

 **LAW SEMINARS INTERNATIONAL**

## **Rural Regulatory Priorities**

Glenn Brown  
April 4, 2006  
gbrown@mcleanbrown.com

*McClean & Brown*

## **Fundamental Principles**

- **Focus on the rural consumer**
- **Networks matter**
- **Networks require investment**
- **Ubiquitous broadband by 2007 will require lots of investment**
- **USF and ICC reform should encourage rural infrastructure investment**
- **USF and ICC are different sides of the same coin**

*McClean & Brown*

## Rural Realities

- **Policy Realities:**
  - 1996 Act: Rural consumers shall have comparable services and comparable prices to urban areas
- **Economic Realities:**
  - It is costly to serve remote, sparsely populated rural areas
  - RLECs rely heavily on USF and ICC for cost recovery

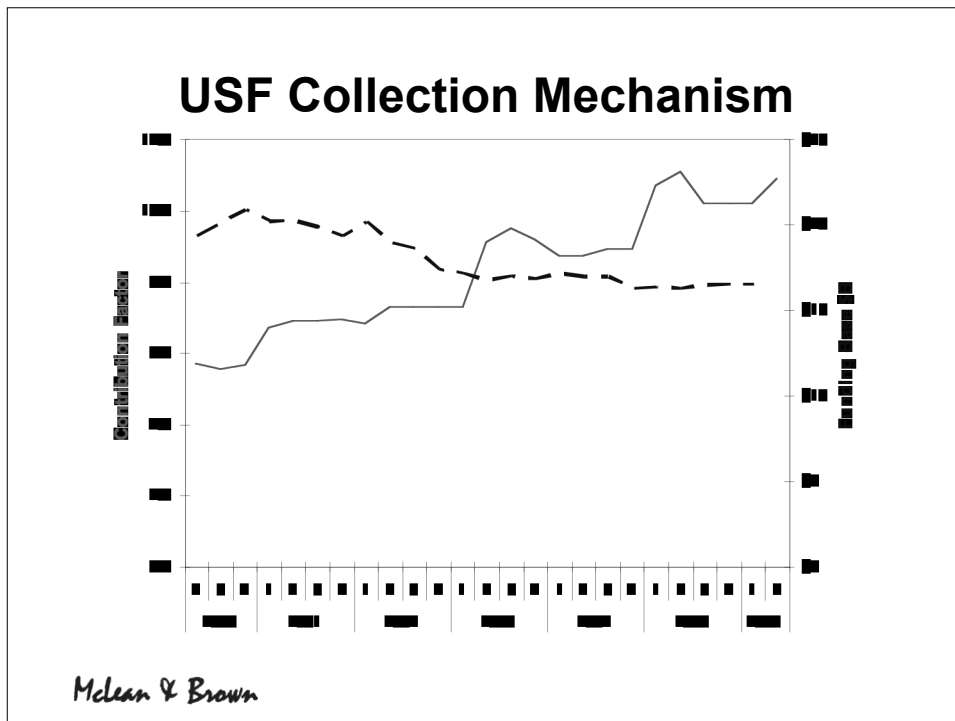
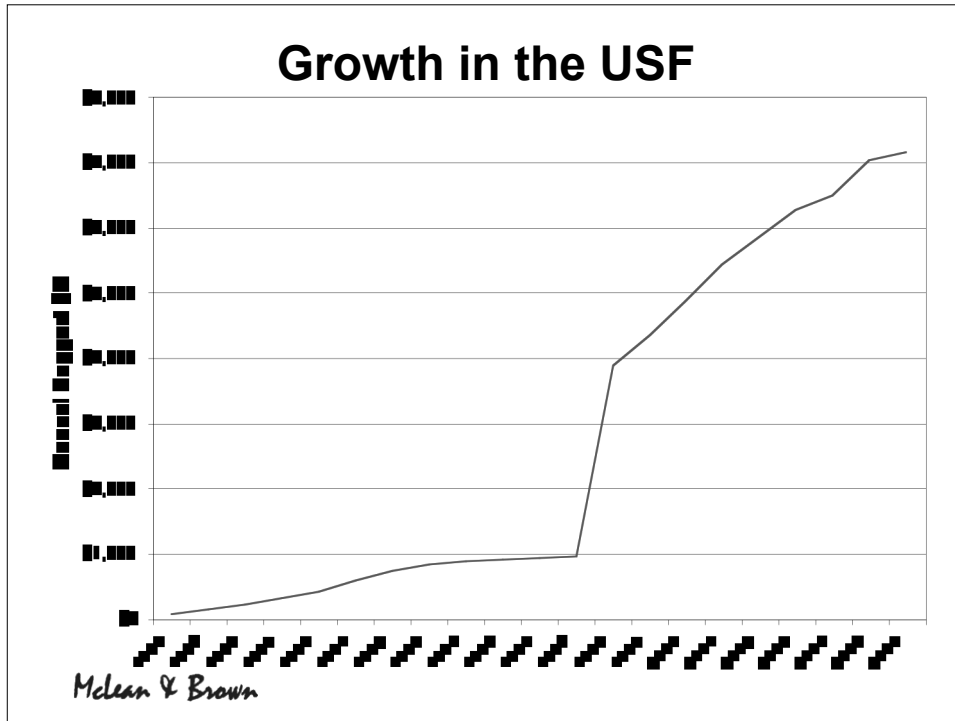
Rural Realities		
Category	Urban	Rural
Service Availability	High	Low
Service Quality	High	Low
Service Cost	Low	High
Service Reliability	High	Low
Service Innovation	High	Low

