

Attachment 1

Framework of the Proposal

America's Broadband Connectivity (ABC) Plan Framework

The ABC Plan consists of three inextricably-linked components that work together to ensure that all Americans have access to broadband service. First, the plan creates new universal service programs that explicitly support the provision of broadband service in high-cost areas, replacing the patchwork of legacy universal service programs that were designed to support plain old telephone service (POTS). Second, the plan reforms the intercarrier compensation system to reduce carriers' reliance on implicit support mechanisms that are no longer sustainable and were not designed to support the deployment of broadband. Third, the plan eliminates obsolete regulations that are no longer necessary as carriers transition from POTS to IP-based broadband networks.

1. Modernizing the Universal Service Fund to Support Broadband

The ABC Plan proposes two new universal service programs – a Connect America Fund (CAF) and an Advanced Mobility/Satellite Fund (AMF) – to support the provision of broadband service in high-cost areas. The CAF, which will begin disbursing support on July 1, 2012, will both support the deployment of broadband service to millions of unserved homes and also support the continued operation of existing broadband networks that have relied on legacy support mechanisms. The plan limits its specific recommendations for the CAF to areas currently served by price cap incumbent LECs.

The AMF is designed to support the provision of mobile broadband service in high-cost areas that would otherwise lack such service, and may also support the provision of broadband satellite service in the highest-cost areas.

The plan begins to phase out the support that incumbent price cap LEC Eligible Telecommunications Carriers (ETCs) and competitive ETCs (CETCs) receive from the legacy universal service programs on July 1, 2012, once the CAF begins to disburse broadband funding. The plan eliminates those ETCs' support from the legacy universal service programs entirely by July 1, 2016, when the CAF is fully funded. This framework – phasing out the legacy universal service programs and creating a broadband-focused CAF and AMF – reflects the National Broadband Plan's key universal service recommendations and advances the public interest in promoting broadband availability.

Constraint on Fund Size: Consistent with the *Joint Statement*, the combination of (i) the universal service mechanisms covered by this plan¹ and (ii) the universal service mechanisms proposed by the rate-of-return carrier associations is designed to operate within the current size of the high-cost program, which is estimated to be \$4.5 billion per year.

¹ The universal service mechanisms covered by this plan are the CAF for price cap LEC areas, the AMF, the transitional access replacement mechanism for price cap incumbent LECs, and the legacy high-cost mechanisms insofar as they disburse support to CETCs and price cap incumbent LEC ETCs. This plan does not address legacy high-cost support mechanisms as applied to rate-of-return carrier ETCs.

The Connect America Fund for Areas Served by Price Cap Incumbent LECs

The CAF is targeted to distribute \$2.2 billion per year to support the provision of broadband service to residential and business service locations in high-cost areas served by price cap incumbent LECs. Many of these high-cost areas currently receive little or no universal service support from the legacy universal service programs. Under the ABC Plan, the Commission will begin to narrow the “rural-rural divide” that has provided rural areas served by price cap carriers with less support than the rural areas served by rate-of-return carriers.²

The CAF will begin disbursing support on July 1, 2012. Some areas may begin to receive CAF support immediately, while other areas will begin to receive support after the Commission has conducted a competitive bidding process. Because the start dates for CAF disbursements will be staggered, and because the plan reduces legacy high-cost support each year, the overall level of universal service support will remain within the \$4.5 billion per year constraint. The Commission may, however, take additional steps to phase in the CAF in order to ensure that the universal service program operates within the \$4.5 billion per year constraint. For example, the Commission could phase in CAF recipients’ support over three years.

The design of the CAF reflects a procurement model, under which providers incur service obligations only to the extent they agree to perform them in explicit agreements with the Commission.

Term of Support

Broadband providers that elect to receive support from the CAF will receive a fixed level of support for a term of ten years from the date on which support is awarded. To the extent that the Commission phases in a CAF recipient’s support for an area by providing CAF support for some census blocks before it provides CAF support for other census blocks, each group of census blocks will have a separate ten-year term. A CAF recipient’s support may not be reduced once awarded, provided that the recipient meets the obligations associated with CAF support. At the end of the ten-year term, the CAF recipient’s support and obligations will both end. Before July 1, 2022, the Commission will complete a proceeding to evaluate whether to create a successor universal service fund.

