



Background on Washington Universal Service Funding

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Brief History of Telecom

	Pre-Divestiture	Post- Divestiture	Post- TCA 1996
Competition	Little or none	Long Distance	All encouraged
Services	Local & LD	Local & LD	Local, LD, Broadband & Wireless
Local Rates	Low	Affordable	Packaged with other services
LD Rates	High	Lower	Lower and Decreasing
Traditional LD Volumes	Steady	Increasing	Decreasing
LEC Cost Recovery	Local Rates and Settlements	Local Rates, Access and SLCs	Local Rates, De-reg Services , Access , SLC and FUSF



Foundations of Universal Service and Access Charges

Statutes

- RCW 80.36.300 “The Legislature declares it is the policy of the state to preserve affordable universal telecommunications service...”
- RCW 80.36.600 Directs the UTC to “...plan and prepare to implement a program for the preservation and advancement of universal telecommunications service...” subject to legislative approval.

Regulations

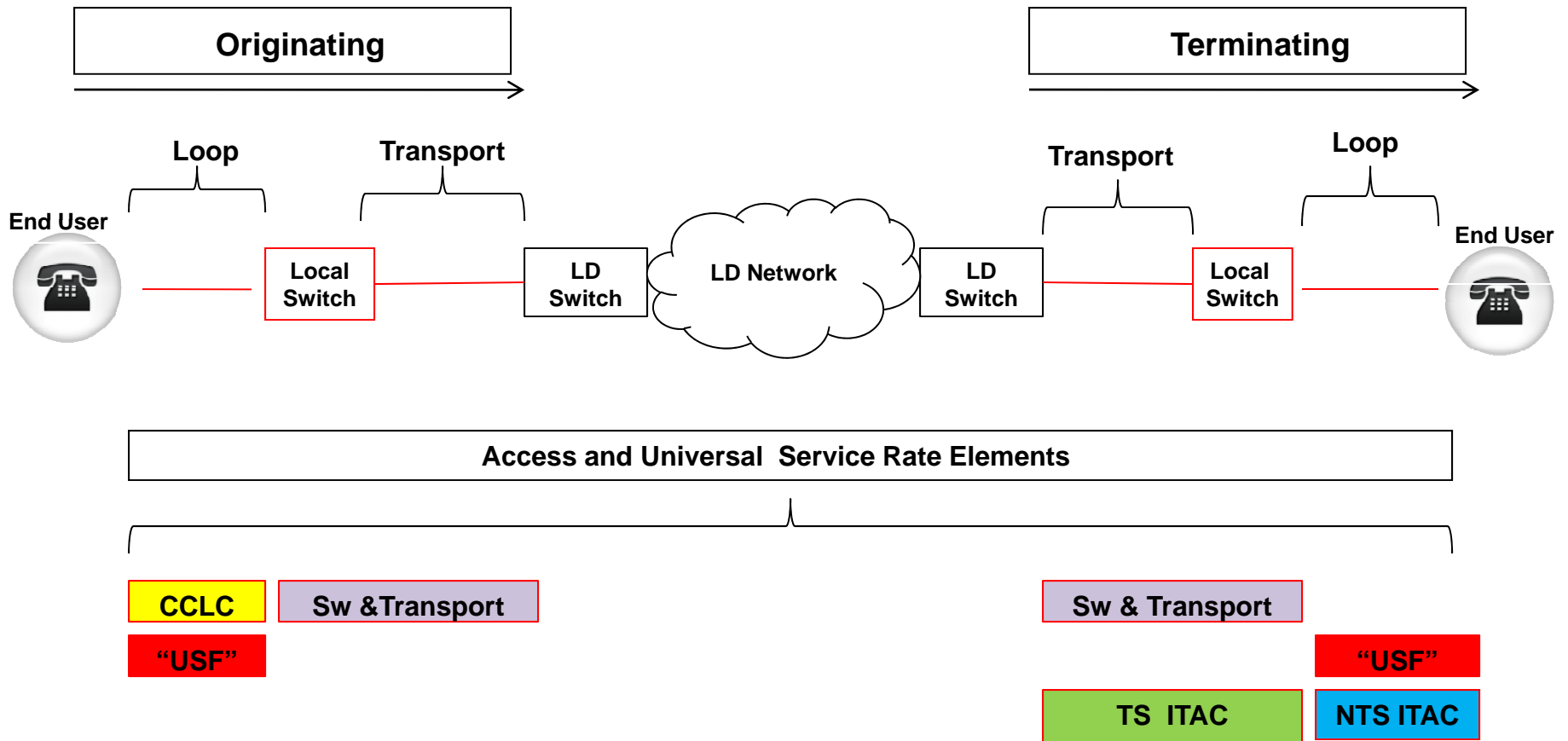
- WAC 480-120-540 Provides the ability of LECs to recover costs for support of universal service through access charges, as an “interim” rate element applied to terminating access service (ITAC).
- WAC 480-120-352 Defines the scope of WECA’s activities

