

Further Testimony of Cesar Caballero
on Behalf of Windstream Kentucky East, LLC and Windstream Kentucky West, LLC

Administrative Case No. 2010-00398

July 8, 2011

Exhibit C

BEFORE THE COMMONWEALTH OF KENTUCKY

PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE INTRASTATE)	ADMINISTRATIVE
SWITCHED ACCESS RATES OF ALL)	CASE NO.
KENTUCKY INCUMBENT AND COMPETITIVE)	2010-00398
LOCAL EXCHANGE CARRIERS)	

**COMMENTS OF WINDSTREAM KENTUCKY WEST, LLC
AND WINDSTREAM KENTUCKY EAST, LLC**

OVERVIEW

Windstream Kentucky West, LLC (“Windstream West”) and Windstream Kentucky East, LLC (“Windstream East”) (collectively, “Windstream”) respectfully submit these Comments in response to the Kentucky Public Service Commission’s (“Commission’s”) request for comments in its November 5, 2010 Order issued in this docket (“*Investigative Order*”). The Commission consolidated the separate proceeding initiated by Verizon in Docket No. 2007-00503 into this inquiry which it opened to gather input from all Incumbent Local Exchange Carriers (“ILECs”) and intervening Competitive Local Exchange Carriers (“CLECs”) in an effort to “examine the switched access rates of Kentucky incumbent and competitive carriers.”¹ Windstream East and Windstream West generally are supportive of comprehensive, rational intercarrier compensation reform undertaken on a national basis.

As discussed below, Windstream East and Windstream West are not statutorily obligated to participate in this Kentucky proceeding, and they submit these comments while they await a ruling from the Kentucky Court of Appeals regarding the issue of their constitutional rights as alternative regulated carriers to be exempt from this proceeding. Submission of these comments,

¹ *Investigative Order* at 1.

however, as with all other prior submissions in Docket No. 2007-00503 (which now is consolidated with and incorporated into this instant proceeding) is with the full reservation of rights by Windstream West and Windstream East. As set forth in greater detail in the appeal pending before the Kentucky Court of Appeals in Case No. 2009-CA-1973, Windstream's collective position is that the Commission does not have jurisdiction over the intrastate switched access rates or to order reductions in such rates of alternatively regulated carriers like Windstream West and Windstream East.²

THRESHOLD JURISDICTIONAL ISSUE

As an initial comment, Windstream West and Windstream East note that contrary to the assertion of the Commission in the *Investigative Order*, the 2006 statutory amendments do not preserve the Commission's authority to assess the justness and reasonableness of Windstream's intrastate switched access rates or to order reductions in such rates as discussed on the record preserved herein and before the Court.

To reiterate the overview of Windstream's position on this issue, in 2006, the General Assembly significantly revised the law governing telecommunications service, which revisions took effect July 12, 2006. One of the new provisions, KRS 278.543, states "Any telephone utility, at its discretion and without commission approval, may elect to adopt the price regulation plan set forth below." On July 12, 2006, Windstream elected under KRS 278.543 to opt into the full bargain created by the General Assembly. This bargain entails operating under the price regulation plan in KRS 278.543 that "caps" an electing utility's rates for basic local exchange

² Windstream East and Windstream West support a generic access reform investigation over the type of targeted action pursued separately by Verizon against Windstream, but as noted exhaustively in Windstream's filings, any such generic investigation in Kentucky also must take into account the rights of alternatively regulated carriers to be exempt therefrom.

and intrastate switched access services.³ With regard to intrastate switched access services, KRS 278.541(3) specifically states:

Electing utilities shall retain on file with the commission tariffs for basic local exchange services and *intrastate switched-access services*. Tariffs filed in accordance with subsection (2) of this section *shall be deemed valid and binding* upon the effective date stated in the tariff. (Emphasis added.)

KRS 278.543(4) provides that an electing carrier's rates for "intrastate switched-access service shall not exceed its rates for this service that were in effect on the day prior to the date the utility filed its notice of election."

In establishing the caps on an electing utility's basic local exchange service and intrastate switched access service, the General Assembly at the same time enacted KRS 278.543(6) which provides, "An electing utility's rates, charges, earnings, and revenues *shall be deemed just and reasonable* under KRS 278.030 and administrative regulations promulgated thereunder upon election." (Emphasis added). Windstream elected to operate under the new statutory regime and cap applicable rates in return for being statutorily exempt from the burdens of certain administrative processes such as the one initiated by Verizon in Docket No. 2007-00503, now consolidated into the instant proceeding. Windstream East and Windstream West accepted the bargain that was offered by the General Assembly – the right to encounter fewer administrative burdens and less agency scrutiny in return for competing pursuant to market scrutiny at their existing PSC-approved basic and intrastate switched access rates.