Broadband Service Supported by the CAF

Providers that receive CAF support must make available broadband service that provides customers with a minimum actual downstream bandwidth of 4 Mb/s and a minimum actual upstream bandwidth of 768 kb/s, and also provides robust service that is sufficient for households to use education and health care applications specified by the Commission. The supported broadband service must

² *Connect America Fund NPRM* at ¶ 6.

provide access to voice service, but voice service is not supported by the CAF and CAF recipients are not required to offer voice service. The broadband service obligation is technology-neutral: providers can use any wireline or wireless technology that meets the specified bandwidth and service requirements.

Supported Areas

CAF support is available only in those high-cost areas in which there is no private sector business case to offer broadband. The assessment of whether an area is “high-cost” is made on a census block-by-census block basis.

No CAF support for census blocks served by an unsupported broadband competitor: CAF support is not available in any census block in which at least one unsupported broadband competitor is already offering broadband service as of January 1, 2012.³ An “unsupported broadband competitor” is a facilities-based competitor that has invested to provide broadband in the census block without using federal or state high-cost universal service support and without any state or federal service obligations. The availability of broadband service from an unsupported broadband competitor demonstrates that there is a private sector business case to offer broadband and that high-cost universal service support is not required. In order to provide the stability that is necessary for CAF recipients to take on broadband service obligations for ten years, the entry of an unsupported broadband competitor after January 1, 2012 does not affect the level of CAF support.

State commissions may elect to be responsible for determining whether an area is already served by an unsupported broadband competitor as of January 1, 2012. A state commission may make that determination using broadband deployment mapping information, but states must give parties the opportunity to challenge the mapping data and provide additional information that indicates the presence or absence of an unsupported broadband competitor. The Commission will assume this responsibility if the state commission does not elect to provide verified deployment information for unsupported broadband competitors by January 1, 2012.

Cost model to identify high-cost areas: For each census block that does not have an unsupported broadband competitor as of January 1, 2012, the Commission will use a forward-looking cost model to determine the cost of providing broadband service in the census block. A census block is eligible for support from the CAF if the average per-service location cost of providing broadband service in the census block, as determined by the cost model, exceeds a high-cost “benchmark” that the Commission will specify. If the modeled cost of providing broadband

³ A competitor’s service qualifies as “broadband service” if it has the same capabilities as the broadband service supported by the CAF, i.e., it provides customers with a minimum actual downstream bandwidth of 4 Mb/s and a minimum actual upstream bandwidth of 768 kb/s, and also provides robust service that is sufficient for households to use education and health care applications specified by the Commission.

service is below the benchmark, then the census block is not considered “high-cost” and is not eligible for CAF support.

The plan supporters retained CostQuest Associates, Inc. (CostQuest) to develop the CostQuest Broadband Analysis Tool (CQBAT). CQBAT allows the calculation of the forward-looking cost of providing broadband, and the calculation of estimated support levels, on a census block basis. To ensure that the CAF can begin disbursing support by July 1, 2012, the Commission should adopt the CQBAT model prior to January 1, 2012.

Documentation for the CQBAT model is provided in Attachment 3. The model bases the support estimate on modeled network buildouts and capital and operating costs required for broadband deployments, as compared to a user-specified benchmark. CQBAT accounts for the impact of setting a target for the total support amount by relying on satellite broadband for extremely high-cost areas. It attempts to exclude from the support estimate any census blocks in which broadband service is already being provided by an unsupported broadband competitor. CQBAT includes unique detail for 8.2 million census blocks, and incorporates real-world engineering practices and a variety of real-world operating cost factors.

Aggregation of census blocks to Supported Area: By modeling the cost of broadband and applying the benchmark at the census-block level, the plan ensures that support is targeted precisely to high-cost areas in which support is necessary for providers to offer broadband. However, because it would be unwieldy to administer the disbursement of CAF support to millions of individual census blocks, the CAF disburses support to a “supported area” on a wire center-by-wire center basis. For each incumbent LEC wire center, the “supported area” consists of all census blocks that (1) are not served by an unsupported broadband competitor; and (2) whose cost exceeds the benchmark. Thus, each supported area is a collection of census blocks that is no larger than a wire center and typically smaller than a wire center. In a rural wire center, for example, the CAF might provide support for the sparsely populated outlying area while providing no support for the more densely populated “town” area. A CAF recipient’s obligations apply only in the supported area.

