



# Summary of USF & ICC Reform Order – Impacts Analysis

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# CAF & ICC REFORM ORDER

- Connect America Fund (CAF) and Intercarrier Compensation (ICC) Reform Order and FNPRM
  - Approved October 27, 2011
  - Released November 18, 2011
  - Order primarily addresses long term ICC and interim USF reform
    - Proposed effective dates beginning in 2012
  - FNPRM primarily addresses long term USF reform

# CAF & ICC REFORM ORDER

- Budget
  - Up to \$4.5B each year
    - \$1.8B for Price Cap carriers
    - \$500M Mobility Fund
    - \$100M Remote Areas Fund
    - \$2.0B for Rate of Return carriers
  - Funding in a given year could be more or less
    - Contribution will not exceed \$4.5B + expenses

# 1. USF REFORM

- Rate of Return Carriers
  - Cap per line support at \$250 a month (equates to \$3,000 annually)
    - Effective 7/1/2012
    - Applies to both ETCs and CETCs
    - Applies to all High Cost Support, excluding CAF ICC support
    - 3 year phase in of cap
      - 7/1/2012 – 6/30/2013 = \$250/line + 2/3 of difference
      - 7/1/2013 – 6/30/2014 = \$250/line + 1/3 of difference
      - 7/1/2014 = No more than \$250/line

## 2.& 3. USF REFORM

- Rate of Return Carriers
  - Safety Net Additive grandfathered or phased out
    - Eligibility a result of 14% increase in TPIS
      - Support grandfathered for the remainder of eligibility period
      - No new support for costs incurred after 2009
    - Eligibility as a result of loss of access lines
      - Support phased out over 2 years
        - » 50% of calculated support in 2012
        - » Support eliminated in 2013

## 4. USF REFORM

- Rate of Return Carriers
  - Unsubsidized Competition Overlap
    - Eliminates support where unsubsidized competitor(s) offer voice and broadband to 100% of the study area
    - Incumbent support phased out over 3 years
      - Support frozen at the lesser of 2010 support or \$3,000/line
      - Support reduced by 33% each year
    - FNPRM seeks comment on process for determining support in study areas with less than 100% overlap

# 5.& 6.USF REFORM

- Rate of Return Carriers
  - Extends Corporate Operations Expense limitation to ICLS, effective 1/1/2012
    - Minor updates to the formula for HCLS & ICLS
      - Loops  $\leq$  6,000 Loops – monthly per loop expense = greater of
        - »  $\$42.337 - (.00328 * \text{working loops})$
        - »  $\$63,000/\text{working loops}$
      - $6,000 \geq$  Loops  $\leq$  17,887 – monthly per loop expense =
        - »  $\$3.007 + (117,990/\text{working loops})$
      - Loops  $\geq$  17,887 – monthly per loop expense =
        - »  $\$9.56$
    - Adjusted by the annual change in GDP-CPI, beginning 1/1/2013

# 7. USF REFORM

- Rate of Return Carriers
  - Reduces HCLS for carriers with artificially low voice rates
    - 3 step phase in beginning 7/1/2012
      - 7/1/2012 – 6/30/2013 = \$10.00
      - 7/1/2013 – 6/30/2014 = \$14.00
      - Thereafter, annually determined by WCB annual survey of voice rates
        - » Current national average = \$15.62
      - Includes state SLC, state USF fees and mandatory EAS
    - Dollar for dollar reduction in HCLS
    - Requires annual submission of rates and fees to USAC

## 8. USF REFORM

- Rate of Return Carriers
  - Eliminate LSS as a separate support mechanism effective 7/1/2012
    - Limited ongoing recovery through ICC recovery mechanism
    - Support frozen at 2011 support levels for 1/1/2012 – 6/30/2012
      - Subject to true up based on actual 2011 operating costs

## 9.& 10. PROPOSED USF REFORM

- Reduction in 11.25% Rate of Return
- Rate of Return Carriers
  - Limitations on capital and operating expenses
    - Implemented no later than 7/1/2012
    - Additional comment as part of FNPRM
      - Regression analysis using publicly available cost, geographic and demographic data
      - Comparison of costs to similarly situated companies
    - Annual publication of capped costs that will be used in place of actual costs that exceed the cap
    - Focused initially on HCLS, but FNPRM directs similar benchmarks for ICLS

