



# Telergee 2014 CFO & Controllers Conference

## Regulatory Update

May 15, 2014

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*Acumen. Agility. Answers.*

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# PENDING FCC ORDER

- Report & Order, Declaratory Ruling, Order, Memorandum Opinion & Order, and Seventh Order on Reconsideration on the Connect America Fund (“Phantom of the Order...”)
- Discussed and voted on at 4/23/14 FCC Open Meeting
  - Approved by 5-0 Vote
  - Each Commissioner issued a separate statement
  - FCC Staff tasked with finalizing and issuing Order
    - Still waiting...3+ weeks later

# PENDING FCC ORDER

- Urban Rate Floor
  - FCC announced results of Urban Rate Survey 3/20/2014
    - \$20.46 = Average Urban Rate
    - \$46.96 = Reasonably Comparable Rate
  - Order adopts a transitioned rate floor
    - \$16.00 @ 1/1/2015
    - \$18.00 @ 7/1/2016
    - No more than a \$2.00 annual increase

# PENDING FCC ORDER

- Elimination of Quantile Regression Analysis
  - QRA based limitations effective 45 days after publication in the Federal Register
  - No indication that elimination will be retroactive
  - FCC seeks comment on potential replacement mechanisms

# PENDING FCC ORDER

- Reinstatement of Safety Net Additive
  - Applies for growth in investment, not line loss
  - Retroactive for costs incurred in 2010 & 2011
- Definition of Reasonable Request for Broadband Service
  - Hopefully will eliminate individual interpretation of layered reasonableness

# PENDING FCC ORDER

- Further Notice of Proposed Rulemaking
  - Increase broadband speed from 4 to 10 Mbps?
  - Support for Data Only Broadband?
    - Historical costs remain under HCLS/ICLS
    - Future investments under a new mechanism
    - Fund remains capped until at least 2017
  - Changes to Mobility Fund due to LTE?
    - Is it still necessary?
    - What happens to phase down of Identical Support?

# PENDING FCC ORDER

- Further Notice of Proposed Rulemaking
  - Alternatives to QRA?
    - Frozen NACPL w/ reduced cost recovery factors (65%/75%)
    - As SACPL grows, support does not – maintains support for lower cost carriers
    - Adjusted annually to fit w/in \$2B budget
  - Unsubsidized Competition further addressed
  - No discussion of RoR represcription



# PENDING FCC ORDER

- Rural Association Proposal on Data Only Broadband (DOBB)
  - Includes DOBB loop costs in the calculation of HCLS and ICLS
  - Support for costs above \$40/month
    - \$14.00 wholesale DSL rate
    - \$26.00 Broadband SLC
  - Proposal pushes total High Cost Support above \$2B budget
    - Limitation on support produces winners and losers

# INTRA MTA BILLING

- Wireless originated calls being delivered on switched access trunks
  - Billed as access, not reciprocal compensation
- Sprint/Level 3 claims for refunds
  - IntraMTA traffic subject to reciprocal compensation (now Bill & Keep) not access
  - Lawsuit recently filed against several carriers nationwide

# INTRA MTA BILLING

- Financial impact is significant and could get much larger
  - More wireless carriers/transport providers
  - More rural carriers implicated
- FCC staff has previously addressed this issue and determined that reciprocal compensation applies
  - Best hope for change is likely the significant, negative impact this could have on CAF ICC

# DOUBLE RECOVERY

- Traffic sensitive costs included in the revenue baseline may not be recovered from other sources
  - Produces double recovery:
    - Alternate rate element/jurisdiction
      - Special Access/DSL Rates
      - SLC/ICLS
      - Intrastate Rates
      - Non-Regulated

# DOUBLE RECOVERY

- Normal fluctuations in costs do not constitute double recovery
  - Plant Additions/Retirements
  - Growth/Reduction in Expenses
  - Cost allocations/assignments based on same methodology
    - Time Reporting
    - Part 64 Allocations
    - Cost Study Categorization of Joint Use Facilities

# DOUBLE RECOVERY

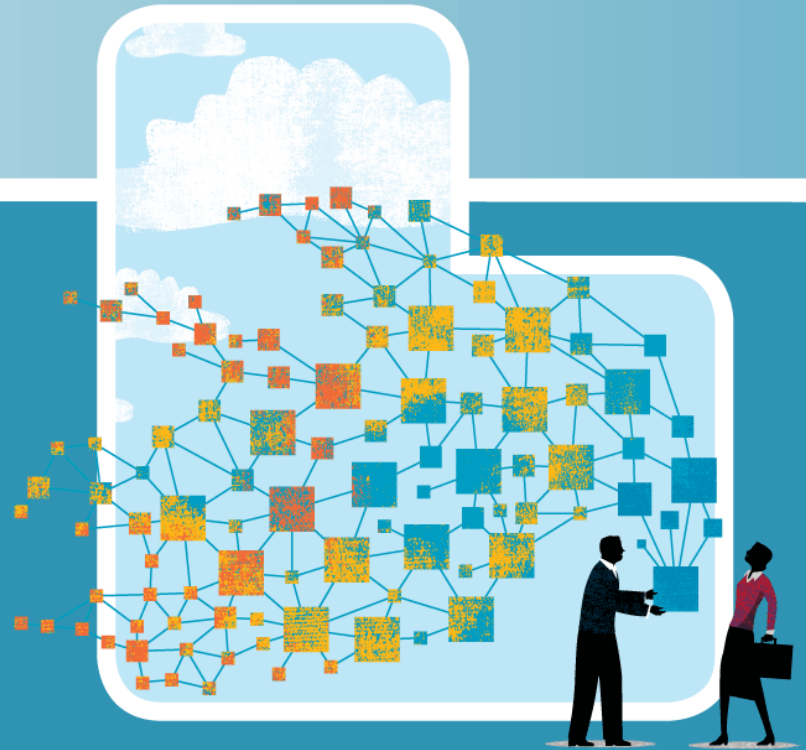
- What causes double recovery?
  - Methodology changes from those used to establish the revenue baseline
    - Network Design
    - Accounting
    - Cost Study
  - Corrections of errors
  - Changes in study area boundaries
    - Exchange Acquisitions
    - Exchange Sales

# MISCELLANEOUS

- CAF ICC Data Collection and True Up
  - Remember to certify your data in the NECA system by May 20, 2014
- Tariff Updates on July 1, 2014
  - Transition of Interstate and Intrastate termination local switching rates to bill and keep
  - 1/3 of the difference between current and \$0.005
- FCC Form 481 due by July 1, 2014
  - Voice & Broadband data reporting
  - Initial 5-Year Plan

# QUESTIONS?

# Thank you!



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