

Debunking the Make-Whole Myth: A Common Sense Approach to Reducing Irrational Telecommunications Subsidies

Presentation to Washington Utilities and Transport Commission

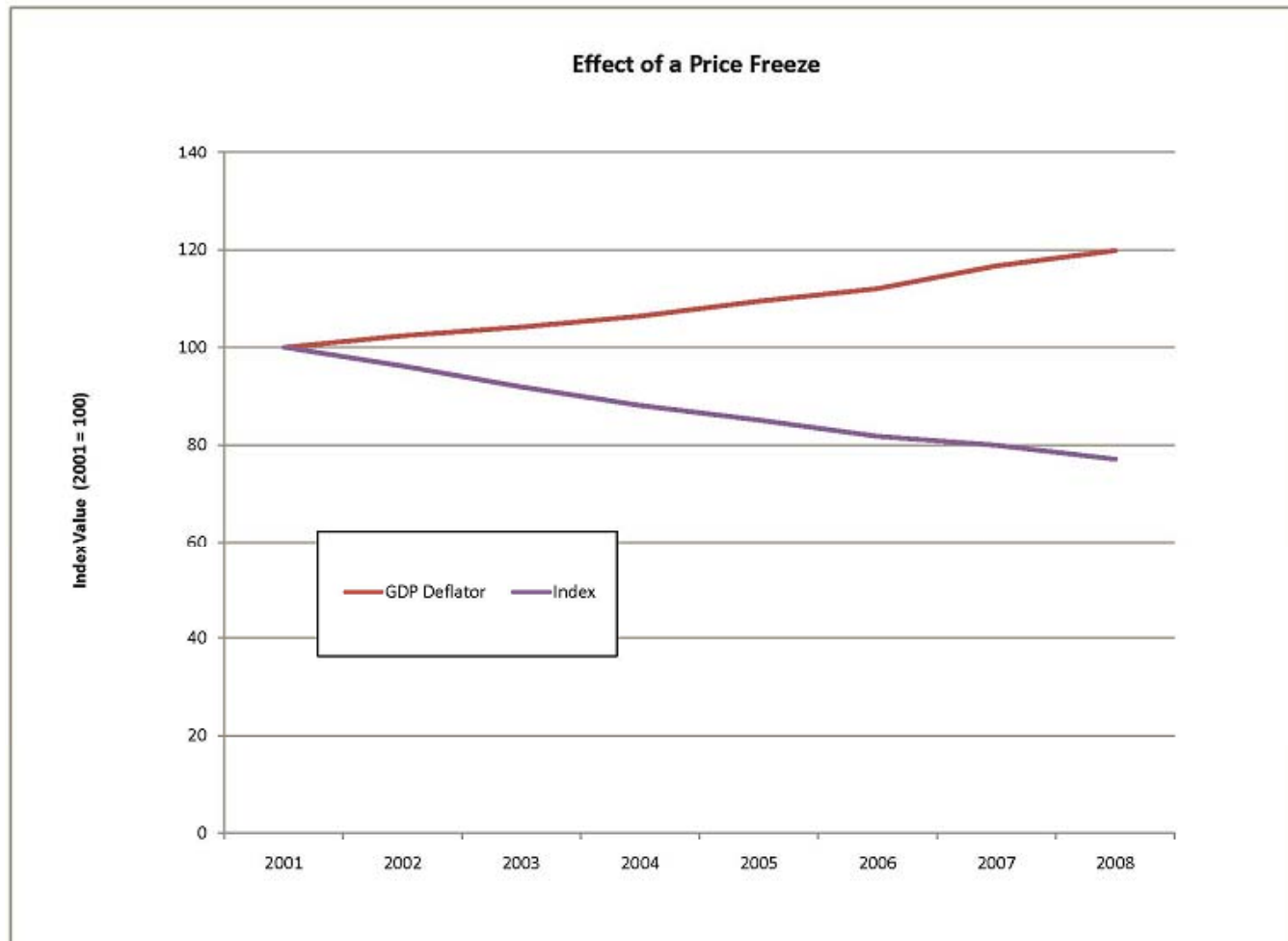
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Role of Make-Whole in Telecommunications Policy