# CAPITAL AND OPERATING EXPENSES

Study Area	Study Area Code	2010 SACPL	Proposed Capped 2010 SACPL	Reduction in SACPL	\$ Support Variance	% Support Variance
Company 1	111111	\$3,419	\$2,068	39.51%	(1,013.25)	-48.14%
Company 2	111112	\$1,157	\$941	18.67%	(162.00)	-39.68%
Company 3	111113	\$2,352	\$1,725	26.66%	(470.25)	-36.05%
Company 4	111114	\$2,290	\$2,231	2.58%	(44.25)	-3.52%
Company 5	111115	\$2,707	\$2,079	23.20%	(471.00)	-29.99%
Company 6	111116	\$1,632	\$1,565	4.11%	(50.25)	-6.57%
Company 7	111117	\$2,876	\$2,876	0.00%	-	0.00%
Company 8	111118	\$1,739	\$1,739	0.00%	-	0.00%
Company 9	111119	\$1,041	\$1,041	0.00%	-	0.00%
Company 10	111120	\$2,016	\$1,592	21.03%	(318.00)	-30.21%
Company 11	111121	\$892	\$892	0.00%	-	0.00%
Company 12	111122	\$2,830	\$2,255	20.32%	(431.25)	-25.93%
Company 13	111123	\$3,912	\$3,818	2.40%	(70.50)	-2.85%
Company 14	111124	\$1,644	\$1,644	0.00%	-	0.00%
Company 15	111125	\$949	\$810	14.65%	(104.25)	-41.33%
Company 16	111126	\$1,078	\$1,078	0.00%	-	0.00%
Company 17	111127	\$3,778	\$3,535	6.43%	(182.25)	-7.68%
Company 18	111128	\$1,846	\$1,808	2.06%	(28.50)	-3.08%
Company 19	111129	\$816	\$775	5.02%	(30.75)	-20.17%
Company 20	111130	\$913	\$888	2.74%	(18.75)	-8.32%
Company 21	111131	\$3,023	\$2,264	25.11%	(569.25)	-31.49%
Company 22	111132	\$2,545	\$1,769	30.49%	(582.00)	-40.16%
Company 23	111133	\$2,450	\$2,092	14.61%	(268.50)	-19.49%
Company 24	111134	\$2,252	\$2,184	3.02%	(51.00)	-4.15%
Company 25	111135	\$2,630	\$2,395	8.94%	(176.25)	-11.65%
Company 26	111136	\$1,798	\$1,642	8.68%	(117.00)	-13.16%
Company 27	111137	\$2,023	\$1,940	4.10%	(62.25)	-5.89%
Company 28	111138	\$1,215	\$1,215	0.00%	-	0.00%
Company 29	111139	\$1,439	\$1,423	1.11%	(12.00)	-1.94%
Company 30	111140	\$634	\$634	0.00%	-	0.00%
Company 31	111141	\$1,096	\$1,084	1.09%	(9.00)	-2.48%
Company 32	111142	\$2,031	\$2,011	0.98%	(15.00)	-1.41%
Company 33	111143	\$1,383	\$1,383	0.00%	-	0.00%
Company 34	111144	\$1,682	\$1,682	0.00%	-	0.00%

# 11. ICC REFORM

- Transition terminating access to Bill and Keep
  - Immediately cap all interstate & intrastate switched access rates
  - Intrastate › Interstate rates in 2 steps by July 2013
  - Interstate › \$0.005 in 3 steps by July 2016
  - \$0.005 › \$0.0007 in 3 steps by July 2019
  - \$0.0007 › Bill & Keep on July 2020
  - FNPRM to address originating and transport

## 12. ICC REFORM

- Access Recovery Charge (ARC)
  - Residential & Single Line Business = \$0.50/year for up to 6 years for a maximum ARC of \$3.00
  - Multi Line Business = \$1.00/year for up to 3 years for a maximum ARC of \$3.00
  - Local Rate + SLC + EAS + Surcharges + ARC  $\leq$  \$30.00
    - Residential & SLB only, no benchmark for MLB
  - ARC is not mandatory, but will be imputed for CAF purposes

# 13. ICC REFORM

- Eligible Recovery
  - Rate of Return Baseline
    - 2011 Interstate Switched Access Revenue Requirement
    - + 2011 Intrastate Switched Access Revenues
    - + 2011 Net Reciprocal Compensation Revenues
    - 5% annual reduction
  - Recovered from 3 sources
    - Intercarrier Compensation Revenues
    - Access Recovery Charge (ARC)
    - Connect America Fund (CAF)