 21,000,000	$ 19,000,000
Massachusetts	$ -	$ -	$ -	$ 2,000,000
Maryland	$ -	$ -	$ -	$ 2,000,000
Maine	$ 5,000,000	$ 6,000,000	$ 11,000,000	$ 13,000,000
Michigan	$ -	$ 9,000,000	$ 9,000,000	$ 23,000,000
Minnesota	$ 100,000	$ 20,000,000	$ 20,000,000	$ 18,000,000
Missouri	$ 10,000,000	$ 3,000,000	$ 13,000,000	$ 72,000,000
Mississippi	$ 198,000,000	$ 20,000,000	$ 218,000,000	$ 41,000,000
Montana	$ 21,000,000	$ 3,000,000	$ 23,000,000	$ 10,000,000
North Carolina	$ -	$ 9,000,000	$ 9,000,000	$ 22,000,000
North Dakota	$ -	$ 17,000,000	$ 17,000,000	$ 4,000,000
Nebraska	$ 11,000,000	$ 20,000,000	$ 31,000,000	$ 14,000,000
New Hampshire	$ -	$ 200,000	$ 200,000	$ 5,000,000
New Jersey	$ -	$ -	$ -	$ -
New Mexico	$ 600,000	$ 6,000,000	$ 6,000,000	$ 17,000,000
Nevada	$ 700,000	$ 4,000,000	$ 5,000,000	$ 15,000,000
New York	$ 2,000,000	$ 5,000,000	$ 7,000,000	$ 31,000,000
Ohio	$ 200,000	$ -	$ 200,000	$ 26,000,000
Oklahoma	$ 5,000,000	$ 9,000,000	$ 15,000,000	$ 22,000,000
Oregon	$ 200,000	$ 11,000,000	$ 11,000,000	$ 12,000,000
Pennsylvania	$ 300,000	$ 1,000,000	$ 2,000,000	$ 37,000,000
Rhode Island	$ -	$ -	$ -	$ -
South Carolina	$ -	$ -	$ -	$ 9,000,000
South Dakota	$ 2,000,000	$ 13,000,000	$ 16,000,000	$ 4,000,000
Tennessee	$ -	$ 500,000	$ 500,000	$ 14,000,000
Texas	$ 24,000,000	$ 18,000,000	$ 42,000,000	$ 90,000,000
Utah	$ 900,000	$ 300,000	$ 1,000,000	$ 8,000,000
Virginia	$ 600,000	$ 16,000,000	$ 17,000,000	$ 40,000,000
Vermont	$ 11,000,000	$ 2,000,000	$ 13,000,000	$ 9,000,000
Washington	$ 2,000,000	$ 25,000,000	$ 26,000,000	$ 16,000,000
Wisconsin	$ 500,000	$ 28,000,000	$ 29,000,000	$ 18,000,000
West Virginia	$ 34,000,000	$ 4,000,000	$ 38,000,000	$ 36,000,000
Wyoming	$ 14,000,000	$ 7,000,000	$ 21,000,000	$ 5,000,000
Puerto Rico	$ -	$ 102,000,000	$ 102,000,000	$ -
Total				$ 994,000,000