Windstream's position regarding the Commission's lack of jurisdiction to assess the justness and reasonableness of Windstream's intrastate switched access rates or the authority to

³ KRS 278.543(2)-(4).

order reductions in such rates was well-documented in Case 2007-00503, the record of which has been incorporated into and preserved in this docket. Windstream East and Windstream West will not belabor the topic of the Commission's jurisdiction by further discussing such arguments and, instead, states that they reserve their rights to challenge the Commission's jurisdiction at all stages of this proceeding, as well as in other proceedings and in other fora.⁴

COMMENTS ON SUBSTANTIVE ISSUES

Setting aside jurisdictional matters, Windstream and its affiliates in other states have already devoted substantial resources to presenting their positions on appropriate levels of switched access rates, both nationally, and before this Commission (the latter with regarding to intrastate switched access rates in Kentucky). Although Windstream's testimony in Case 2007-00503, as well as all other Windstream filings in such docket, have already been incorporated into the record of this proceeding, Windstream re-attaches for administrative convenience the Direct Testimony and Rebuttal Testimony of Cesar Caballero, Vice President – Regulatory Strategy. Such testimony carefully explains, among other things, the inappropriateness of a myopic single-issue analysis of intrastate switched access rates without considering matters such as a restructuring mechanism, retail rate flexibility, and an appropriate transition period. Windstream also attaches a Federal Communications Commission ("FCC") filing made by mid-size carriers, including Windstream, in which the carriers proposed a comprehensive Broadband Now Plan to address intercarrier compensation and Federal Universal Service ("USF") reform. These attachments serve to outline Windstream's position on the issues raised in this *Investigative Order*.

⁴ For example, these issues are still pending before the Kentucky Court of Appeals regarding the Commission's March 11, 2009 denial of Windstream's motion to dismiss the complaint in Docket No. 2007-00503.

As the Commission is aware, in early 2009, Congress directed the FCC to develop a National Broadband Plan (“NBP”) to ensure every American has “access to broadband capability.” Congress also required that this plan include a detailed strategy for achieving affordability and maximizing use of broadband to advance economic growth.⁵ The NBP includes sweeping and wide-reaching recommendations, including recommendations for intrastate switched access rate reform. The FCC is reportedly currently on schedule to release a Notice of Proposed Rulemaking in the first quarter of 2011 to address, among other intercarrier compensation reform issues, intrastate switched access reform. Therefore, Windstream East and Windstream West suggest that the Commission take into account in its own intercarrier compensation reform efforts the fact that the FCC already is undertaking a comprehensive national plan. This course of action is the most logical and effective use of all parties’ resources (particularly those of alternatively regulated carriers who are exempt from this state administrative proceeding) and is most likely to yield the most beneficial results for the citizens of Kentucky and the communities in which the companies operate.

For the reasons outlined above, Windstream West and Windstream East believe it is beyond the Commission’s jurisdiction to order a reduction of their intrastate switched access rates and premature to begin reforming the compensation structure just as reform is set to develop at the federal level. Nevertheless, Windstream offers the following principles to effective, meaningful, and comprehensive reform. Reform must be approached cautiously in order to ensure the full impact to consumers, providers, and the industry is fully understood. Proper intrastate switched access reform should include appropriate transitions and meaningful revenue replacement opportunities. Any rational approach to intercarrier compensation reform

⁵ Connecting America: The National Broadband Plan, released March 16, 2010 (<http://download.broadband.gov/plan/national-broadband-plan.pdf>).

must include a transition from implicit subsidies, in the form of a portion of intrastate switched access charges, to explicit revenue sources over a period of time that ensures end-user customers are not adversely affected.

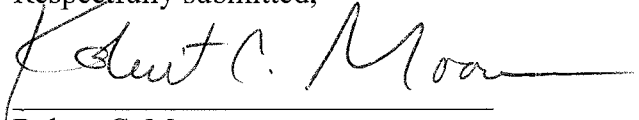
The FCC's strategy to reducing interstate switched access rates provides a useful template in patterning state reform. The Commission would be well served in utilizing the FCC's framework as it considers reforms at the state level, particularly for traditionally regulated carriers subject to the Commission's ratemaking jurisdiction. All carriers affected by reform should be afforded a meaningful period to transition rates in order to avoid rate shock to consumers and limit funding requirements. Carriers must be afforded a meaningful opportunity to recover lost revenue through the combination of an explicit funding mechanism that reduces the negative effect of reductions and through modest retail rate increases up to a benchmark rate. The funding mechanism should be supported equitably by all carriers benefiting from the rate reductions including LECs, IXCs, CMRS, and VoIP providers.