Dockets

- **U-85-23** **Established Access Charges and “Traditional USF” charge**
- **UT-970325** **Established Term Access Charge Rule and “ITAC” charges**
- **UT-971140** **Established “WCAP” as a “support” pool administered by WECA**



Local Exchange Network and Switched Access Rate Elements





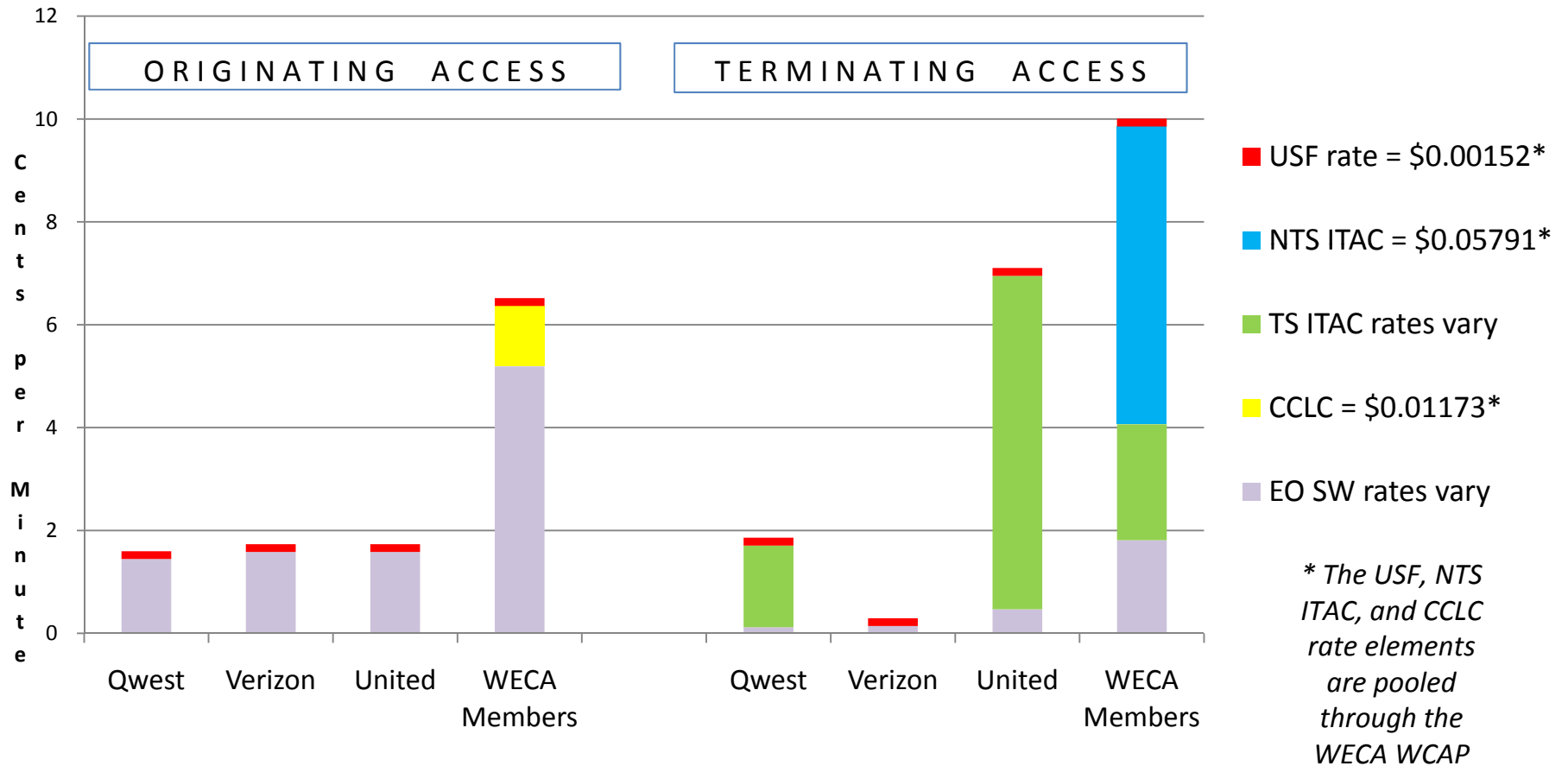
Access and Universal Service Rate Table

Rate Element	Traffic Type	Cost* (\$/Minute)	Billed to LD Carriers By...	Distribution Mechanism	Revenue Generated
<i>“Traditional” USF</i>	<i>Orig. and Term.</i>	<i>\$.00152</i>	<i>All LECs</i>	<i>WCAP Pool (WECA)</i>	<i>\$5M</i>
<i>NTS ITAC</i>	<i>Term.</i>	<i>\$.05791</i>	<i>WECA LECs</i>	<i>WCAP Pool (WECA)</i>	<i>\$12M</i>
<i>TS ITAC</i>	<i>Term.</i>	<i>Varies By LEC</i>	<i>All LECs except Verizon</i>	<i>Bill and Keep</i>	<i>\$22M</i>
<i>CCLC</i>	<i>Orig.</i>	<i>\$.01173</i>	<i>WECA LECs</i>	<i>WCAP Pool (WECA)</i>	<i>\$2M</i>
<i>EO Switching</i>	<i>Orig. and Term</i>	<i>Varies By LEC</i>	<i>All LECS</i>	<i>Bill and Keep</i>	<i>\$33M</i>
Total					\$74M

* Rates are on file at the UTC.