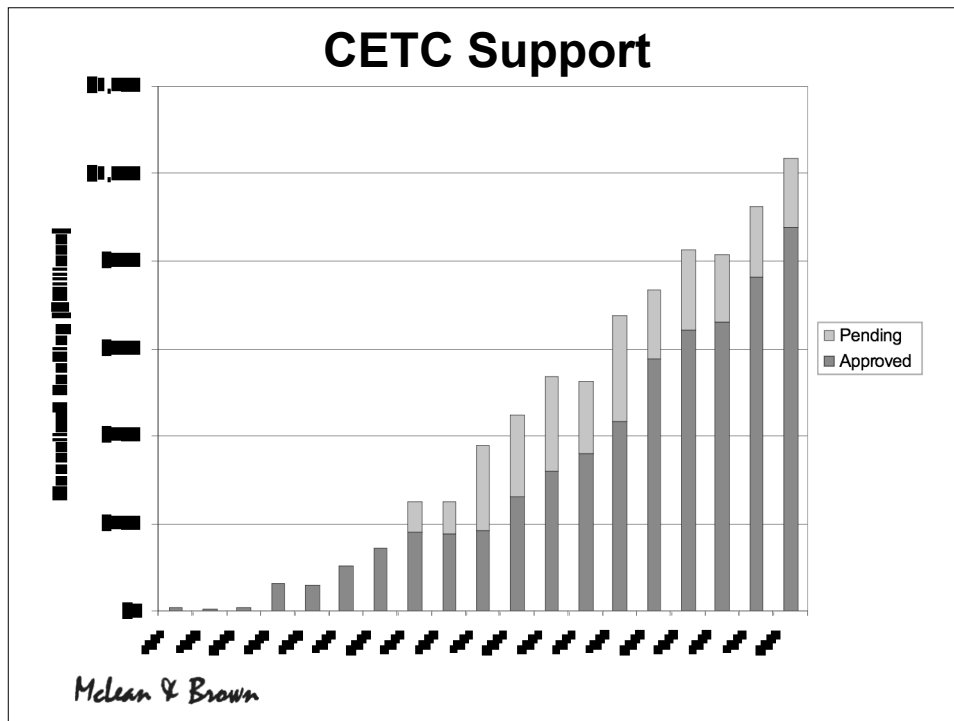
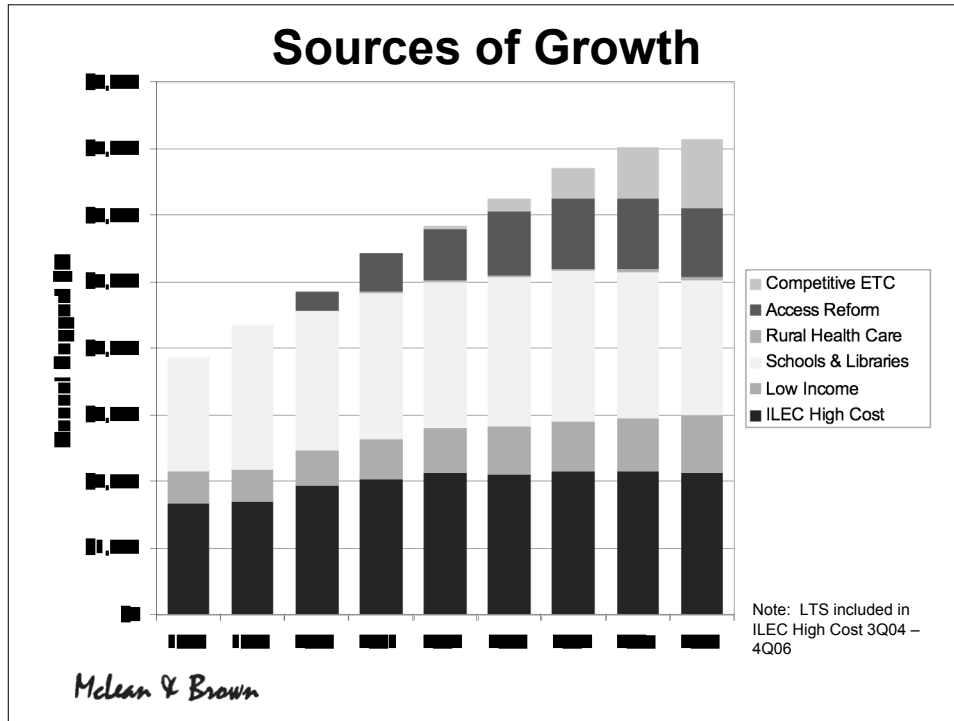
*McClean & Brown*