CONCLUSION

As discussed above, on the record herein, and at length in the attached documents, Windstream East and Windstream West believe that the Commission is reaching beyond its legal jurisdiction in this *Investigative Order* by suggesting that the intrastate switched access rates of alternatively regulated carriers are open for review. Additionally, intercarrier compensation reform is currently best addressed at the national level, where the FCC has the ability to leverage its vast resources and experience to enact comprehensive and meaningful reform. Any approach to intercarrier compensation reform must appropriately recognize the need to transition from implicit subsidies, in the form of a portion of intrastate switched access charges, to explicit

revenue sources over a period of time that generally ensures end-user customers are not adversely affected.

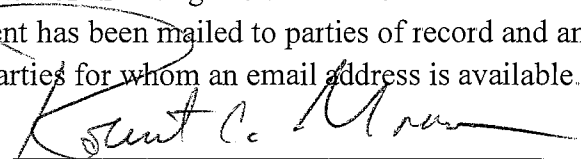
Respectfully submitted,

A handwritten signature in black ink, reading "Robert C. Moore". The signature is written in a cursive style with a large, looping initial "R".

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CERTIFICATION

I hereby certify that the electronic version of this filing made with the Commission this - 20th day of December, 2010 is a true and accurate copy of the documents filed herewith in paper form on December 20, 2010 and the electronic version of the filing has been transmitted to the Commission. A paper copy of the Read1st document has been mailed to parties of record and an electronic copy has been served electronically on parties for whom an email address is available.


Robert C. Moore

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December 7, 2009

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
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Re: Response to NBP Public Notice No. 19

International Comparison and Consumer Survey Requirements in the Broadband Data Improvement Act, GN Dkt. No. 09-47; A National Broadband Plan for Our Future, GN Dkt. No. 09-51; Inquiry Concerning the Deployment of Advanced Telecommunications Capability To All Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996, as Amended by the Broadband Data Improvement Act, GN Dkt. No. 09-137; Federal-State Joint Board on Universal Service, CC Dkt. No. 96-45; High-Cost Universal Service Support, WC Dkt. No. 05-337; Lifeline and Link Up, WC Dkt. No. 03-109; Universal Service Contribution Methodology; WC Dkt. No. 06-122; Numbering Resource Optimization, CC Dkt. No. 99-200; Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Dkt. No. 96-98; Developing a Unified Intercarrier Compensation Regime, CC Dkt. No. 01-92; Intercarrier Compensation for ISP-Bound Traffic, CC Dkt. No. 99-68; IP-Enabled Services, WC Dkt. No. 04-36

Dear Ms. Dortch,

In response to National Broadband Plan Public Notice No. 19, the undersigned mid-sized incumbent local exchange carriers submit the "Broadband Now Plan." The attached document includes the Plan and describes the rationale behind its key provisions.

If you have any questions concerning this filing, please do not hesitate to contact Eric Einhorn at 202-223-7668. We urge the Federal Communications Commission to take prompt action in this Docket so that the Plan can be implemented in early 2010.

Sincerely,

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DESCRIPTION OF BROADBAND NOW PLAN

The undersigned mid-sized incumbent local exchange carriers – CenturyLink, Consolidated Communications, Frontier Communications, Iowa Telecom, and Windstream Communications (collectively, the “mid-sized ILECs”) – are at the front lines of deploying broadband Internet access to millions of Americans in rural areas, while continuing to provide essential telecommunications services to consumers in areas where no other provider invests capital to deploy alternative networks and services. Collectively we provide communications and entertainment services to more than 12 million voice lines and 4 million broadband connections. Our experience and track record of success in deploying voice and broadband services to high-cost areas – precisely the types of areas that present the greatest challenges in achieving the ubiquitous availability of broadband Internet access service – provide us with a unique vantage point in understanding and assessing how to surmount those challenges.