Baseline Support Amount

After the Commission has identified the supported area in a wire center, it will use the forward-looking cost model to calculate a baseline support amount for the supported area.

Census blocks whose cost is above the alternative technology threshold: The National Broadband Plan found that a small number of the most expensive locations represent a disproportionate share of the broadband availability “gap.”⁴

⁴ National Broadband Plan at 138.

In order to minimize the contribution burden on consumers, the National Broadband Plan recommended that the Commission consider satellite broadband for addressing the most costly areas of the country.⁵ Consistent with that recommendation, the plan excludes the highest-cost census blocks from the calculation of the baseline support amount available from the CAF. To identify the highest-cost census blocks, the Commission will specify an “alternative technology threshold.” If the average cost per-service location of a census block exceeds the alternative technology threshold, then the census block is excluded from the calculation of the baseline support available from the CAF. The census block remains part of the supported area. However, as is discussed below, the CAF recipient is permitted to exclude from its service obligation those service locations that could be served most efficiently using satellite broadband (up to the number of service locations in the highest-cost census blocks). The satellite broadband locations must fall within a supported area but do not need to be in the specific census blocks that are excluded from the baseline support calculation.

Calculation of baseline support amount: If the average per-service location cost of a census block is above a benchmark but below the alternative technology threshold, then the census block is included in the calculation of the baseline support amount. For each such census block, the Commission will determine the support amount by subtracting the benchmark cost⁶ from the modeled cost of providing broadband. The Commission will then aggregate the support amounts for all of the census blocks to determine the baseline support amount for the supported area.

Model estimates: As is discussed in Attachment 2, the results from the CQBAT model show that a CAF targeted to distribute \$2.2 billion per year in the areas served by price cap LECs would ensure that over four million homes and businesses in rural areas for which there is no private sector business case will have access to broadband, two million of which will enjoy the benefits of broadband for the first time.

The cost model analysis also demonstrates that \$2.2 billion per year is not sufficient to support the provision of broadband to all high-cost service locations in the territories served by price cap LECs. With the high-cost benchmark set at \$80 per line, the model estimates that \$5.9 billion per year is needed to support the provision of broadband to all high-cost service locations in the territories served by price cap LECs. To meet the \$2.2 billion target, the model excludes the highest-cost census blocks from the CAF support calculation by setting the alternative technology threshold at \$256 per month. With the alternative technology threshold set at \$256 per month, the model estimates that approximately 730,000 service locations in price cap territories would be excluded from CAF support. Those 730,000 locations, which the plan addresses

⁵ National Broadband Plan at 150.

⁶ The benchmark cost of a census block is determined by multiplying the number of service locations in the census block by the per-line high-cost benchmark specified by the Commission.

below in its discussion of the AMF, are well within the capacity of broadband satellites.

Distribution of CAF Support

Once the Commission has determined the supported area and the baseline support for each wire center, providers may apply to the Commission for CAF support. Providers apply for CAF support on a wire center-by-wire center basis. The application process varies depending on whether the incumbent LEC that serves the wire center has already made substantial broadband investments in the wire center.

Wire centers with substantial existing broadband investment (high-speed Internet service available to more than 35 percent of service locations): If the incumbent LEC that serves the wire center has already made high-speed Internet service available to more than 35 percent of the service locations in the wire center, the incumbent LEC is given an opportunity to accept or decline the baseline support and the associated broadband service obligations in the census blocks that make up the supported area within that wire center.⁷ If it accepts the offer of the baseline support, then the incumbent LEC assumes all of the broadband service obligations for the ten-year term of CAF support. By first offering support to an incumbent LEC that has already made substantial investments in the wire center, the CAF will accelerate the deployment of broadband and avoid inefficient duplication of facilities constructed with the help of legacy high-cost universal service programs.

