



National Regulatory
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Funding the National Broadband Plan through Federal Universal Service Reform of the High-Cost Fund: Key Questions

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I. Introduction

“Everyone in the United States today should have access to broadband services supporting a basic set of applications that include sending and receiving email, downloading web pages, photos and video, and using simple video conferencing.”

The National Broadband Plan, p. 135

In order to “jump start” the national deployment of broadband, Recommendation 8.6 of the plan calls for shifting up to \$15.5 billion in federal high cost support funds from the voice network to broadband.

The FCC makes four specific recommendations for shifting these existing high cost funds to broadband deployment:

1. Immediately issue an order to implement the reduction in HCF voluntarily agreed to by Sprint and Verizon Wireless as part of an earlier merger agreement.
2. Require rate-of-return carriers to move to incentive regulation.
3. Redirect Interstate Access Support funding (IAS) to broadband deployment.
4. Phase out legacy high cost support to competitive ETCs.

These recommendations raise a number of key questions that must be answered to ensure that states, consumers, and carriers are not negatively impacted during the transition to broadband. These questions will be addressed by our panelists today.

II. Key Questions to be Addressed by the Panelists

A. Rate of return: A key part of Recommendation 8.6 is moving from rate-of-return regulation to incentive regulation (price caps).

1. Is there enough competition in rural areas to make competitive/incentive pricing a reality?
2. As rate of return regulation is withdrawn, will rural companies have the financial support they need to survive? Will states need to make up the shortfall to ensure that end-user rates do not increase significantly?

- B. IAS funding:** Section 8.6 proposes that Interstate Access Support (IAS) funding should be redirected toward broadband deployment.
1. How will this impact the carriers currently receiving this funding?
 2. What can the FCC and carriers do to ensure that these funds actually do stimulate broadband deployment without negatively impacting the existing voice network?
 3. Should the states require that all broadband networks include a separately offered voice component?
- C. Phase out competitive high cost support:** Section 8.6 proposes to phase out high cost support to competitive ETCs over the next five years, including the potential for limiting high cost support to wireless carriers to a single handset on a multi-line family plan.
1. How should the phase-out process be managed? Does the five-year time horizon provide sufficient time for carriers to determine how to replace this funding? Should the timing be linked to the roll-out of the Connect America Fund and the Mobility Funds in Recommendations 8.2 and 8.3?
 2. What would be the impact of an immediate reduction in support to wireless carriers that receive funds for each handset on a family plan? Most wireless plan rates are controlled by end-user contracts. Will an immediate phase-out of this subsidy impact those contracts?
 3. Can/will competitive ETCs that currently offer only voice services remain in the market as high cost support is withdrawn, or could this recommendation lead to further erosion of competition?

III. Additional General Questions Should Time Permit

- A.** What will be the short-term impact on current operations of designating the funds as “broadband only”? Could closing the broadband gap cause a wireline gap?
- B.** Will state high cost funds need to be diverted to ensure that wireline quality of service remains adequate as carriers begin to convert their networks to broadband?
- C.** As the broadband plan forces the convergence of voice and data networks, should states designate a new class of service called “lifeline broadband” to ensure that all consumers remain able to make and receive voice as well as data calls? How can the states and the FCC ensure that low-income consumers have access to the equipment necessary to use broadband services (including voice provided over the broadband network)?