In this filing, we propose a plan that would take immediate, significant strides toward fulfilling the Commission’s broadband deployment goals, while paving the way for more fundamental reforms in the future. In particular, the Broadband Now Plan would

- Jump-start further broadband deployment by providing targeted, incremental support that would be dedicated to deployment of broadband facilities in high-cost areas that are currently unserved or have access only to service at speeds slower than 6 Mbps;
- Unlock private sector investment that would not otherwise be made by conditioning receipt of incremental support on making private investment equal to at least \$800 per household without access to broadband (and \$50 per household with access to broadband, but at less than 6 Mbps throughput);
- Increase the efficiency of universal service by calculating support on a more granular wire center level and awarding that wire center support in a competitively neutral manner that would permit a provider that required less targeted support to step forward and receive support in place of the incumbent (while then assuming carrier of last resort obligations for that wire center);
- Result in approximately 95% of our voice connections having access to broadband service delivering at least 6 Mbps throughput within 5 years and the creation of a robust, fiber-rich, second mile and middle mile transport network that would facilitate the provision of *mobile* broadband service through shared, more efficient backhaul¹; and
- Reform intercarrier compensation by reducing terminating switched access and reciprocal compensation rates and eliminating loopholes and regulatory arbitrage opportunities, while replacing a portion of the lost revenue with explicit, predictable support that would

¹ This estimate is based on (a) the signatories’ existing service territories as of the date of this filing and does not include any areas that might be acquired in any pending or future transactions since they may have different levels of existing broadband availability than the signatories’ current operations; and (b) adoption of the Broadband Now Plan in its entirety.

increase carriers' ability to attract private investment capital needed for increased broadband deployment.

As the Commission has noted in connection with development of a National Broadband Plan, it has "not yet met the challenge of bringing broadband to everyone" and its "goal must be for every American citizen and every American business to have access to robust broadband services."^{2/} The *Rural Broadband Strategy Report* found in particular that "[n]o national broadband strategy can be undertaken without due consideration to the rural broadband infrastructure."^{3/} The mid-sized ILECs agree that policymakers must focus on and address obstacles to further broadband deployment in high-cost, rural areas. We have deployed high-speed broadband service to the vast majority of our customers in rural and small communities – approaching 90% of our customers. The challenge, however, is to make such investments economically viable where the business case does not support deployment. Despite aggressive deployment, the mid-sized ILECs, in aggregate, still have approximately 1.3 million customers who lack access to our broadband service. But with sufficient government funding, we are committed to deployment of broadband infrastructure to the remainder of our customer base by leveraging our existing infrastructure and making necessary investments.

While some would argue the Commission should first create new broadband-based policy and rules from whole cloth, such extensive reform would require new rounds of notice and comment, resulting in a substantial delay in transitioning the Universal Service Fund from a mainly voice-oriented model to one that can support both broadband and voice. The Commission is not limited to such a binary choice. Rather, the Broadband Now Plan offers a framework of reforms to the Commission's universal service and intercarrier compensation regimes for the near term as a way to make quick progress on deploying extensive broadband networks at speeds of 6 Mbps or higher, while embarking on the longer and more difficult journey to further modernize the universal service and intercarrier compensation systems.

I. The Universal Service Regime Should Be Reformed to Provide Incremental Support That Would Be Tied to Increased Private Investment and Dedicated to Broadband Deployment in Areas Lacking Access to 6 Mbps Service.

As the Commission's broadband team has recognized, the current universal service system suffers from structural problems that present a significant hurdle to ubiquitous broadband deployment.⁴ With reforms, universal service can serve as a critical component of a national broadband strategy for the simple reason that additional, targeted support is needed to fund deployment of high-speed broadband service in areas lacking access to broadband service of at least 6 Mbps.

² A National Broadband Plan for Our Future, *Notice of Inquiry*, 24 FCC Rcd 4342, ¶ 5 (2009).

³ See FCC Report, "Bringing Broadband to Rural America: Report on a Rural Broadband Strategy," at ¶ 8 (May 22, 2009).

⁴ Staff Presentation, "Broadband Gaps," at Nov. 18, 2009, FCC Open Meeting.

A. Reform Would Proceed in Two Phases That Permitted Immediate Progress on Broadband Deployment While Setting the Stage for More Fundamental Changes.