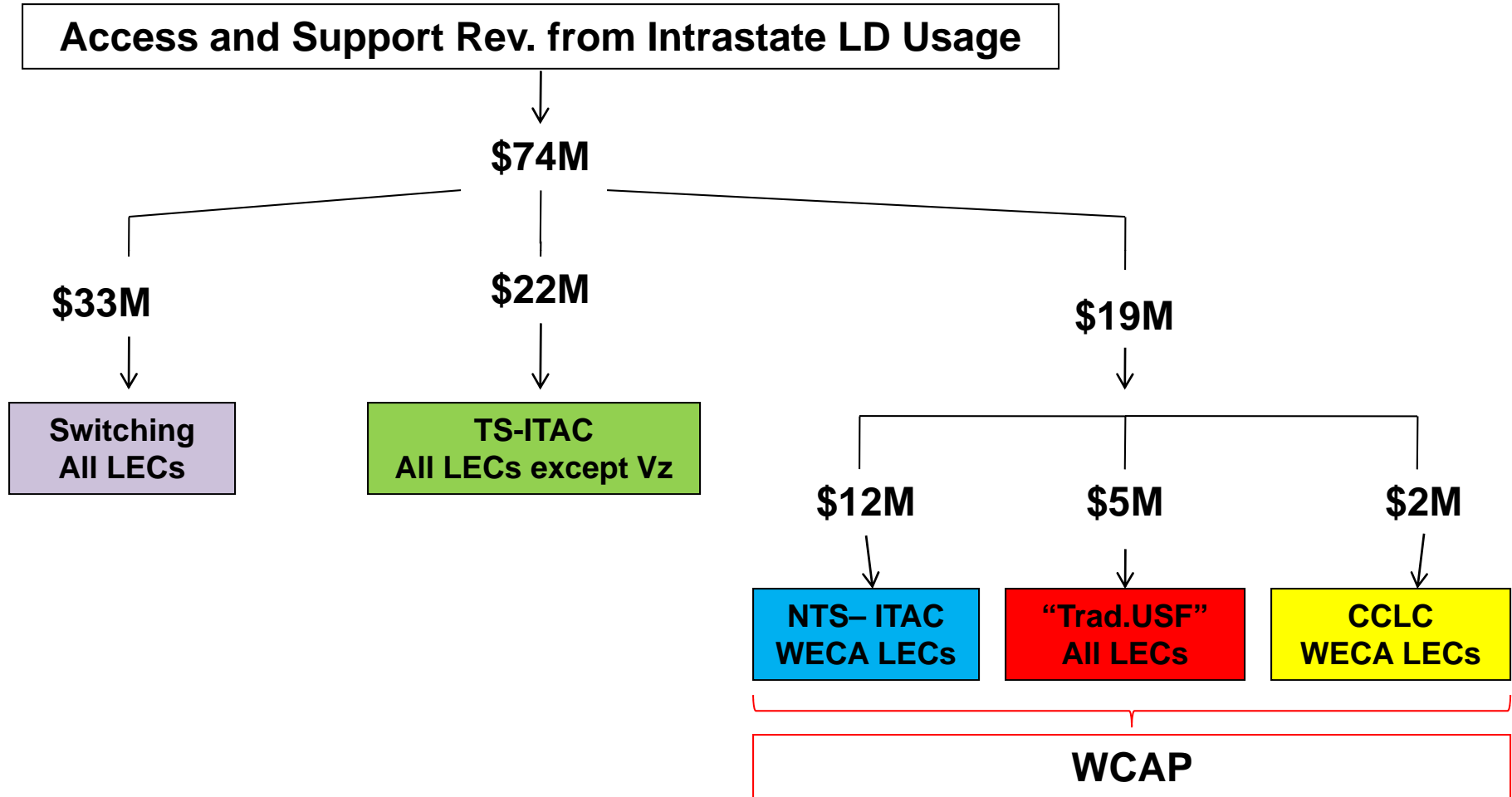


Washington Switched Access Rates



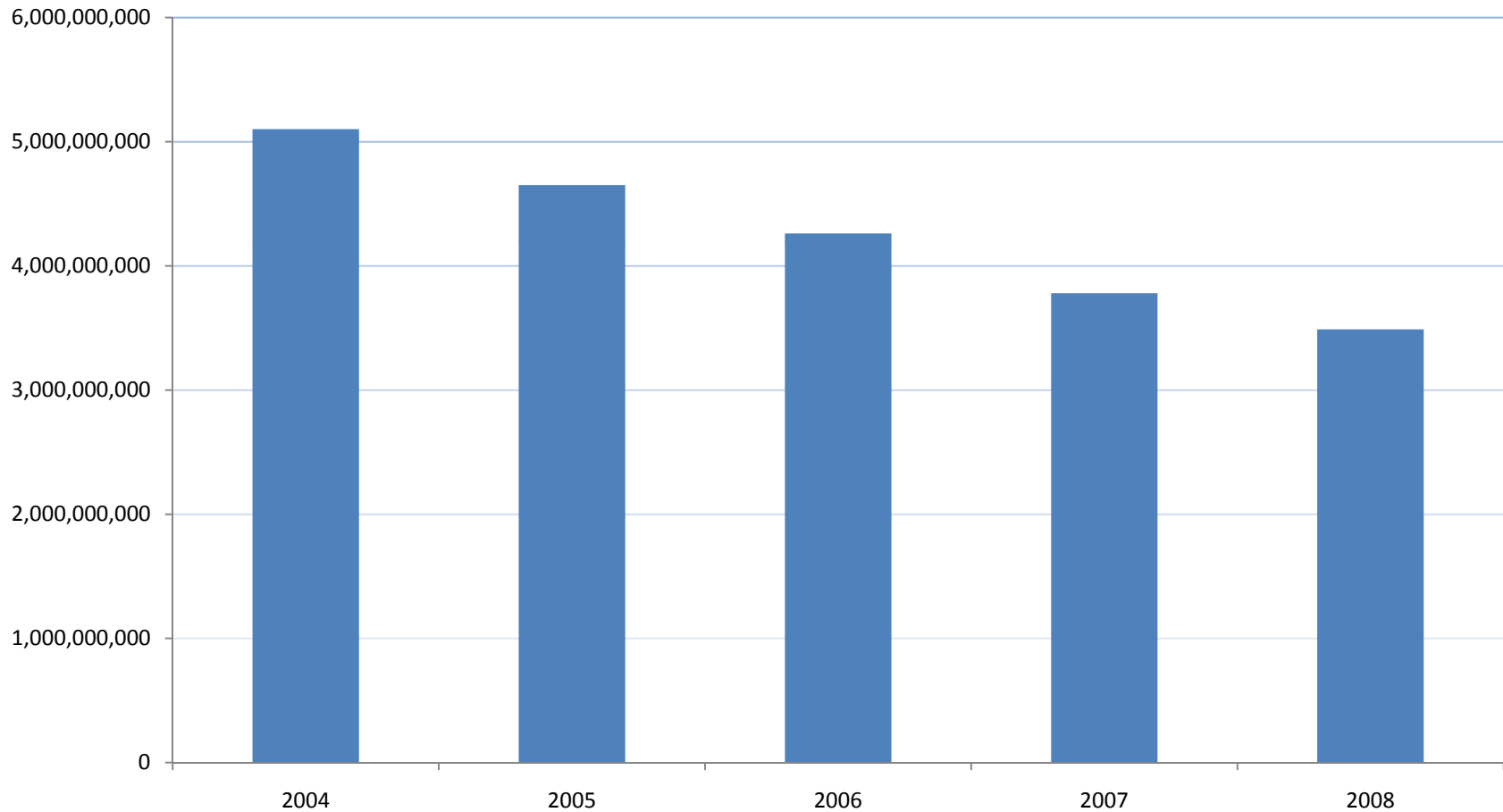


Access and Universal Service Revenue Flows (CY 2008)





Intrastate Access Minutes of Use (All LECs)

