

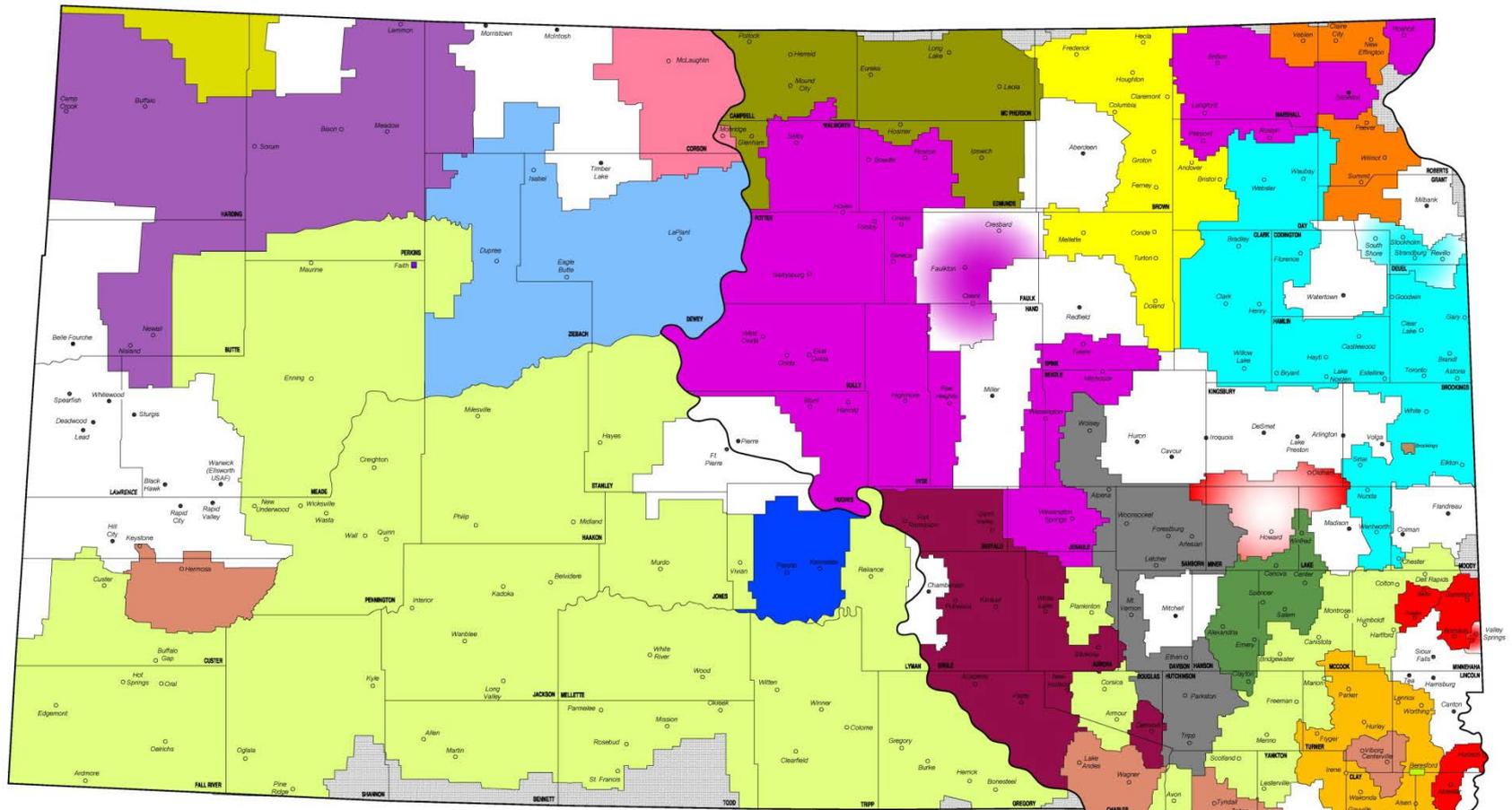
# **USF and ICC Reform**

## **The SDTA Perspective**



South Dakota  
Telecommunications Association  
Who are we?

