

# The Universal Service Fund

## Problems with USF

- Contributions Mechanism
- Inefficient, Duplicative Support
- Questionable Support Needs
- Not Modernizing in Face of Massive Change

# The Universal Service Fund

## What's the Monthly Per-Line Support?

All Study Areas

High Cost Program	Annual Cost (est. 2008)	Supported Lines*	Average Monthly Per Supported Line Cost+	Median Monthly Per Supported Line Cost+	95th Percentile Monthly Per Supported Line Cost+	99th Percentile Monthly Per Supported Line Cost+
High Cost Loop (HCL)	\$1,477,563,492	10,840,029	\$11.36	\$6.93	\$36.35	\$75.34
Safety Net Additive (SNA)	\$42,759,408	2,435,303	\$1.46	\$1.22	\$3.88	\$5.05
Safety Valve Support (SVS)	\$1,021,668	155,627	\$0.55	\$0.63	\$1.88	\$3.51
Local Switching Support (LSS)	\$475,096,980	10,669,574	\$3.71	\$2.58	\$9.14	\$18.32
Interstate Common Line Support (ICLS)	\$1,590,115,596	17,182,963	\$7.71	\$6.10	\$17.90	\$34.75
Interstate Access Support (IAS)	\$686,574,504	119,721,063	\$0.48	\$0.20	\$1.62	\$3.99
High Cost Model Support#	\$348,559,066	11,840,589	\$2.45	\$1.17	\$6.40	\$6.51
All High Cost Fund Support	\$4,621,690,721	149,423,648	\$2.58	\$0.31	\$11.49	\$34.52

Non-Rural Study Areas						
High Cost Program (Carriers Operating in Non-Rural Study Areas)	Annual Cost (est. 2008)	Supported Lines*	Average Monthly Per Supported Line Cost+	Median Monthly Per Supported Line Cost+	95th Percentile Monthly Per Supported Line Cost+	99th Percentile Monthly Per Supported Line Cost+
High Cost Loop (HCL)	\$0	0	\$0.00	\$0.00	\$0.00	\$0.00
Safety Net Additive (SNA)	\$0	0	\$0.00	\$0.00	\$0.00	\$0.00
Safety Valve Support (SVS)	\$0	0	\$0.00	\$0.00	\$0.00	\$0.00
Local Switching Support (LSS)	\$0	0	\$0.00	\$0.00	\$0.00	\$0.00
Interstate Common Line Support (ICLS)	\$266,197,320	3,870,828	\$5.73	\$6.10	\$6.32	\$6.89
Interstate Access Support (IAS)	\$511,944,624	109,360,919	\$0.39	\$0.19	\$1.40	\$2.62
High Cost Model Support#	\$348,559,066	11,724,175	\$2.48	\$1.17	\$6.40	\$6.51
All High Cost Fund Support for Non-Rural Only Study Areas	\$1,126,701,017	126,215,134	\$0.74	\$0.17	\$5.15	\$7.04
Rural Study Areas						
High Cost Program (Carriers Operating in Rural Study Areas)	Annual Cost (est. 2008)	Supported Lines*	Average Monthly Per Supported Line Cost+	Median Monthly Per Supported Line Cost+	95th Percentile Monthly Per Supported Line Cost+	99th Percentile Monthly Per Supported Line Cost+
High Cost Loop (HCL)	\$1,477,563,492	10,840,029	\$11.36	\$6.93	\$36.35	\$75.34
Safety Net Additive (SNA)	\$42,759,408	2,435,303	\$1.46	\$1.22	\$3.88	\$5.05
Safety Valve Support (SVS)	\$1,021,668	155,627	\$0.55	\$0.63	\$1.88	\$3.51
Local Switching Support (LSS)	\$475,096,980	10,669,574	\$3.71	\$2.58	\$9.14	\$18.32
Interstate Common Line Support (ICLS)	\$1,323,918,276	13,312,135	\$8.29	\$6.52	\$20.01	\$38.51
Interstate Access Support (IAS)	\$174,629,880	9,774,769	\$1.49	\$0.98	\$4.52	\$9.27
High Cost Model Support#	\$0	0	\$0.00	\$0.00	\$0.00	\$0.00
All High Cost Fund Support for Rural Only Study Areas	\$3,494,989,704	23,800,599	\$12.24	\$4.85	\$43.75	\$99.72