Incumbent LEC has not made substantial investments or declines offer: If the incumbent LEC either has not made substantial broadband investments in the wire center or declines the baseline support offer, then any qualified wireless or wireline provider that can meet the specified broadband service obligations may apply for the baseline support and the obligation to serve the associated census blocks. If multiple providers apply for support, the Commission will use competitive bidding to select the support recipient. Support is provided to the lowest bidder that will meet the specified buildout and service requirements. The baseline support amount functions as the reserve price, i.e., support cannot exceed that amount in the area.

Adjust obligations and/or support if no provider applies: If no provider applies for the CAF baseline support amount available in a wire center, then the Commission may adjust the broadband obligations and/or the available support, subject to the overall constraint on high-cost universal service support.

⁷ We estimate that incumbent LECs would have the opportunity to accept or decline CAF support in 82.0 percent of the census blocks that are eligible for CAF support, representing 82.2 percent of the \$2.2 billion in support targeted to areas served by price cap LECs.

Unused funds: If the total support awarded is less than the \$2.2 billion target for the territories served by price cap incumbent LECs, the Commission should use any remaining support to further expand broadband service in the areas served by price cap incumbent LECs or reduce the size of the high-cost fund. This provision recognizes that the \$2.2 billion target does not fully eliminate the rural-rural divide.

Obligations of the CAF Recipient

Consistent with the procurement model of USF support, the Commission shall impose CAF obligations only on providers that elect to receive support from the CAF, and those obligations shall apply only in the supported areas and for the ten-year term for which support is provided. The Commission shall specify CAF recipients' obligations at the outset, and shall not modify the CAF obligations or other terms of the agreement between the Commission and the CAF recipient without the CAF recipient's consent. The Commission shall not impose broadband service obligations on existing Eligible Telecommunications Carriers (ETCs) that do not receive support from the CAF.

Five-Year Buildout Obligation: A CAF recipient has five years from the date on which it is awarded CAF support to build out its broadband network to any unserved areas and meet the broadband service obligation described below.

Broadband Service Obligation: No later than five years after it is awarded CAF support, the CAF recipient must make broadband service available to a minimum number of service locations in the supported areas for which it receives CAF support. The minimum number of service locations is determined by subtracting the number of service locations in census blocks whose cost exceeds the alternative technology threshold from the total number of service locations in the supported areas.

For example, if there are 100 service locations in the supported areas for which a provider receives CAF support, and 10 service locations are excluded from the baseline support calculation because they are in census blocks whose average per-line cost exceeds the alternative technology threshold, then the CAF recipient must make broadband service available to a minimum of 90 service locations in its supported areas. The ten locations that the CAF recipient does not serve can be anywhere in those supported areas, i.e., those ten locations need not be only in the census blocks that are excluded from the baseline support calculation, and some or all of those ten locations may be in a different wire center. By allowing the CAF recipient to select the service locations that will satisfy its broadband service obligation, the plan recognizes the limitations of census block-level modeling and allows CAF recipients to make efficient network design decisions.

Under the plan, consumers in locations that the CAF recipient is not required to serve would be able to purchase broadband service directly from a broadband

satellite provider. The Commission may provide support from the AMF to offset a portion of the installation costs for satellite broadband for a limited number of such consumers (see AMF discussion, below).

Ten-year term: The CAF recipient must continue to meet its broadband service obligation in its supported areas until the end of the ten-year term of its CAF support. All CAF obligations terminate at the end of the ten-year term.

Advanced Mobility/Satellite Fund

The Advanced Mobility/Satellite Fund (AMF), which would begin disbursing support at the same time as the CAF or after the CAF has begun disbursing support, has two functions. First, the AMF supports the provision of mobile broadband service in those high-cost areas that will not receive service as a result of planned commercial mobile broadband deployments. A provider may not receive AMF support and CAF support for the same facility. Second, the Commission may use support from the AMF to offset a portion of the installation costs for a limited number of broadband satellite customers in the highest-cost areas in which CAF recipients do not deploy broadband because of the limit on support available for such areas.

The available AMF support in a given year is the difference between the overall constraint on the size of the high-cost fund and the sum of support from the CAF for price cap LEC areas, support from the transitional access replacement mechanism for price cap LECs, any remaining legacy support provided to price cap incumbent LEC ETCs and CETCs, and any support provided to rate-of-return incumbent LECs. Furthermore, support from the AMF may not exceed \$300 million per year.