## Universal Service Issues

- **Growth in the fund**
- **USF Collection Mechanism**
- **Support for Competitive ETCs**
- **Post-RTF funding**
- **Proxy Models**
- **State Block Grants**

*McClean & Brown*





## “Top 10” CETC Recipients

Company (States)	Annual Funding (\$Millions)		
	Approved	Pending	Total
Verizon (VA)	1,000.0	100.0	1,100.0
AT&T (TX)	800.0	100.0	900.0
Qwest (CO)	400.0	100.0	500.0
WorldCom (LA)	300.0	100.0	400.0
Time Warner (VA)	200.0	0.0	200.0
Sprint (TX)	100.0	100.0	200.0
Level 3 (CA)	100.0	0.0	100.0
Southwest (TX)	100.0	0.0	100.0
Comcast (PA)	100.0	100.0	200.0
Charter (NC)	100.0	0.0	100.0
<b>Total</b>	<b>3,000.0</b>	<b>400.0</b>	<b>3,400.0</b>

*McClean & Brown*

## Universal Service Solutions

- **Reform the USF collection mechanism**
  - Consider connections/numbers based methodology
  - All telecom and information services that benefit contribute
- **Reform the USF distribution mechanism**
  - Separate wireline and wireless funds
  - Technology-specific policy goals
  - Support based on CETC cost, subject to public interest test
- **Support based upon actual embedded costs**
  - Proxy models don't work for rural carriers
  - Appropriate audits and other safeguards
- **Appropriate balance between state and federal funding**
  - Block Grants will have unintended consequences

*McClean & Brown*

## Intercarrier Compensation

- **Disparate charging mechanisms based on:**
  - Jurisdiction (intrastate, interstate)
  - Nature of the call/technology (local, long distance, Internet)
  - Type of carrier (LEC, IXC, CMRS, ISP, end-user)
- **System is neither economically rational nor sustainable**
  - Disparities leading to arbitrage and/or fraud
  - Phantom traffic
  - Inability to differentiate between interstate, intrastate and local traffic

*McClean & Brown*

## Intercarrier Compensation Issues

- **“Bill & Keep”**
  - Not cost-based
  - Invites uneconomic network usage
  - Excessive reliance on USF could make fund unsustainable
- **Originating and Terminating Usage**
  - Many plans call for terminating compensation only
  - RLECs have “equal access” and 800 service obligations that are costly
  - 251(b)(5) rules do not contemplate these call origination obligations

*McClean & Brown*

## **Intercarrier Compensation Issues (continued)**

- **Interconnection Rules and Obligations**
  - Existing meet-points and interconnection rules are working
  - Rural carriers must not be saddled with new transport obligations
- **Regulatory Issues**
  - Regulation must focus on preserving investment incentives
  - Appropriate balance between state and federal roles
  - “Preemption” is not the answer
- **Market Consolidation**
  - Rural carriers need equal and affordable access to IP backbone and network transit resources

*McClean & Brown*

## **Intercarrier Compensation Solutions**

- **Unified, cost-based rates**
  - For RoR carriers rates should be based on embedded costs
- **Compensation for both terminating and originating traffic**
- **Revenue replacement funding**
  - Subject to basic rates at national benchmark
- **Maintain existing interconnection rules and meet-points**
- **Develop procedures and rules that minimize “phantom traffic”**

*McClean & Brown*

## NARUC ICC Task Force

- **Started in July of 2004**
- **All major industry segments represented**
- **“Group of 11” formed in January 2006**
- **Consensus solution framework under development**

*McClean & Brown*

## In Summary

- **If you use the network – you pay!**
  - Cost-based rates for origination and termination
  - Contributions to the USF that supports ubiquitous connections
  - No free ride for the technology de-jour
- **ICC rates and USF support based on embedded cost**
- **Regulatory environment that promotes investment in rural telecom infrastructure**
- **Focus on the Rural Consumer**

*McClean & Brown*