## The Universal Service Fund

### What's the Monthly Per-Line Support?

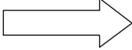
All Carriers				
Amount of High Cost Support Per Line is...	Number of Lines	Percent of All Supported Lines*	Total Annual High Cost Support	Percent of High Cost Fund
Less than \$10 Per Month	140,480,041	94.0%	\$1,851,907,533	40.1%
Less than \$20 Per Month	145,481,992	97.4%	\$2,678,263,068	57.9%
Less than \$30 Per Month	147,526,129	98.7%	\$3,275,332,660	70.9%
Less than \$40 Per Month	148,195,881	99.2%	\$3,549,867,485	76.8%
Less than \$50 Per Month	148,659,840	99.5%	\$3,797,848,493	82.2%
Less than \$60 Per Month	148,893,982	99.6%	\$3,952,949,669	85.5%
Less than \$75 Per Month	149,099,449	99.8%	\$4,118,967,737	89.1%
Less than \$100 Per Month	149,227,811	99.9%	\$4,252,282,001	92.0%
Less than \$500 Per Month	149,419,859	100.0%	\$4,565,940,761	98.8%
Less than \$1000 Per Month	149,420,550	100.0%	\$4,571,440,145	98.9%
Less than \$1433 Per Month	149,423,648	100.0%	\$4,621,690,721	100.0%

## Consumer Groups' HCF Reform Discussion Proposal

- 5-Year Phase-out/Phase-in Scheme
  - All Support for Study Areas with Lines Requiring Less than \$30 per month will be phased-out over a 5-year period (retail rates offset)
  - These Funds will be used to Fund Broadband Buildout Over a 10-Year Period
  - After 10-Years total Fund is Phased Down, with Only Minimal Ongoing Support for Broadband in "Very" High Cost Areas
  - Funds will Be Awarded in a RFP Process
  - Competition via Access Policy

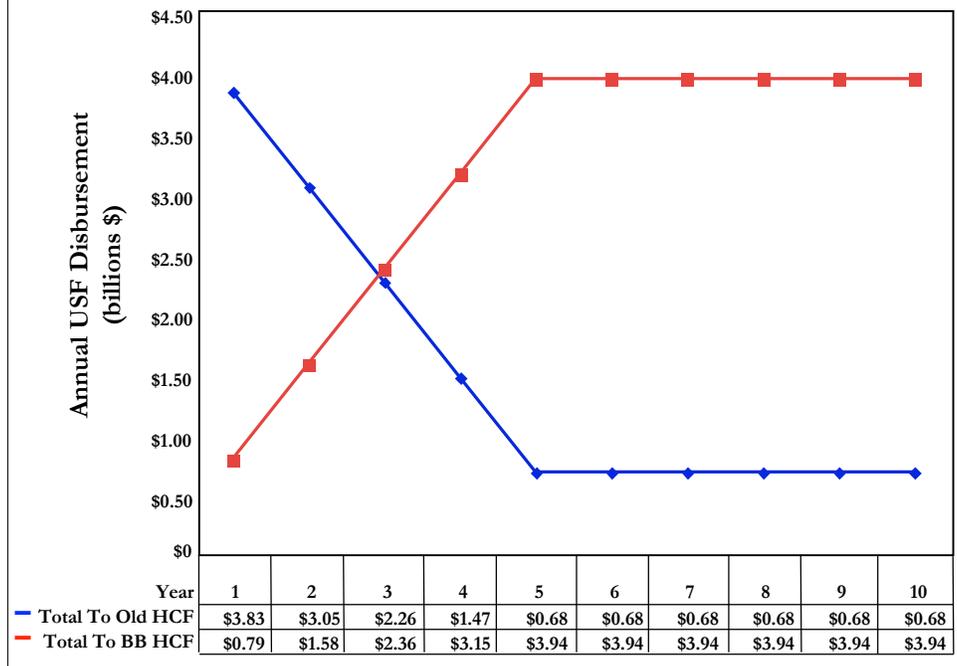
## Consumer Groups' HCF Reform Discussion Proposal