As set forth in more detail in the attachment, we propose to create a system that would reform high-cost universal service support in two phases to aid broadband deployment. In Phase I, universal service support would be determined on a more granular level based on the highest cost wire centers (rather than broad study areas or states that qualify for support). Eligible wire centers would qualify for additional support beyond current levels; that incremental support would be devoted to broadband deployment in areas lacking access to 6 Mbps service. Carriers that elect to receive this incremental support would be required to invest \$800 per household of their own funds to deploy broadband facilities if the household is unserved (and \$50 per household in areas with access to broadband at speeds less than 6 Mbps). In other words, a carrier would be required to invest \$800 of the amount needed to bring broadband to an unserved household in connection with its draw on incremental universal service funding. Carriers would receive this incremental high-cost model support until they completed deployment of 6 Mbps to 98 percent of their lines. To help provide the necessary incremental funding, the Commission would change the Universal Service Fund (“USF”) contribution methodology to include all connections—broadband and voice—in a competitively neutral fashion.

Upon implementation of Phase I, the Commission would launch Phase II by beginning a proceeding to determine the mechanism for future high-cost funding for existing broadband and voice services and the extent to which further funding is needed for new broadband deployment. This proceeding would specifically address, among other items, how the broadband standard should evolve over time and how the universal service fund should be sized and directed to achieve chosen policy objectives. The Commission also would consider what, if any, updates should be made to the forward-looking cost model to better identify high-cost areas where support for broadband and voice services are needed.

Phase II would take significant time, including various rulemakings, reasonable transition periods, and related steps. Although these steps likely will be necessary, we do not believe reform should await their completion given that Phase I can be implemented in the short term based on rulemaking proceedings the Commission already has, in some cases, had open for years and will facilitate meaningful progress toward universal broadband deployment. Further, some of the measures proposed for Phase I (e.g., determining support on a more granular basis) will be necessary elements of implementing Phase II reform and thus will move us closer to fundamental reform. And proceeding in stages will result in less disruption and uncertainty – factors that would otherwise discourage large, long-term private investments in broadband deployment and upgrades.

B. The Plan Would Provide Effective and Efficient Support for Increased Broadband Deployment.

This proposal rapidly and effectively addresses many of the structural problems in the current universal service system identified by the Commission’s broadband team. It would dedicate incremental universal service funding exclusively to the deployment of broadband and create a higher level of accountability for the use of universal service support for that purpose.

This new targeted funding would significantly improve the availability of broadband Internet access. Under our proposal, the Commission would support a robust offering of 6 Mbps throughput, which would require carriers to deploy fiber deeper into their networks (requiring a 12,000 foot carrier serving area).⁵ We estimate the Broadband Now Plan could deliver broadband service at speeds of 6 Mbps to approximately 95 percent of the voice connections of the signatory mid-sized ILECs within a span of just 5 years.⁶

The investments that would be supported by the incremental universal service funding would enable not only wider provision of wireline broadband Internet access service, but also would facilitate the provision of *mobile* broadband service using Long Term Evolution (“LTE”) and similar technologies. In those areas where we do not yet offer broadband service, the critical needs are to deploy fiber deeper into the network – the so-called “second-mile” problem – and in some cases to overcome the cost of backhaul to the Internet – the so-called “middle mile” problem. By expanding and enhancing the second mile and middle mile infrastructure already used by both wired and wireless providers, the cost of providing (and increasing capacity of) both fixed and mobile broadband will be reduced. It is more efficient for multiple networks to share the same backhaul infrastructure in areas that cannot economically support more than one deployment, and this deployment will ensure spectrum can be maximized for end user connectivity, its highest value purpose. Absent some form of predictable and sufficient support, the business case for deploying infrastructure to support broadband in these high-cost areas does not exist.

Further, the Plan would achieve increased broadband deployment by using universal service funding in a more efficient and effective way. First, the Plan would calculate support on a more granular basis (i.e., wire centers) that more accurately identifies the highest cost areas than the current system, which allocates funding based on average costs of broader areas that sometimes encompass a mix of high-cost and lower-cost wire centers. Second, under the Broadband Now Plan, carriers that accept an incremental increase in universal service support for broadband deployment in areas lacking 6 Mbps service would have to match support they receive with their own private investment up to the level of investment they generally make in areas that are economic to serve. By eliciting such private investment as a condition of receiving support, the Plan would multiply the effect of limited universal service dollars. Moreover, once the Commission determines that sufficient broadband coverage and speeds have been achieved, it could revisit the size of the fund and reduce or eliminate support for new broadband deployment, while leaving funding in place for operating and maintenance capital expenditures.

⁵ The Commission alternatively could choose to support a higher throughput option. The higher throughput option would take longer and cost more in the short-run to deploy than would the 6 Mbps option, but it likely would save substantially on future upgrades by minimizing the need to reconfigure last-mile facilities.

