



WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
WORKSHOP

EFFECTS OF
FCC ORDER 11-161

Richard A. Finnigan
February 28, 2012



STATUS OF ORDER

- 31 Appeals filed
- 24 Petitions for Reconsideration Pending
- Several Petitions for Clarification



RATE FLOOR (Local Urban Rate Floor)

July 1, 2012	\$10
July 1, 2013	\$14
July 1, 2014	\$16-17 (est.)*

Components: Residential rate + Mandatory EAS + State SLC
+ State USF Contribution

Washington State SLC = 0

Washington USF Contribution = 0

*FCC states 2008 average urban residential rate is \$15.62.
The 2014 rate will be calculated by FCC staff (47 C.F.R. §
54.318). It is not clear when it will be announced.



EFFECT OF RATE FLOOR

Reduces high cost loop support by difference of a company's rate comparable to the urban rate floor and the urban rate floor multiplied by number of supported lines.

$(\text{Urban rate floor} - \text{local rate including mandatory EAS}) \times \text{supported lines} = \text{high cost loop support deduction}$

Example: Company rate (including EAS) at 7/1/2012 of \$9.00 and 1,000 working loops will lose \$12,000 in support

Company rate (including EAS) at 7/1/2013 of \$9.00 and 1,000 working loops will lose \$60,000 in support



RATE FLOOR EFFECTS

2012

Ellensburg
Pioneer
St. John
Whidbey

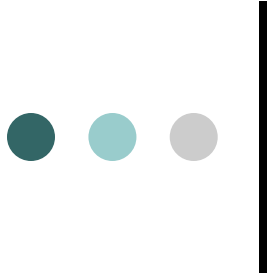
2013

Asotin (Anatone)
Ellensburg
Hood Canal
Inland (Roslyn)
Kalama
Mashell
Pend Oreille
Pioneer
St. John
Tenino
Wahkiakum
Whidbey

2014*

Asotin (Anatone, maybe Asotin)
Ellensburg
Hat Island
Hood Canal
Inland (all except Dewatto)
Kalama
Mashell
McDaniel
Pend Oreille
Pioneer
St. John
Tenino
Wahkiakum
Whidbey
YCOM

*Assuming \$17.00 rate floor



Rate Ceiling for ARC - \$30/line/month

Access Recovery Charge (ARC) – up to \$0.50 per line (not including Lifeline customers) per month – Beginning July 1, 2012, and increasing \$0.50 per year for six years.

Multi-line business can increase by \$1.00 per line/per month annually. However, limit on multi-line business of \$12.20 in ARC charges plus federal SLC. Since most small ILECs are already at existing cap of \$9.20, limit will be \$3.00 additional.

Residential Rate Ceiling components* – flat rate residential service charge, plus federal SLC, plus ARC, plus mandatory EAS, plus state SLC, plus state USF contributions, plus state E911 charge, plus state TRS charge.

What this means is if the residential local rate plus mandatory EAS reaches \$23.06, an ARC is not available.

*Not clear whether this includes county 911 charge or WTAP



CORPORATE OPERATIONS EXPENSE LIMITATION

- Expanded (which means less support)
 - Audited financials now required
 - Increased reporting
 - Increased certifications
 - Lifeline responsibilities expanded

All with less support



CAPITAL EXPENSE LIMITATIONS

Cap per-line support at \$250/line/month

7/1/2012 - \$250 + 2/3 of overage

7/1/2013 - \$250 + 1/3 of overage

7/1/2014 - \$250



HIGH COST COMPETITION LIMITATION

- Phase out support in areas with 100% overlap of “unsubsidized” competitors over 3 years
- FNPRM – how to implement and phase out support for areas of partial overlap of “unsubsidized” competitors



CAF-ICC

Expected Revenues = transitional rate x forecast demand

Baseline Adjustment factor 7/1/2012 = 95%
lowered by 5% each subsequent year

CAF – Eligible recovery

sum of (1) Fiscal Year 2011 Revenues from Transitional Intrastate Access Service (terminating end office plus terminating tandem switch transport and originating and terminating direct transport) less Expected Revenues from Transitional Intrastate Access Service; (2) 2011 Base Period Revenue Requirement less Expected Revenues from interstate switched access for year beginning July 1, 2012, and (3) CMRS net reciprocal compensation revenue for FY 2011 (note non-CMRS reciprocal compensation an issue for CTL and Frontier)

2011 Base Period Revenue Requirement –

2011 Interstate Switched Access Revenue Requirement + FY 2011 Revenues from Transitional Interstate Access Service received by 3/31/2012 + FY 2011 reciprocal compensation (net) as of March 31, 2012

FY = federal fiscal year

CAF sums are net of ARC



CAF EXAMPLE (ICC)

	State	Net Recip Comp	IS Rev Req	
2010-11 FY Base	\$100,000	\$10,000	\$100,000	\$210,000
Year 1 Reduction-Half Year Only				
Jan-Jul	\$0	\$0	\$0	
Jul-Dec	-\$2,500	-\$250	-\$2,500	-\$5,250
Eligible Recovery Jul-Dec 2012	\$47,500	\$4,750	\$47,500	\$99,750
Jul-Dec			\$47,500	\$47,500
Term Rev	\$25,000	\$2,500		\$27,500
ARC Jul-Dec	\$5,700	\$0	\$0	\$5,700
Revenues through ICC/ARC	\$30,700	\$2,500	\$47,500	\$80,700
Amount Needed from Recovery Mechanism	\$16,800	\$2,250	\$0	\$19,050
Total Access	\$47,500	\$4,750	\$47,500	\$99,750



ELIGIBLE RECOVERY EXAMPLE

Item	Year 1 Amount	Year 2 Amount
2011 Interstate Switched Access RRQ	\$200,000	
FY 2011 Intrastate Terminating Revs	\$50,000	
FY 2011 Net Reciprocal Compensation	\$5,000	
Total	\$255,000	\$242,250
Baseline Reduction	.95	.95
Total Baseline	\$242,250	\$230,138
ICC Recovery (rate x MOU)	\$100,000	\$90,000
Eligible Recovery	\$142,250	\$140,138

Source: NECA – Presentation of Sue Barrett to the Oregon Public Utility Commission



ICC CAF CALCULATION

	Year 1	Year 2
Total Baseline ... <i>minus</i> ...	\$242,250	\$230,138
ICC revenues (at default ICC rates) ... <i>minus</i> ...	\$100,000	\$90,000
ARC revenues (imputed if not assessed) ... <i>equals</i> ...	\$6,600	\$12,780
ICC CAF	\$135,650	\$127,358

Source: NECA – Presentation of Sue Barrett to the Oregon Public Utility Commission



REGRESSION ANALYSIS EFFECTS

Analysis 1*

Skyline
St. John
Tenino
Wahkiakum
WeavTel

Analysis 2*

Hood Canal
Inland
Kalama
Mashell
Pioneer
Skyline
St. John
Tenino
Toledo
WeavTel

*Provided by two different sources. This area is not pinned down and the analysis is ongoing.



EFFECT OF INTERCARRIER COMPENSATION REFORM TIMELINE

What happens to Washington's USF Access Rate Element?

- \$0.00152/MOU – originating and terminating
 - U-85-23 - Created
 - UT-971140 – Confirmed
 - Over 3 million dollar issue
- Commission approved contracts



Actual/Potential Losses

- 5% reduction to ICC revenue over FY 2011
- Urban rate floor effect
- Application of Corporate Operations Expense over broader range
- Caps in USF investment – per line
- Limitation on legacy support
- Regression analysis limitations
- Access Rates