- Make whole paradigm is based on traditional rate cases
- Rate cases are rarely held
- Under price caps, the case for make whole is tenuous

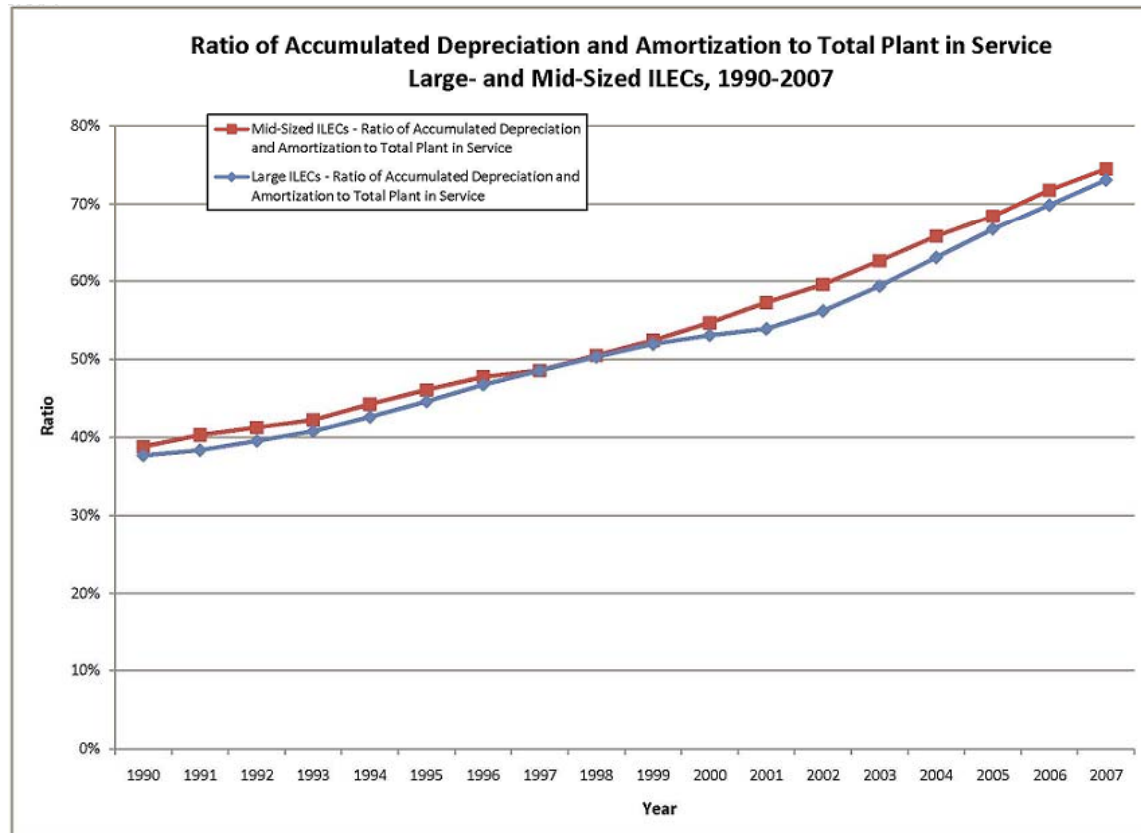
The good life under price caps



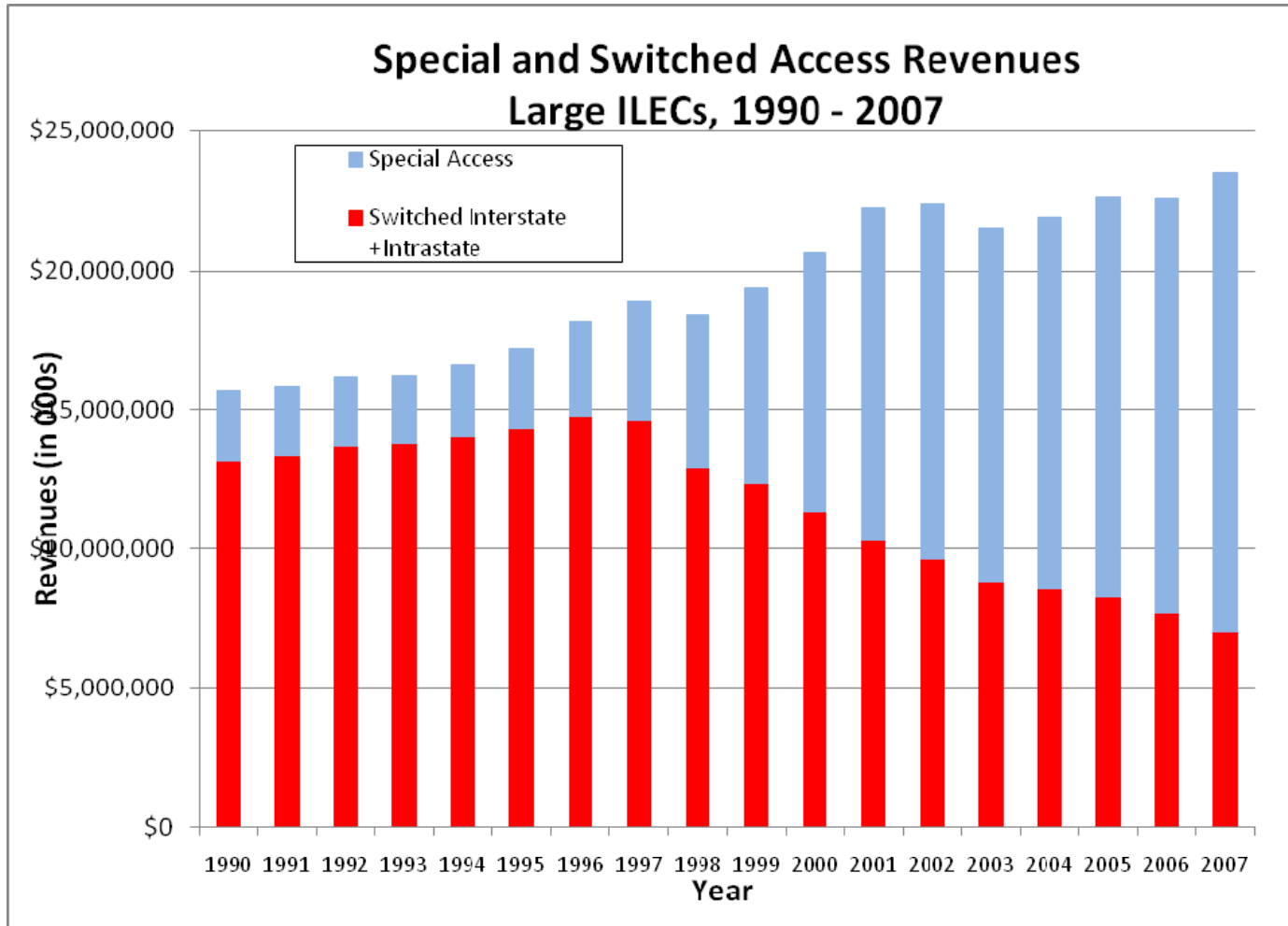
ILEC Case for Make-Whole

1. Entitlement to recover historic costs incurred to fulfill their service obligations
2. Ability to fund future investment is threatened by loss of access revenue or universal service funds
3. Subsidies are needed to offset the burden of retaining the carrier of last resort obligation