- 25 incumbent local exchange carriers
  - 12 member-owner cooperatives
  - 5 cooperative owned companies
  - 4 privately-owned companies
  - 3 municipal companies
  - 1 tribal authority



## South Dakota Telecommunications Companies Service Area Map



- |   |  |  |   |  |
|---|--|--|---|--|
| <ul style="list-style-type: none"> <li><span style="color: red;">■</span> Alliance Communications Cooperative, Inc.</li> <li><span style="color: red;">■</span> Hills Telephone</li> <li><span style="color: red;">■</span> Splitrock Properties</li> <li><span style="color: green;">■</span> Beresford Municipal Telephone Company</li> <li><span style="color: blue;">■</span> Cheyenne River Sioux Tribe Telephone Authority</li> <li><span style="color: yellow;">■</span> Consolidated Telephone Company</li> </ul> | <ul style="list-style-type: none"> <li><span style="color: purple;">■</span> Faith Municipal Telephone Company</li> <li><span style="color: orange;">■</span> Fort Randall/Mt. Rushmore Telephone Company</li> <li><span style="color: lightgreen;">■</span> Golden West Telecommunications</li> <li><span style="color: cyan;">■</span> Interstate Telecommunications Cooperative, Inc.</li> <li><span style="color: cyan;">■</span> Stockholm-Strandburg Telephone Co.</li> <li><span style="color: yellow;">■</span> James Valley Telecommunications</li> </ul> | <ul style="list-style-type: none"> <li><span style="color: blue;">■</span> Kennebec Telephone Company, Inc.</li> <li><span style="color: yellow;">■</span> Knology Community Telephone</li> <li><span style="color: green;">■</span> Long Lines</li> <li><span style="color: brown;">■</span> Midstate Communications</li> <li><span style="color: darkred;">■</span> Roberts Co. Telephone Cooperative / RC Comm.</li> <li><span style="color: grey;">■</span> Santel Communications Cooperative</li> </ul> | <ul style="list-style-type: none"> <li><span style="color: brown;">■</span> Swiftel Communications</li> <li><span style="color: green;">■</span> TrioTel Communications, Inc.</li> <li><span style="color: olivegreen;">■</span> Valley Telecommunications Cooperative</li> <li><span style="color: magenta;">■</span> Venture Telecommunications Cooperative</li> <li><span style="color: pink;">■</span> Western Telephone Company</li> </ul> | <ul style="list-style-type: none"> <li><span style="color: purple;">■</span> West River Cooperative Telephone Company</li> <li><span style="color: pink;">■</span> West River Telecommunications Cooperative</li> <li><span style="color: pink;">■</span> Nonmember Telecommunications Companies</li> <li><span style="border: 1px solid black; display: inline-block; width: 10px; height: 10px;"></span> CenturyLink</li> <li><span style="border: 1px solid grey; display: inline-block; width: 10px; height: 10px;"></span> Other Companies</li> </ul> |
|---|--|--|---|--|

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# South Dakota Telecommunications Association

## Who are we?

- Our members collectively:
  - **Serve approx.. 80% of South Dakota (service areas cover more than 62,000 square miles)**
  - Serve approx.. 135,000 access lines
  - Own more than 21,000 miles of buried fiber optic line
  - **Supply broadband service to more than 250 communities (most with populations of less than 1,000)**
  - Offer digital video to more than 80 communities
  - Provide wireless broadband in select areas

# South Dakota Telecommunications Association Who are we?

- **Mostly serve small towns and rural areas**
  - Largest communities we serve are:
    - Brookings (pop. 18,504)
    - Brandon (pop. 5,693)
    - Hot Springs (pop. 4,129)
- **Population density of areas served by SDTA member: approx. 3 people/sq. mile**
  - 11 counties have less than 2 people/sq. mile
- **West River Telecom, Bison, SD - Service area of 6,209 square miles (28% larger than Connecticut)**
  - 3,687 access lines
  - 0.59 lines per square mile

# SDTA Member Company Information

- SD rural ILECs have deployed extensive broadband network facilities throughout their service areas – almost 100% of customers within such service areas have broadband Internet access
- A variety of broadband delivery technologies have been deployed: DSL, Fiber-Coax cable modem technologies, FTTH, terrestrial fixed wireless technologies
- Successes have been achieved based on long-term commitments to network investment – approx.. \$133 million in 2008 and 2009, and estimated amount of \$92 million in 2010 and 2011

# SDTA Member Company Information

- As of year-end 2009, the Total Plant in Service (including plant attributable to both regulated and non-regulated service operations) for the SD rural ILECs exceeded \$1.14 billion
- The long term debt as of year-end 2009, included approx.. \$269 million in RUS federal financed bank loans and approx.. \$70 million in other bank loans
- Almost all of the rural ILECs in South Dakota are locally owned and based within the rural communities they serve

# SDTA Member Company Information

- SDTA member companies and their affiliated entities employ in excess of 1,200 workers in South Dakota
- Many of the SDTA member companies are owners and members of the SDN Communications statewide backbone telecommunications network

# SDTA Member Company Information

- As owners and members of SDN, the companies provide high-speed backbone and last mile connectivity to hundreds of businesses and community anchor institutions throughout South Dakota (state and county government offices, law enforcement agencies, state radio towers, K-12 educational institutions, higher education institutions, health care sites, financial services, and wireless towers, etc.)