The ABC Plan does not include a detailed proposal for the operation of the AMF. The plan supporters look forward to working with providers of rural mobile broadband service, satellite broadband providers, and other interested parties to develop a complete proposal for the operation of the AMF.

Transition from Legacy Universal Service Programs

Phaseout of legacy high-cost programs: As the Commission begins to phase in support for the CAF and AMF (targeted for July 1, 2012), the Commission will at the same time begin phasing out all price cap ETC and competitive ETC support from legacy high-cost programs (IAS, ICLS, HCM, HCL, and LSS). The support that an ETC may receive from the legacy high-cost programs will be reduced by a factor of 20 percent effective July 1, 2012; 40 percent effective July 1, 2013; 60 percent effective July 1, 2014; and 80 percent on July 1, 2015. Price cap ETC and CETC support from the legacy high-cost programs will be eliminated entirely on

July 1, 2016, when the CAF is fully funded. As is discussed below, all legacy high-cost universal service obligations are eliminated when support from the legacy programs is eliminated and, in those geographic areas in which the current ETCs receive no legacy high-cost support, the legacy ETC service obligations are eliminated immediately.

Transition to CAF: If an existing ETC does not participate in the CAF, it may continue to receive legacy support, reduced by the factors specified above, until support from the legacy high-cost programs is fully eliminated on July 1, 2016. If an existing ETC elects to participate in the CAF, its support in a given year will be the higher of (1) the support available from the CAF; or (2) any remaining legacy support for which the ETC is eligible, calculated at the holding company level.

2. Reforming Intercarrier Compensation to Support Broadband

Consistent with the National Broadband Plan's intercarrier compensation (ICC) recommendations, the ABC Plan creates a glide path to phase down per-minute charges to a low uniform rate while providing carriers with a meaningful opportunity for revenue recovery, and includes interim solutions to address arbitrage.⁸ Under the plan, the regulated terminating intercarrier compensation rates of all carriers except rate-of-return incumbent LECs are phased down to a uniform default rate of \$0.0007 per minute by July 1, 2017. The specifics of the intercarrier compensation transition for rate-of-return incumbent LECs are outlined in the *Joint Statement*.

Reform of terminating intercarrier compensation rates will advance broadband deployment by reducing the disincentives to deploying IP networks and reducing carriers' reliance on unstable implicit support mechanisms. And, by eliminating the disparities between intrastate and interstate access rates, and between access rates and rates for other traffic, the plan will end arbitrage schemes and disputes that divert resources from broadband deployment. Without reform, the ongoing decline in intercarrier compensation revenue will be an impediment to broadband deployment and may jeopardize universal service.

The intercarrier compensation reform and universal service reform provisions of the ABC Plan are inextricably linked. Carriers are able to reduce their reliance on implicit support from intercarrier compensation because the plan provides support from new explicit mechanisms – the CAF and the access replacement mechanism. And, to ensure that carriers are able to sustain and expand broadband networks during the transition, the plan begins disbursements from the CAF on the same date – July 1, 2012 – that the plan begins reducing terminating intercarrier compensation rates.

⁸ National Broadband Plan at 136.

Interim Rules

Voice over Internet Protocol (VoIP): The intercarrier compensation treatment of VoIP traffic that is exchanged between LECs and other carriers has been the subject of long-running disputes. This plan does not take a position on the appropriate intercarrier compensation treatment of VoIP traffic prior to January 1, 2012. Under the plan, the Commission will adopt a new rule, effective January 1, 2012, to govern the intercarrier compensation rates applicable to VoIP traffic exchanged between LECs and other carriers. Such traffic will be rated at interstate access rates if the call detail indicates an “access” call, or at reciprocal compensation rates if the call detail indicates a “non-access” call.⁹ All “toll” traffic that originates in IP or terminates in IP will be subject to current interstate access rates (regardless of whether it is interstate or intrastate); local termination rates would not be affected. All such traffic is incorporated into the overall transition as rates for terminating interstate access traffic are reduced and eventually unified at \$0.0007 pursuant to the comprehensive reform plan described below. Under the plan, intrastate access rates will not be applied to VoIP traffic.