⁶ As mentioned above, this estimate is based on (a) the signatories’ existing service territories as of the date of this filing and does not include any areas that might be acquired in any pending or future transactions since they may have different levels of existing broadband availability than the signatories’ current operations; and (b) adoption of the Broadband Now Plan in its entirety.

Third, the Plan would award incremental support in a competitively neutral way to the carrier that would be able to provide service at the lowest cost, thus ensuring that no more universal support than necessary was used to increase broadband support in an area. In particular, if a carrier other than the incumbent could demonstrate that its own costs of providing service would require less targeted support than would otherwise be needed based on the forward-looking model, that carrier would receive the lower amount of support in place of the incumbent, provided that it agreed to assume exclusive carrier of last resort (“COLR”) obligations for offering facilities-based voice service to all lines in the wire center. Of course, that carrier – like any incumbent recipient of support – would have to use the incremental additional support for purposes of deploying broadband in areas that lack 6 Mbps service and meet the same private investment thresholds.

Finally, the Plan recognizes that even as the focus of universal service support increasingly shifts to expanding broadband network availability and speed, there continues to be a need to provide support for current voice services and the network investments already made by carriers. Entirely shifting existing support to new high-speed broadband services would leave some customers behind and create new problems. Universal service funding in uneconomic areas is critical to fulfilling COLR obligations, particularly as implicit subsidies are rapidly being eliminated due to competitive pressure and questionable traffic routing and compensation schemes. The signatory companies, in aggregate, make capital expenditures of nearly \$1.7 billion each year, which amount to annual per customer investments in the range of approximately \$100-\$140.⁷ Universal service support has played and continues to play an important role in deploying carrier of last resort infrastructure, and it would not be prudent to strand consumers where support is needed to continue existing service. Moreover, focusing universal service support only on new broadband deployment could have the perverse effect of undermining private sector broadband investment: Investors would be less willing to provide capital to carriers serving high-cost areas – capital that could be used to invest in broadband deployment – if those carriers were forced to bear the economic burden of COLR obligations without sufficient support for existing services.

II. A Broadband Solution Requires Reasonable Reforms of Intercarrier Compensation That Virtually Eliminate Incentives for Arbitrage and Loopholes that Currently Distort the Marketplace.

In addition to changes to the universal service regime, a broadband solution requires that the Commission enact reasonable intercarrier compensation reform. The need for such reform is well-documented and acknowledged by a wide variety of stakeholders. The current intercarrier compensation regime has created opportunities for arbitrage, produced numerous disputes, and done little to prevent unlawful non-payment and evasion, all of which result in competitive distortions and unfair burdens on some consumers and providers as compared to others. The resulting regulatory uncertainty, disputes, and increased costs discourage broadband investment and create regulatory barriers to broadband deployment.

⁷ In 2008, CenturyLink’s total annual capital expenditures were approximately \$973 million, Windstream’s were approximately \$318 million, Frontier’s were approximately \$288 million, Consolidated’s were approximately \$48 million, and Iowa Telecom’s were approximately \$28 million. These figures are on a pro forma basis for any acquired properties.

Under the Broadband Now Plan, intercarrier rates would be reduced, with the lost revenues addressed in part through opportunities to rebalance end-user rates and the elimination of certain loopholes and arbitrage opportunities (e.g., phantom traffic and failure to pay approved rates for use of switched access services). Reduction in intercarrier rates will help transition the industry from relying on implicit subsidies from access charges. At the same time, replacement of some of the lost access revenue with explicit, predictable support would recognize the higher costs of providing service in rural areas and lead to reduction in carriers' cost of capital as investors perceive risks lower than those inherent in today's intercarrier compensation system. The Broadband Now Plan couples these measures with reform that would eliminate equal access obligations on a going forward basis, while preserving the status quo for existing customers as a way to wind down the originating access system.

A clear and enforceable system of intercarrier compensation will produce conditions that facilitate carriers' ability to attract private investment capital needed for widespread deployment under the National Broadband Plan. Carriers, however, would not be made whole for lost intercarrier compensation revenue. The intent is to create a fair and workable set of reforms that equitably spread the burdens among the relevant stakeholders.

* * *

The Broadband Now Plan does not purport to address every issue and problem with the current universal service and intercarrier compensation rules. Rather, our goal is to present a reasonable and achievable framework that will rapidly modernize the existing universal service and intercarrier compensation regimes in a way that will support achievement of the Commission's broadband goals. The Broadband Now Plan supports the immediate deployment of broadband in unserved areas, provides material regulatory reform, and establishes a clear transition plan for further comprehensive reform.