- New Broadband HCF Should Support "Future-Proof" Technology
- We Suggest a minimum of 5Mbps Symmetrical, Low-Latency, Scaleable
- Technology Neutral Otherwise, but we tie our cost estimates to Fiber-To-The-Home

6-8 million homes,  
\$2000-\$5000 per home (build)  \$30B over 10 yrs

10% of the build cost  
per year for O&M  
(~\$17-\$40 per month)  Mostly Covered by  
Margins on  
Triple Play

## Consumer Groups' HCF Reform Discussion Proposal



## Consumer Groups' HCF Reform Discussion Proposal

- Question of Also Supporting "Mobility" Remains,
  - The Act Really Didn't Envision Today's World of Mobile Wireless as a Complementary Product
- What is the True Need For Mobility Support?
  - Mobile Carriers Receive Support based on ILEC's Cost ("identical support rule") & are not rate-regulated
  - Only 250,000 U.S. Household Are Located in Census Blocks Not Served by Any Mobile Carrier
  - 98 Percent of the Customers who live in Areas Served by a Subsidized Wireless Carrier Also Have Service Available from One or More Unsubsidized Wireless Carriers

## Other Issues

### Transport Costs to Backbone

- Rural Carriers face Transport Charges far above Cost
- Without Regulatory Oversight  
We Could See Another Digital Divide:

### Contribution Reform

- Because Broadband is still a Developing Technology Market, Consumers are More Sensitive to Price Increases
- Including Broadband in the Contribution Base Could Actually Lead to a Decline in Rural Broadband Penetration

## Other Issues

Modeling The Impact of Joint Board & FCC USF Reform Proposals on U.S. Residential Broadband Subscribership	Scenario I: \$300M BB Fund		Scenario II: \$1B BB Fund	
	Urban Areas	Rural Areas	Urban Areas	Rural Areas
Total Size of USF (fixed)	\$7,200,000,000	\$7,200,000,000	\$7,200,000,000	\$7,200,000,000
Size of Broadband High Cost Fund (fixed)	\$300,000,000	\$300,000,000	\$1,000,000,000	\$1,000,000,000
Number of "Lines" (LEC, Wireless, Broadband)	462,000,000	462,000,000	462,000,000	462,000,000
Per Line USF Fee (\$/mo.)	\$1.30	\$1.30	\$1.30	\$1.30
Demand Elasticity	-0.50	-1.00	-0.50	-1.00
Initial Price (\$/mo.)	\$35	\$35	\$35	\$35
Initial Subscribing Homes	50,775,000	9,072,000	50,775,000	9,072,000
Tax rate (based on per-line USF fee)	4%	4%	4%	4%
New Price (\$/mo.)	\$36.30	\$36.30	\$36.30	\$36.30
Subscribing Homes after New Tax	49,832,978	8,735,377	49,832,978	8,735,377
Initial Subscribing Homes Lost	942,022	336,623	942,022	336,623
Cost to Wire a Rural Home w/ BB	N/A	\$3,000	N/A	\$3,000
New Homes Passed by BB with these Funds	0	100,000	0	333,333
Take-Up Rate for these New Homes Passed	N/A	60%	N/A	60%
New Subscribing Homes Added	N/A	60,000	N/A	200,000
Net Broadband Subscribing Homes Added	(942,022)	(276,623)	(942,022)	(136,623)
Net Broadband Subscribing Homes Added (Combined Urban and Rural)	(1,218,646)		(1,078,646)	