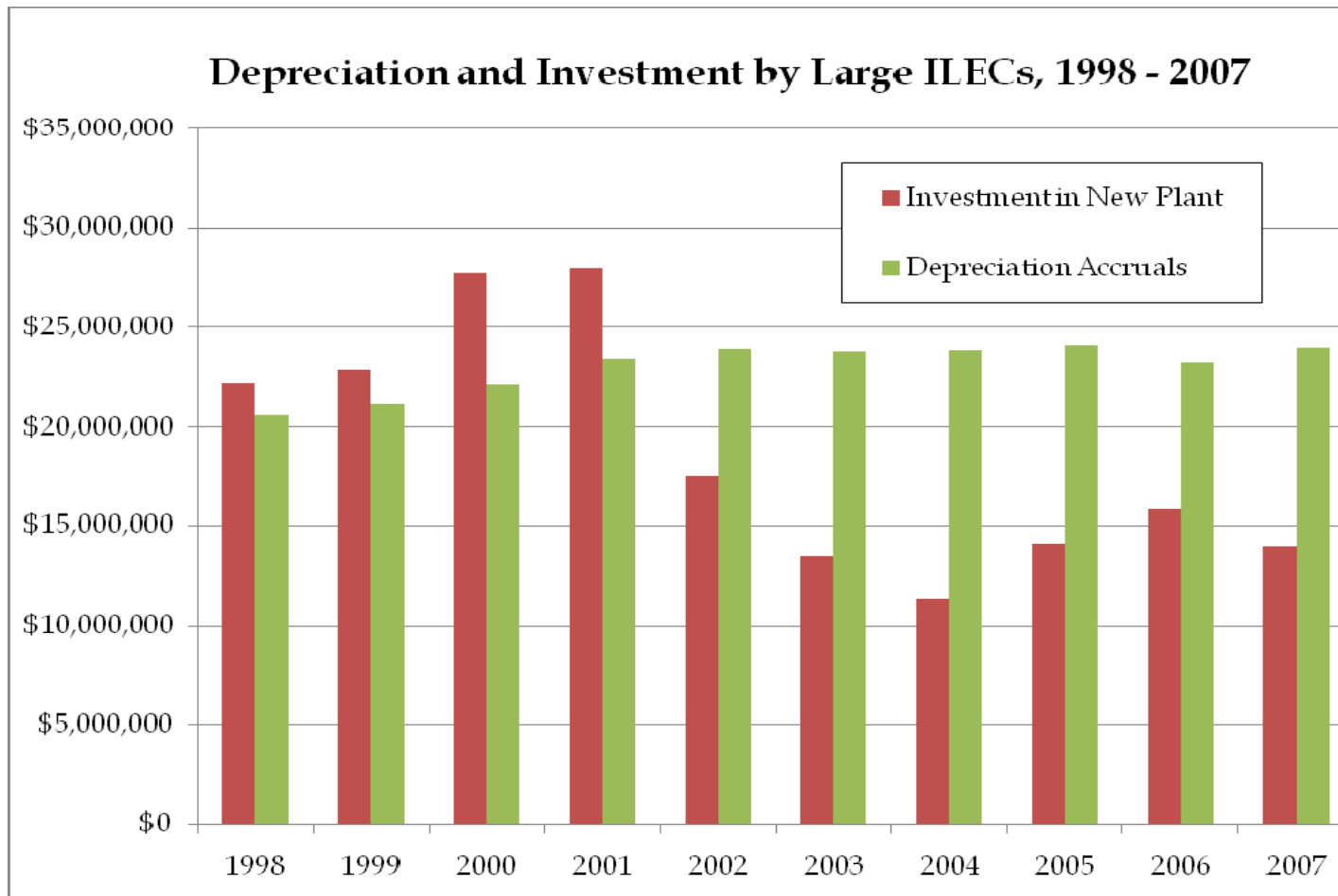
The Embedded Network



ILECs' Revenue Replacement



Money unspent



Sources and Uses of Funds

CenturyTel 2007

Cash In

- Net Income = \$418 million
- Depreciation = \$536 million
- Other Cash = \$75 million

Total Cash = \$1 billion

Cash Out

\$1 billion in Cash Available

- \$307,000,000 acquisition of Madison River
- \$461,000,000 stock buyback
- \$326,000,000 invested in network

Sources and Uses of Funds

CenturyTel 2008

Cash In

- Net Income = \$367 million
 - Depreciation = \$523 million
 - Other Cash = (\$37) million
- Total Cash = \$853 million**

Cash Out

\$853 million in Cash Available

- \$148 million purchase of wireless spectrum
- \$347 million stock buyback
- \$220 million cash dividends
- \$287 million invested in network

Universal Service Policy Principles

- Existing Federal and State universal service funds need to be scrutinized, reformed, and retargeted to broadband
- Subsidies should be computed after netting out the revenues received for all service provided over the broadband network
- Subsidies to broadband must be carefully targeted and competitively neutral
- Subsidies for broadband should replace the existing subsidies entirely over time