ATTACHMENT

BROADBAND NOW PLAN*Universal Service Fund Reform.**Phase I*

- **Reform high-cost model support and permit rural price-cap carriers to elect on a one-time basis to receive this support.** A price cap-regulated carrier would be allowed to make a one-time request for increased Non-Rural High-Cost model support through a mechanism that would provide support for each *wire center* where the forward-looking cost of universal service per line (determined by the Synthesis Model) was greater than 2.75 times the national average cost per line. To provide continuity, we propose that Interstate Access Support and Interstate Common Line Support would be excluded from this discrete change to the current USF mechanisms, as these funds would continue to be used in part for maintenance-related operating and capital expenditures to help meet existing COLR obligations. Carriers would receive the incremental high-cost model support until they complete deployment of broadband service at speeds of 6 Mbps to 98% of their lines.
- **Dedicate the incremental forward-looking high-cost support to broadband deployment.** A service provider that elected to receive increased universal service support would be required to dedicate the incremental funding, combined with its private investment (described below), to increase the availability of high-speed broadband Internet access to households in areas in its service territory that lack access to 6 Mbps service.
- **Require the recipient of incremental forward-looking high-cost support to invest its own capital in support of broadband deployment.** For each household for which a provider uses incremental universal service funding under this proposal to support network expansion, the carrier would be required to invest (using private funding) at least \$800 where no high-speed broadband access service exists today and \$50 where broadband has been deployed but available speeds are less than 6 Mbps. Put another way, a provider would be required to invest \$800 of the amount needed to bring broadband to an unserved household in connection with its draw on incremental universal service funding.
- **Award the incremental high-cost model support in a competitively neutral fashion.** Any broadband provider could apply for wire center support so long as it would be willing (1) to assume exclusive COLR responsibilities for offering facilities-based voice service to all lines throughout the entire wire center; (2) to use the incremental support, above and beyond current funding levels, to deploy broadband in areas lacking 6 Mbps service; and (3) to meet the investment thresholds noted above. The incumbent serving as the COLR would receive the model support unless a lower cost provider stepped forward to assume these commitments; such a new entrant would have to demonstrate based on its own costs and network that it would require less targeted support than would

otherwise be needed as determined by the forward-looking model and would become the COLR for that wire center. If such a new entrant were awarded support, the incumbent would be relieved of any and all COLR obligations including, but not limited to, unbundling, resale, and pricing regulations, but it could engage in commercial arrangements at its discretion.

- **Revise the USF contribution methodology to include all connections.** To facilitate the transition to supporting broadband and help provide the necessary incremental funding, the Commission would change the USF contribution methodology to include all connections—broadband and voice—in a competitively neutral fashion. The Commission also may consider other measures to help offset the cost of the incremental funding, including, for example, eliminating access replacement for Competitive Eligible Telecommunications Carriers.

Phase II

- Upon implementation of Phase I changes, the Commission would launch a proceeding to determine (1) the mechanism for future high-cost funding for existing broadband and voice services and (2) to what extent, if any, further funding is needed for new broadband deployment.
 - The Commission would consider whether to transition to a new mechanism that provides support for capital expenditures for specific broadband deployment projects, with recurring support limited to operating and maintenance capital expenditures, as well as how it will continue to support voice services in high-cost areas.
 - New broadband funding may be dedicated to expanding broadband access to any areas that have not been addressed by 6 Mbps service yet or increasing speeds in areas where 6 Mbps service is already offered but not by more than one provider.
- In that same proceeding, the Commission also would consider what, if any, updates should be made to the forward-looking cost model to better identify high-cost areas where support for broadband and voice services is needed.

Intercarrier Compensation Reform.

