FCC Chairman Julius Genachowski’s Proposal for Reform of the Federal Universal Service Fund & Intercarrier Compensation

Introduction

On Thursday, October 6, 2011, Federal Communications Commission (FCC) Chairman Julius Genachowski unveiled the outline of an historic reform of the federal Universal Service Fund (USF) and announced that he will bring the proposed reform up for a vote at the next scheduled FCC meeting on October 27, 2011. Reform of the USF has been, for years, a hotly debated topic that has risen and fallen to the top of the national telecommunications policy agenda. In February of 2011, the FCC announced a proposed rule-making process for USF and Intercarrier Compensation (ICC) system reform, and invited interested stakeholders to weigh in on if, how, and when these reforms should be achieved.

There is much at stake in the process of USF reform. Currently, the USF distributes over $8 billion annually across all 50 states and six territories of the United States, primarily to support voice-telephone service. The FCC has previously enumerated a few core principles driving the reform, including a transition of the USF program from its current focus on dial-up service to support broadband infrastructure build-out and services.

The Chairman’s Framework for Reform

Connect America Fund

The current “High-Cost Fund” will be transitioned to the Connect America Fund (CAF), designed to subsidize broadband buildout, beginning as early as 2012. The new CAF rules will support service to the estimated 18 million households currently unserved by broadband. While no mention was made of specific target speeds or the capacity of such service, this estimate of unserved households is consistent with earlier studies by the FCC targeting a minimum capacity speed of 4 Mbps download/1 Mbps upload speeds.

The CAF will provide subsidies only to areas found to be “unserved” by broadband service or where support is needed to “extend and support broadband networks.” No subsidies will be eligible in areas where unsubsidized private entities provide service, a condition that does not apply under current USF rules. The CAF recipients will also be held to certain obligations as conditions of support.

Broadband subsidies will be determined through a competitive bidding process, as opposed to current mechanisms based on cost models that need to be micromanaged by the FCC. The transition to a fully competitive bidding process, however, will be progressive. In the short term the proposal will mandate a transitional hybrid mechanism to determine subsidies based in some cases on competitive bidding and in others on cost models. This phased-in approach is designed to recognize that introducing competitive bidding in all areas could cause unintended and negative market disruptions that will harm consumers. In areas where competitive bidding will be phased in over time, the FCC plans to “base support on a rigorous model estimating the costs of deploying broadband...”
Referencing the many plans offered by stakeholders, the Chairman said that the FCC will not accept models proposed by any one group of players, and instead announced that details of the transitional cost model would be opened to public debate and decided by the FCC at a later date.

The CAF will recognize the inherent differences between price cap carriers and rate-of-return carriers, and for rate-of-return carriers, the framework governing subsidies will be reformed to ensure that incentives exist for broadband deployment; the model will also include new accountability rules and more narrowly define the types of costs that will be included in the rate of return accounting rules. Further details of aspects of this reform are expected in the upcoming Order.

Lastly, the CAF will utilize “innovative” technologies, such as next-generation satellite and unlicensed wireless to reach “the most remote areas, scattered across the country.”

Mobility Fund
Similar to what was described in the National Broadband Plan, this proposal creates a new Mobility Fund within the CAF. The Mobility Fund will, according to the FCC, provide a one-time subsidy to accelerate national deployment of a 4G wireless network, and provide service across “100,000 miles of road” across the nation, and after that will provide ongoing subsidies for rural mobile broadband, as well as dedicated support for Tribal areas. No further specifics were offered regarding the size of this fund.

Intercarrier Compensation System Reform
Reform of the ICC system is the second half of the proposal unveiled today. The Chairman indicated that the reforms will benefit consumers by reducing hidden subsidies, and immediately eliminate unintended and inefficient arbitrage opportunities such as phantom traffic and traffic pumping. The reform will provide much needed certainty over the treatment of VoIP calls that interconnect to the traditional telecommunications network. The reform will define a transition period for rate adjustment that will bring interstate access rates in line with intrastate rates, and phase down access rates over a multi-year transition period. To minimize disruption of service, the Order will include a revenue recovery mechanism for providers who rely heavily on this revenue source. However, such support would be conditioned on a broadband build-out commitment. Finally, the Order will allow for limited flexibility to rebalance telecommunications retail rates in areas where current prices are relatively low.

Other Details
Finally, the Chairman stressed the existence of many of today’s proposals in both the National Broadband Plan and the FCC’s NPRM in February of 2011, and the value of proposals given to the FCC by many various stakeholders and coalitions, and the fact that while the FCC incorporated some elements of some proposals, it does not “rubber-stamp” any one proposal.

The Chairman also stressed the important role that state regulatory agents will have in this reform. While no explicit mention was made, states may have an important role in the validation of eligible unserved areas, and would presumably start with broadband mapping data collected by the state-coordinated mapping programs. Also, the Chairman stressed that his plan will NOT eliminate states’ carrier of last resort obligations or states’ responsibility for designating eligible telecommunications carriers (those entities that can receive USF support), and will ensure states’ continued and substantive role in the USF going forward.

As the proposed rule is released and more details become public, Connected Nation will provide prompt analysis of key elements of the ongoing USF/ICC reform process.