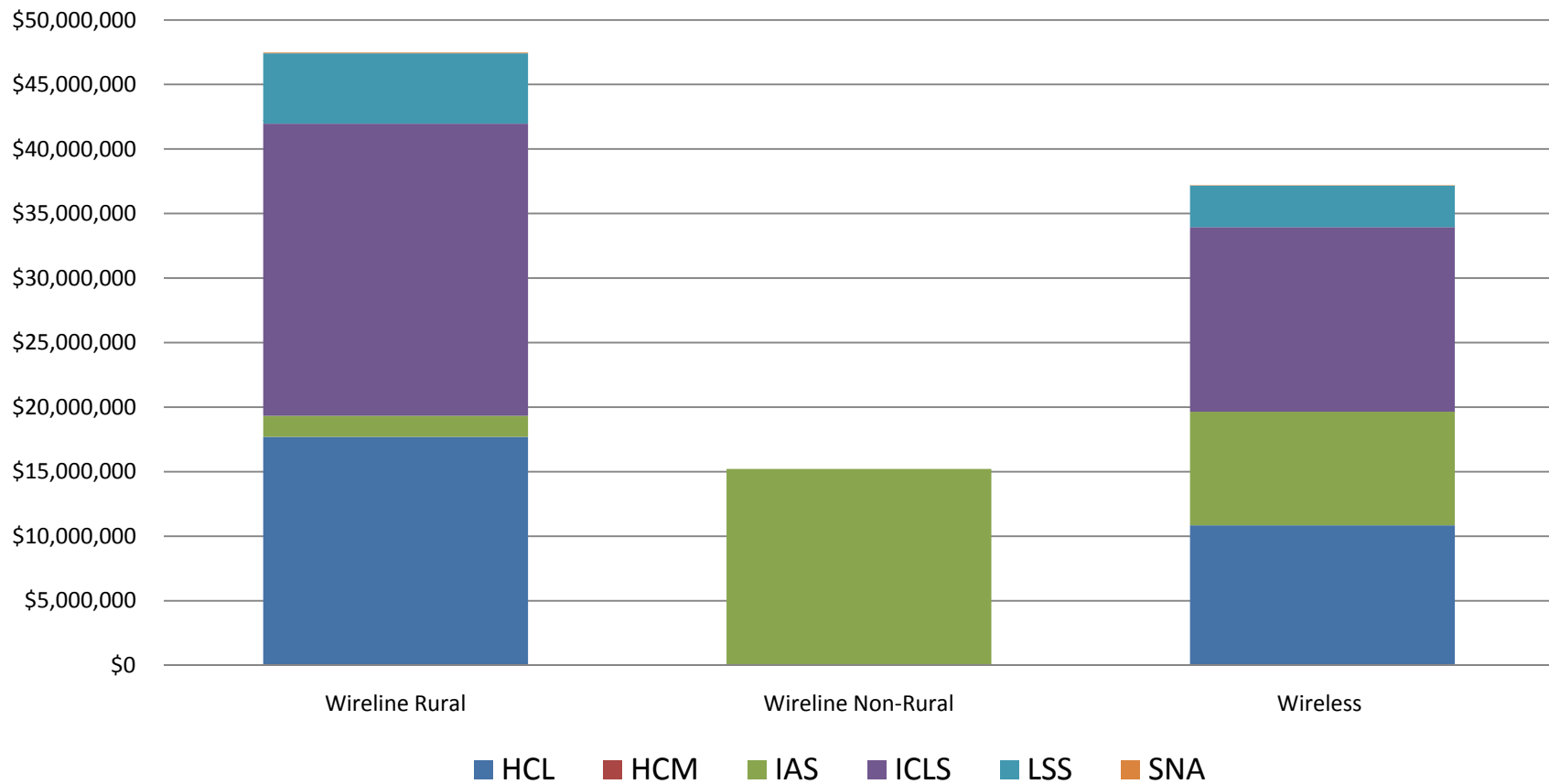


Source: WECA Access Report, 2005 – 2009 (Redacted)



Total Federal USF Support

2009 Federal High Cost Fund Received by ETCs in Washington
(Total = \$100 Million)





Summary of Washington Universal Support

- Annual funding, State and Federal, is approximately \$141M
 - \$100M from FUSF
 - \$41M from Washington intrastate LD usage via access charges
 - \$19M is pooled via WECA/WCAP and distributed to WECA members
 - \$22M is billed by all LECs except Verizon and kept by each as support
- Collections are dependent upon LD usage which is dropping
- Future considerations:
 - Carrier of Last Resort Obligations
 - What services need to be supported?
 - How much support is required?
 - How would support be collected?
 - How should it be distributed?



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DEFINITIONS and ACRONYMS

- 1) Access Charges:** A set of fees charged by Local Exchange Carriers (“LECS”) to Long Distance carriers for the cost of LEC facilities used to originate or terminate Long Distance (“LD”) calls.

- 2) Carrier Common Line Charge (CCLC):** In Washington, the access charge rate element levied on LD carriers by LECs for the use of the local loop in connection with the origination of intrastate LD calls.