- **Eliminate loopholes and arbitrage opportunities.** Some providers improperly divert significant amounts of lawfully compensable traffic away from intercarrier compensation mechanisms under the current regime. This creates competitive distortions, regulatory uncertainty, and disincentives to invest in network facilities, including those used for broadband. The Commission would eliminate these loopholes and arbitrage opportunities by:
 - Explicitly confirming that all traffic that terminates on the PSTN – including in particular IP-originating traffic – is subject to existing access charge and reciprocal compensation mechanisms. Access rate arbitrage is increasing and undermines a key revenue stream used to support the COLR system and promote network stability to advance broadband deployment. For example, the inappropriate questioning of whether VoIP-originated traffic is subject to terminating access charges has generated a raft of disputes among carriers, leading to significant regulatory uncertainty, litigation costs, investment risks, and a patchwork of interim solutions. The Commission would finally act to eliminate any questioning and make clear that all non-local traffic that terminates on the PSTN is subject to terminating access charges throughout and subsequent to the transition periods contemplated in this proposal. The principles and regulations should be clear and enforceable.
 - Implementing rules for the elimination of “phantom traffic.” Phantom traffic consists of traffic that is sent without signaling information, or with improper information, and that inappropriately escapes the application of intercarrier compensation rules.
- **Reduce price cap carriers’ terminating switched access and reciprocal compensation rates.** Initial reductions would occur in two phases. First, interstate and *intrastate* terminating switched access rates and reciprocal compensation rates would be reduced to the CALLS target rate of \$0.0065 in three equal installments over a period of three years. Second, in years four and five, the unified terminating switched access and reciprocal compensation rates would be reduced in two equal adjustments to the lower CALLS target rate of \$0.0055 per minute.
- **Establish local service benchmark rate and permit capped annual increase of retail rates to reach that benchmark for mid-sized price cap carriers.** This proposal would establish a local service benchmark rate that would ultimately be \$23.50 for residential service, including the basic service rate, subscriber line charges, and mandatory EAS charges. This local benchmark rate contemplates an increase in the current residential subscriber line charge from \$6.50 to \$8.00 per line. The benchmark would be used to determine the appropriate amount of funding needed to replace a portion of the lost access and reciprocal compensation revenues due to the rate reductions described above. No carrier would be required to increase its rates, but a carrier would be imputed revenue equal to the benchmark rate for each customer for purposes of this calculation, even if the actual rate charged was lower. There would be

a five-year transition phase. During that time, a carrier would be permitted to increase its total retail rate (including the subscriber line charge) by no more than \$1.50 per year until it hit the final \$23.50 benchmark rate; the carrier would be imputed revenue equal to that amount regardless of whether it actually increased rates by \$1.50. Because carriers in many cases would be unable to raise rates by the imputed amount due to competitive pressures, the effect would be that carriers would not fully recover their lost revenues due to the access and reciprocal compensation rate reductions. If a carrier cannot increase its local rates because it does not have retail pricing flexibility at the state level, and the state has an existing high-cost fund in place that could be utilized for rate rebalancing, then the Network Advancement Mechanism (described below) would not be reduced due to the imputation of a local rate benchmark.

- **Establish a Network Advancement Mechanism to recover a portion of revenues lost as a result of terminating access and reciprocal compensation rate reductions.** Under this proposal, the Commission would set up a Network Advancement Mechanism (“NAM”) under the USF, the purpose of which would be to compensate carriers for a portion of the revenues they will lose as a result of the mandatory reductions in terminating switched access and reciprocal compensation rates. The size of this fund would be equal to the amount of the intrastate switched access and reciprocal compensation revenue reductions for the first three years, and 50% of the reductions for the remaining two years of the transition period; as a result, during those last two years, carriers would recover only half of the total lost revenues from the rate reductions (or less if their retail rates were below the local service benchmarks for those years). After the transition period, the NAM would be calculated on a per-connection basis, and support from the NAM likewise would be based on the number of connections.
- **Eliminate equal access obligations to harmonize the treatment of all competitors.** The Commission would remove the Equal Access obligations for new customers. Equal Access scripting requirements have been lifted already for even the Bell Operating Companies. Under this proposal, the scripting requirements would be lifted for all other providers, and the other Equal Access rules would be eliminated for new customers, which will result in a measured phase out of the rules over time.
- **Open a further proceeding at the end of year five to assess the need for and options for further reform.** The Commission would institute a proceeding to consider further reform at the end of year five. Specifically the Commission would seek comment on, among many other items, whether to establish one unitary rate for all intercarrier compensation or unified rates by carrier, state, or track; and the proper role of state Commissions, the Federal-State Separations and Universal Service Joint Boards, and the Federal-State Joint Conference on Advanced Telecommunications Services. The Commission also would refer relevant issues to the Federal-State Separations and Universal Service Joint Boards relevant issues, including the following: whether to set a rate benchmark to constrain SLC increases in high rate states; whether a mechanism is needed to replace access or reciprocal compensation revenues during the next stage; and the impact of any changes or transitions on the separations process.