NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION
The Voice of Rural Telecommunications
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August 26, 2011

***Ex Parte* Notice**

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

***Connect America Fund,* WC Docket No. 10-90; *A National Broadband Plan for Our Future,* GN Docket No. 09-51; *Establishing Just and Reasonable Rates for Local Exchange Carriers,* WC Docket No. 07-135; *High-Cost Universal Service Support*, WC Docket No. 05-337; *Developing* a *Unified Intercarrier Compensation Regime*, CC Docket 01-92**

Dear Ms. Dortch:

On August 18, 2011, Shirley Bloomfield, Chief Executive Office of NTCA, and I spoke by telephone with Christine Kurth of Commissioner Robert M. McDowell's office in regard to the above-captioned dockets. Notice of that meeting was provided to the Commission on August 19, 2011. On August 24, 2011, I responded to Ms. Kurth's request, made during our August 18, 2011, telephone call, for a summary of the key points of NTCA's positions regarding Universal Service Fund and Intercarrier Compensation reform proposals. In that regard, the attached document was provided.

Pursuant to Section 1.1206 of the Commission's rules, a copy of this letter is being filed via ECFS with your office. Please do not hesitate to contact me at (703) 351-2035 or jseidemann@ntca.org if you have any questions or require additional information.

Respectfully submitted,

/s/ Joshua Seidemann
Joshua Seidemann

Director of Policy

cc: Christine Kurth

RLEC USF and ICC Reform Proposal
To be applicable to Rural Rate-of-Return Carriers

<u>Step One:</u>

Implement short-term ICC reform measures that confirm intercarrier compensation is due for all traffic originating from or terminating to the PSTN regardless of technology: VoIP pays established interstate access rates for all interexchange traffic and reciprocal compensation for local ;

Address "phantom traffic" problems: *phantom traffic rules would preclude the use of intermediate numbers to disguise a toll call as local for purposes of avoiding access charges.*

Deter artificial and uneconomic traffic stimulation.

<u>Step Two</u>

Effective January 1, 2012, implement short-term USF Reform measures on a prospective basis.

- Impose a limitation on recovery of prospective RLEC capital expenditures based on analyses of booked study area costs, to determine the portion of a carrier's loop plant that has reached the end of its useful life.
- Cap recovery of corporate operations expenses by applying the current HCLS corporate operations expense cap formula to all federal high cost support mechanisms .

<u>Step Three</u>

Cap interstate originating and terminating access rates, and implement 8-step rate realignment program:

Steps 1 and 2:Unify RLEC intrastate terminating access rates at interstate levels in 2 steps (including all transport and all switching).

- *Steps 3 to 5:* Reduce RLEC terminating local switching rates to $.005 per minute in 3 equal installments. Transport and tandem switching rates for RLECs would remain at the interstate levels reached at the end of Step 2. At Step 5, an FCC proceeding determines if the continued transition should be slower or faster.

- *Steps 6 to 8*: Unless the FCC determines otherwise, terminating local switching rates would be reduced to $.0007 per minute in 3 equal installments for RLECs. Transport and tandem switching rates for RLECs would remain at the interstate levels reached at the end of Step 2.

- Implement federal local service rate benchmark of $25, reached by annual increases of $.75 per line in the monthly SLC cap (which may be imputed) for up to 6 years (or less once $25 is reached).

- ***<u>ICC rate reductions will be deferred in any year in which, for any reason,</u> there is insufficient high-cost support and/or restructure mechanism funding available .***

- An annual regulated intrastate earnings test will be applied to ensure that any company earning more than 10% on intrastate regulated services has the intrastate portion of its restructure mechanism reduced to the extent it is in excess of 10%.

- A "rural transport rule" shall be implemented to ensure that RLECs are not required to transport originating traffic beyond existing meet-points.

Step Four:

Implement an RLEC-specific CAF mechanism designed to re-focus existing RLEC USF support on broadband. Support under existing high-cost mechanisms, including HCLS and ICLS, decline as CAF support phases in.

1. Start with today's interstate revenue requirements.

2. Add support for "Middle Mile" facilities.

3. Revise the separations rules so as to gradually increase last-mile interstate cost allocations based on each company's individual broadband adoption rates, transitioned in over a series of years.

4. Compute RLEC CAF broadband funding amounts by subtracting the product of an urban broadband transmission cost benchmark times broadband lines in service, from actual RLEC network broadband transmission costs. Broadband transmission costs include last mile, second mile, middle mile and Internet connection costs.

Recover remaining interstate costs (i.e., those not recovered via RLEC CAF support, transitional ICLS, and current LSS or its CAF replacement) via a combination of end-user and other customer charges. These would include today's SLCs, switched access charges (to the extent these charges continue to apply under ICC reform), and special access charges, including charges for wholesale broadband services.

- The authorized interstate rate-of-return shall be ten percent (10%).

- Incremental broadband build-out commitments shall be limited to an individual RLEC's ability to receive incremental USF/CAF support for new investment based upon the capital investment constraints and "budget targets" adopted by the FCC.

Post-Implementation:

Following initial implementation of the RLEC Reform Plan, the Commission should revisit results and consider the need for further modifications in 3 to 5 years.

Overarching parameters:

- The FCC shall not impose a "hard cap" by rule on high-cost support. Rather, the Consensus Framework has been designed to constrain the size of the total High Cost program within a $4.5 billion annual budget. The budget period would begin in 2012 and end in 2017.

- The "funding target" for areas served by RLECs is $2B in combined USF and restructure mechanism support at the start of year 1, and grows to $2.3B in combined USF and restructure mechanism support by year 6.

- After 2017, there would be no set budget for High Cost USF. Instead, the USF would revert to simply ensuring that sufficient support is available based upon the requirements of "universal service" irrespective of a specific budget target. However, if the FCC believed any budget target limitations were necessary going forward, it would first have to determine the level of funding necessary to satisfy the objectives and requirements of universal service under the Communications Act.

- AT&T and Verizon will defer their model-based CAF support for up to two years to satisfy RLEC or other carrier USF/restructure mechanism needs during the budget period.

- ***Mobility:*** The framework contemplates an annual funding target of $300 million for mobile broadband services.

- ***Price-cap carriers:*** The framework proposes an annual funding target of $2.2 billion for areas served by price cap carriers.

Other specific responses to certain FCC proposals

  - HCLS reimbursement percentages should remain: change would redistribute support to lower cost areas and larger companies
  - Recovery of corporate operation expenses should remain: avoids +$37 per line impact for 471 RLECs
  - Safety additive support can be modified, should not be eliminated
  - LSS should neither be eliminated nor combined with HCLS
  - Refrain from imposing per-line cap-ex cap; enable waiver

- Mandatory disaggregation should be rejected
  - Administrative costs with questionable benefit
  - Alternative: identify un-served areas, then determine whether disaggregation would be useful
  - Elimination of averaging could balloon fund

- “Donut/hole” processes should be constrained
  - Strict parameters to find competition
  - Define “unsubsidized competitor”
    - ETC
    - Able to deliver broadband and voice as stand-alone and over own facilities to 95 percent of area
    - Neither receive USF nor cross subsidize
- Support phase-out of “identical support” rule
- Support modifications to study area waiver process
- Support elimination of parent trap rule, with modifications
  - Reduce waiting period from five to two years
  - Form 477 and Broadband Map speeds should be rebuttable presumption, carriers permitted to demonstrate different findings