- 3) Eligible Telecommunications Carrier (ETC):** A LEC or wireless carrier that is eligible to receive support from the Federal Universal Service Fund. The Federal USF is projected to be \$8.7B (FY 2010) and is funded via an assessment on end-users’ interstate charges and appears as a line-item on end user bills. The assessment is determined by the FCC, is currently 15.3% and is adjusted on a quarterly basis.

- 4) Federal Universal Service Fund (FUSF):** The FUSF is a system of support programs under the direction of the FCC that has four main programs: The High Cost Fund; Low Income program; Schools and Libraries program; and Rural Health Care program. The FUSF is funded by a surcharge assessed on interstate telecommunications revenues. The surcharge is adjusted quarterly and is currently 15.3% . In FY 2010 the size of the fund is projected to be \$8.7B.

- 5) High Cost Fund (HCF):** HCF, currently estimated to be \$4.6B for 2010 and is a component of the Federal Universal Service Fund which is estimated to be \$8.7B in 2010. The High cost fund has been established support companies serving high cost areas with the goal of maintaining universal service. HCF support is available to qualifying ETCs such as incumbent LECs (ILECs), qualifying competitive LECs (CLECs) and qualifying wireless carriers. The HCF consists of the following support elements:



DEFINITIONS and ACRONYMS 'cont.

- a) High Cost Loop (HCL) Support:** Supports rural companies for their non-traffic sensitive local loop costs in service areas where the cost to provide service exceeds 115% of the national average cost per line. On a national basis, HCL is estimated to be \$1.5B of the \$4.6B High Cost Fund.
- b) High Cost Model (HCM) Support:** Supports non-rural carriers for their interstate loop costs that exceed a national benchmark based on a forward-looking economic cost model. The benchmark is two standard deviations above the national average cost per line, which is capped at \$240 per line and indexed to the rate of growth in the national total of working loops. Nationally, HCM is estimated to be in 2010, \$.355B of the \$4.6B High Costs Fund.
- c) Interstate Access Support (IAS):** IAS was implemented in 2000 as a result of FCC interstate access charge reform in the Coalition of Affordable Local and Long Distance Service (CALLS) proceedings. It helps offset price cap companies' (i.e. typically, large non-rural LECS) revenue losses associated with reduction in access charges that cannot be recovered from increases in SLC revenue. Nationally, in 2010 IAS will account for approximately \$.641B of the \$4.6B High Cost Fund.
- d) Interstate Common Line Support (ICLS):** ICLS was implemented in 2002 as a result of the FCC interstate access charge reform in the Multi-Association Group (MAG) proceedings. It helps offset rate-of-return companies' (typically rural LECs) revenue loss that cannot be recovered from the SLC revenue when they reduce their interstate access charges. For 2010, ICLS is estimated to be approximately \$1.5B of the \$4.6B High Cost Fund.
- e) Local Switching Support (LSS):** LSS subsidizes local switching costs for small ILECs serving 50,000 lines or fewer. For 2010, LSS is estimated to be \$.5B of the \$4.6B High Cost Fund.



DEFINITIONS and ACRONYMS 'cont.

f) Safety Net Additive (SNA): SNA supports rural carriers that make significant investment in years in which the high cost loop fund is capped. In 2010, SNA is estimated to be \$52 Million of the \$4.6B High Cost Fund.

g) Safety Valve Support (SVS): SVS provides additional support to rural carriers that acquire high-cost exchanges and make substantial post-transaction investment. For 2010, SVS is estimated to be about \$2.3 Million of the \$4.6B High Cost Fund.

6) Interim Terminating Access Charge (ITAC): A set of two intrastate access charge elements (Traffic Sensitive and Non-Traffic Sensitive) that LECs may levy on LD carriers' calls that terminate over a LEC's facilities. These two terminating charges were authorized as a mechanism by which LEC's can recover any costs for support of universal access to basic telecommunications service (i.e. universal service).

7) Local Exchange Carrier (LEC): Provides local facilities to support traditional local service to subscribers as well as access services to LD carriers, wireless carriers and broadband services. LECs include both incumbent local exchange carriers (ILECs) as well as competitive local exchange carriers (CLECs).