## NPRM on USF and ICC

**NPRM proposals would  
have substantial adverse  
impacts on South Dakota's  
rural carriers and  
customers**

# Impact of FCC Proposals?

- In 2010, High Cost USF to SDTA member LECs:
  - HCL – \$29,169,700
  - ICLS – \$25,758,588
  - LSS – \$ 6,352,829
  - SNA – \$ 2,398,551
  - SVS – \$ 41,436
- Total ROR LEC High Cost Support – \$63,721,104
- Total SD High Cost Support – \$90,096,495

# Impact of FCC Proposals?

- Presently, the SD rural ILECs receive, on average, 24% of their total regulated revenues from federal universal service support and 28% of total regulated revenues from inter-carrier compensation (including special access revenue)
- As of year-end, 2009 local service rates, including SLCs, averaged \$21.14 (based on responses representing 83% of SDTA member company access lines)

# Impact of FCC Proposals?

- If all near-term proposals for reforming high cost USF were adopted by FCC, an analysis of 11 of the rural cost company study areas in SD (representing 73,890 working loops) indicates that the average reduction in high cost funding to SDTA member company ILECs would be approx. 20%
- This reduction would result in an average per access line, per month support loss of \$10.53 cents (for some individual companies this amount would be significantly higher)

# Impact of FCC Proposals?

- The FCC's ICC reform proposals, absent an offsetting rate "Restructure Mechanism" would substantially reduce total SD rural ILEC revenues
- Adoption of a "bill and keep" mechanism and the resulting total elimination of switched inter-carrier compensation would result in an estimated total revenue loss to SD rural ILEC group of over \$37 million (\$37,247,577) (reflects data from 23 of 25 SDTA members)
- This loss calculated on a per line basis would, on average, be approx. \$24.27 per line (for some individual companies this amount would be significantly higher)

# Impact of FCC Proposals?

- SDTA supports proposals aimed at lowering originating and terminating intrastate switched access rates to interstate rate levels, coupled with an adequate federal “Restructure Mechanism”
- SDTA estimates that the total loss in intrastate access revenues resulting from any such action would be almost \$13 million annually (\$12,953,735)
- This amount calculated on a per line basis would, on average, be \$8.44 per line, per month (for some individual companies this amount would be significantly higher)

# “Rural Group” Alternative Proposals

- The Rural Group (NTCA, OPASTCO, WTA) plan, as modified by recently filed “Consensus Framework,” proposes measured and reasonable alternative approaches
- These alternatives provide clear and predictable rules for recovery of future investment costs and at the same time help control the pace of funding growth and provide incentives for efficient investment
- Rural carriers which have made investments under current rules are under the Rural Group proposals given a reasonable opportunity to recover past regulated investments

# “Rural Group” Proposals

- Reflect substantial compromise:
  - Commitment to maintaining total high cost funding within a budgeted target amount of \$4.5 billion (for at least 5 years)
  - Commitment to keep ROR ILECs total high cost fund at levels approximating current total (approx. \$2 billion), with transition of up to an additional \$300 million (after 6 years) for Restructure Mechanism (RM) support
  - Generally, any additional RM support needed would be derived from savings resulting from other high cost funding reforms

# “Rural Group” Proposals

- “Consensus Framework” modifications do not address originating access charges
- ICC Reform proposals substantially rely on imposition of a local rate benchmark and SLC increases
- RM support would also be tied to an intrastate earnings test
- Broadband rate benchmark would be applied in Connect America Fund distribution formula

# “Rural Group” Proposals

- Efficiency concerns addressed through:
  - Adjustment to rate of return percentage (lowered to 10%)
  - Application of corporate operations expense caps to other legacy support mechanisms (HCLS, LSS, and ICLS)
  - Application of a capital expenditure constraint designed to limit amount of annual capital investment that will be eligible for universal service support