Measures to address arbitrage: The Commission should adopt rules to address phantom traffic and arbitrage schemes involving both originating and terminating traffic, including traffic pumping. The plan does not recommend specific rules, but the plan supporters agree that the Commission should adopt an order addressing phantom traffic, traffic pumping, and other arbitrage schemes that is effective no later than January 1, 2012.

Comprehensive Reform: Measured Transition to a Unified \$0.0007 Rate for Transport and Termination

The plan transitions all price cap incumbent LEC, CLEC, and CMRS terminating intercarrier compensation rates to a uniform default rate of \$0.0007 per minute by July 1, 2017.¹⁰ The five-year transition is designed to give carriers adequate time to prepare and make adjustments to offset the lost revenues.¹¹ The scheduled July 1, 2012 start date for the transition, and the specific transition schedule, both presume that the CAF begins disbursing support on July 1, 2012 and is funded according to the timeline specified above. Any changes to the proposed timeline for funding the CAF would necessitate corresponding changes to the timeline for implementing intercarrier compensation reforms.

⁹ The MTA rule would continue to apply to wireless VoIP traffic. For example, intraMTA VoIP traffic originated by a wireless carrier would be subject to reciprocal compensation rates.

¹⁰ This framework applies only to TDM interconnection. IP-IP interconnection would continue to be governed by commercial agreements.

¹¹ National Broadband Plan at 149.

The rates specified in the transition schedule and the ultimate \$0.0007 rate are default rates. Carriers are free to enter into negotiated arrangements that depart from the default rates.

- **July 1, 2012**: Each carrier reduces its reciprocal compensation rate and intrastate terminating access rate for transport and switching, if above the carrier's interstate access rate, by 50% of the differential between the rate and the carrier's interstate access rate;
- **July 1, 2013**: Each carrier reduces its reciprocal compensation rate and intrastate terminating access rate for transport and switching, if above the carrier's interstate access rate, to parity with the carrier's interstate access rate;
- **July 1, 2014**: Each carrier reduces its terminating end office rates by one-third of the differential between its end office rates and \$0.0007. Transport rates remain unchanged from the previous step;
- **July 1, 2015**: Each carrier reduces its terminating end office rates by an additional one-third of the differential to \$0.0007. Transport rates remain unchanged;
- **July 1, 2016**: Each carrier reduces its terminating end office access rate to \$0.0007. Transport rates remain unchanged;
- **July 1, 2017**: Each carrier unifies all terminating traffic under 251(b)(5) at a rate of \$0.0007 for transport and termination consistent with some existing interconnection agreements that have adopted the "ISP remand" rate. Beginning with this step, the rate for transport and termination shall only apply to termination at the end office where the terminating carrier does not own the serving tandem switch (in which case, additional charges may or may not apply depending on the arrangement used to deliver traffic), and it shall only apply to transport and termination within the tandem serving area where the terminating carrier does own the serving tandem switch.

No terminating or other intercarrier compensation rates may increase. A carrier may not, for example, increase interstate or intrastate originating access rates from the rates in effect as of January 1, 2012. All bill and keep arrangements remain in place.

During the first two steps of the transition, both originating and terminating intrastate dedicated transport rates are transitioned to interstate levels.

Price Cap Incumbent LEC Subscriber Line Charges

As terminating intercarrier compensation revenue is reduced, price cap incumbent LECs are given the opportunity to adjust their business plans and rely to a greater extent on retail customer revenue. To facilitate that shift, the plan lessens restrictions on incumbent LECs' federal subscriber line charge (SLC) rates and pricing flexibility. Although any increases in SLC rates will be significantly

constrained by competition from wireless carriers, cable companies, “over the top” VoIP providers, and other competitors, the plan nonetheless retains a SLC cap and benchmark mechanism as consumer backstops.

The plan provides two separate paths for reducing constraints on price cap LEC SLC rates. If a price cap LEC elects to receive support from the transitional access replacement mechanism described below, the cumulative increase in the SLC may not exceed \$0.50 effective July 1, 2012; \$1.00 effective July 1, 2013; \$1.50 effective July 1, 2014; \$2.00 effective July 1, 2015; and \$2.50 effective July 1, 2016. If a price cap LEC does not elect to receive support from the transitional access replacement mechanism, the cumulative increase in the SLC may not exceed \$0.75 effective July 1, 2012; \$1.50 effective July 1, 2013; \$2.25 effective July 1, 2014; \$3.00 effective July 1, 2015; and \$3.75 effective July 1, 2016.