8) Local Loop: The physical wire that connects the subscriber's premises to the LEC's local switch.

9) Local Switching Charge (LS or EO): Often called End Office Switching Charge, is the access charge rate element levied by the LECs to the LD carriers for use of local switching equipment in connection with the origination and termination of long distance calls. In Washington, Local Switching is applied on both originating and terminating intrastate minutes associated with LD calls.



DEFINITIONS and ACRONYMS 'cont.

- 10) Non-Traffic Sensitive (NTS):** LEC telephone facilities which are unaffected by changes in the amount of telephone traffic. Typically, Local Loops have been thought of as a non-traffic component of LEC facilities.
- 11) Subscriber Line Charge (SLC):** A flat rate, non-usage sensitive, monthly charge placed on end users billed by LECs and created by the FCC to assist LECs in the recovery of costs associated with local loops. This charge is also known as the Customer Access Line Charge (CALC) or End User Line Charge (EUCL) and is subject to adjustment and review by the FCC, differs for residential and business lines and appears as a separate line item on end user bills. For residential and single line business subscribers the SLC is capped at \$6.50 per line per month.
- 12) Traffic Sensitive (TS):** LEC telephone facilities which are affected by changes in the amount of telephone traffic. Typically, End Office switches and transport facilities from the LEC switch to the LD carriers switch have been thought of as traffic-sensitive parts of LEC telephone facilities.
- 13) Transport facilities:** In its simplest form, LEC facilities that connect the LEC end office switch to the a designated LD switch over which long distance traffic is passed between the LEC local switch and the LD carrier.
- 14) "Traditional" USF :** Authorized by the UTC in U-85-23, "Traditional" USF is an access charge element identified to support LEC's whose loop costs exceed 115% of the statewide average. This element is billed by all LEC's to LD carriers on every originating and terminating intrastate LD minute. It is currently \$.00152 per originating and terminating minute.



DEFINITIONS and ACRONYMS 'cont.

15) Universal Service: Policy of Federal government contained in Section 1 of the Telecommunications Act of 1934. Sec. 1 states that the purpose of Universal Service is “...to make available, so far as possible, to all the people of the United States a rapid, efficient, nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges...”

In 1985, Washington’s legislature also embraced universal service as a policy goal that is found in RCW 80.36.300 where it states:

“ The legislature declares it is the policy of the state to: 1) Preserve affordable universal telecommunications service; (2) Maintain and advance the efficiency and availability of telecommunications service; (3) Ensure that customers pay only reasonable charges; (4) Ensure that rates for noncompetitive telecommunications service do not subsidize the competitive ventures of regulated telecommunications companies; (5) Promote diversity in the supply of telecommunications services and products in telecommunications markets throughout the state; and (6) Permit flexible regulation of competitive telecommunications and services. “

16) Washington Carrier Access Plan (WCAP): Provides guidance for the administration of the revenue pooling performed by WECA. The plan is a result of a settlement adopted in Docket UT-971140. The Traditional USF access charge rate element as well as the NTS ITAC and the CCLC elements are pooled in WCAP and the proceeds are distributed to the WECA member companies to support their loop costs.



DEFINITIONS and ACRONYMS 'cont.

17) Washington Exchange Carriers Association (WECA): A non-profit corporation that administers the WCAP pool for 24 member LECs. WECA also functions as the administrator of the Data Distribution Center (DDC) and as a tariff bureau. The member companies are:

Asotin - TDS	Hood Canal	Pioneer
Beaver Creek	Inland Telephone	St. John
CenturyLink of Cowiche	Kalama	Tenino
Century Link of Inter-Island	Lewis River-TDS	Toledo
CenturyLink of WA	M&L Enterprises	Western Wahkiakum
Computers 5 – Local Tel	Mashell Telecom	WeavTel
Ellensburg - Fairpoint	McDaniel - TDS	Whidbey
Hat Island	Pend Oreille	YCOM Networks - Fairpoint