In addition, any SLC increase may not cause the sum of the local residential rate, federal SLC, state SLC, mandatory EAS, and per-line contribution to the state’s high-cost fund, if the state has a high-cost fund, to exceed a benchmark of \$30 per month. The benchmark comparison uses the local rate, state SLC, and EAS rate in effect on January 1, 2012.

Transitional Access Replacement Mechanism

The plan provides a transitional access replacement mechanism for price cap incumbent LECs that experience exceptionally large reductions in intercarrier compensation revenue. Such LECs, if they elect the appropriate SLC cap progression specified above, may recover a limited portion of their intercarrier revenue reductions from universal service support. The transitional access replacement mechanism is necessary to ensure that the intercarrier compensation reforms do not jeopardize the operations of broadband providers that rely on intercarrier compensation revenues for implicit support of networks in high-cost areas.

To the extent that the impact of the reductions in access rates under the plan and the net impact of the reduction in reciprocal compensation rates exceeds an imputed SLC increase of \$0.50 effective July 1, 2012; \$1.00 effective July 1, 2013; \$1.50 effective July 1, 2014; \$2.00 effective July 1, 2015; and \$2.50 effective July 1, 2016, or exceeds the maximum SLC increase permitted by the \$30 benchmark, the incumbent LEC may recover 90 percent of any revenue reduction greater than the imputed SLC increase. The impact of the reduction in access rates is calculated relative to the rates in effect on January 1, 2012, and is recalculated each year to reflect changes in traffic volumes. Support from the access replacement mechanism is calculated at the holding company level, i.e., by comparing the total holding company-level impact of the rate reductions to the imputed SLC increase applied to all holding company lines. The access replacement support available to price cap incumbent LECs is transitional: beginning on July 1, 2018, the incumbent LEC’s access replacement support is

reduced each year by one-third of the July 1, 2017 amount until the access replacement support is eliminated entirely on July 1, 2020.

We estimate that the transitional access replacement mechanism will disburse approximately \$60-\$80 million in the peak year and then decline over time as access demand declines. We estimate that the mechanism will disburse approximately \$40-\$60 million in support in the year beginning July 1, 2017. That amount will be reduced by one-third each year, beginning on July 1, 2018, until access replacement support is eliminated entirely on July 1, 2020. The transitional access replacement mechanism shall be fully funded during the transition.

3. Regulatory Framework

The transition from POTS to IP-based broadband networks that serve all Americans will require hundreds of billions of dollars of private sector investment. To encourage that investment, the Commission must follow a policy of nonregulation of broadband and other information services, which permits those services “to flourish in an environment of free give-and-take of the marketplace.”¹² The Commission must conclude that VoIP services are interstate services, and reaffirm that broadband services are interstate services. The Commission must also preempt any state regulation of those services that is inconsistent with the federal policy of nonregulation.

In addition, the Commission should eliminate legacy regulations that act as a barrier to the transition to IP broadband networks. In particular, the Commission must eliminate legacy ETC regulations and requirements imposed on price cap incumbent LEC ETCs and CETCs when it eliminates those carriers’ support from the legacy universal service programs, no later than July 1, 2016, and before then, make clear that any such requirements apply only in the particular areas that receive support and end whenever an ETC no longer receives any legacy high-cost or CAF support for a given area. At the same time, the Commission should eliminate all remaining federal rate and other service regulations imposed on price cap incumbent LECs.

If a state maintains obligations to serve, including carrier of last resort (COLR) obligations for price cap incumbent LECs, the Commission must preempt such obligations as inconsistent with federal broadband policy unless the state fully funds the obligations with explicit support and the ILEC agrees to accept the obligations in exchange for funding. Otherwise, COLR obligations are incompatible with the transition to broadband networks because in many cases they require incumbent LECs (and only incumbent LECs) to divert resources from the deployment of broadband networks.

¹² *Vonage Order* at ¶ 21 (internal quotations and citations omitted).