PUC Staff Overview of Telecom Reform Data Analysis

December 16, 2011
Commissioner Information Meeting
Preliminary Status

Telecom Reform Scope

- Access
  - Review and modernization of compensation mechanisms between carriers for the origination, transport and termination of voice traffic. (Wholesale)
- Retail Deregulation
  - Review and determination of competitive end-user products and services in order to modernize outdated regulations.
- Universal Service
  - Review of current high cost funding for voice service and possible need to "repurpose" funding to assure statewide availability of services.

Scope of Inquiry

- Decision No. C11-1094 issued audit questions to assist Staff in developing Telecom Reform recommendations in the areas of Retail Deregulation, Universal Service and Access Reform. Recipients were to respond by October 28, 2011.
  - There were 163 recipients of the audit request. These were broken into:
    - 89 Competitive Local Exchange Carriers (CLEC)
    - 32 Rural Local Exchange Carriers (RLEC)
    - 1 Incumbent Local Exchange Carrier (ILEC)
    - 41 Wireless Carriers
  - Response statistics
    - 49 CLECs
    - 29 RLECs
    - 1 ILEC
    - 13 Wireless Carriers

Staff is also utilizing other available data (e.g. annual reports, CHCSM reports).

Access Audit Summary

- **Inquiry:** access revenues, expenses and Minutes of Use (MOU) for originating, terminating, carrier common line, local switching and transport as applicable for year end 2010

- **Response Summary:**
  - 28 Incumbent carriers (Qwest Corp & rural carriers) receive access revenues but do not pay access charges
  - 16 Competitive carriers (CLECs) do not receive access revenue
  - 5 CLECs are wholesale access providers that receive access revenue and may pay access charges
  - 6 Facilities-Based Toll Carriers (IXCs), who only pay access charges

Sufficient data was received to begin analysis. Additional small CLEC missing data is not expected to materially impact any results and conclusions.

Access Data

- **Intra**state access minutes are naturally declining for all carriers.
  - Qwest Corp – 7% per year over the past 3 years
  - CenturyTel of Eagle & Colorado – 9% per year over the past 3 years
  - Rural Carriers – 10% per year over the past 3 years
- Statewide total access revenues are in excess of $48 Million
- Statewide total access expenses are in excess of $35 Million
- **Intra**state access rate range
  - Price Caps (CLECs/Qwest Corp) ranges from $.022/Min to $.055/Min
  - In comparison, Qwest Corp **Inter**state Access Rate is approximately $.0045/Min

  - Rate of Return (Rural Carriers) ranges from $.02/Min to $.20/Min
  - Rural Carrier **Inter**state rates vary between carriers and higher in some cases and lower in other cases than their **intra**state rates

Access revenue replacement in part or in whole and over what period of time must be determined taking into account FCC preemption.

How will Colorado consumers benefit from wealth transfer due to access expense reductions?

Access Next Steps

- FCC preemption of intrastate access rates and transition
  - 6 year transition for price cap companies and 10% decline/year in MOUs for revenue loss recovery
  - 9 year transition for ROR rural companies and a 5% decline in MOUs for revenue loss recovery
- Determine Statutory and Commission rule revisions necessary or file appeal on the issue of preemption

Retail Deregulation Audit Summary

- **Inquiry**: market data including competitive studies, products, price, barriers, competitor information, maps, presence by exchange, etc.
  - Carriers were also asked to respond to what should be needed for service quality and consumer protection.

- **Response Summary**:
  - No market studies were received, though FCC and CDC studies were referenced.
  - Qwest Corp provided substantial data.
  - Majority of rural carriers responded but with varying levels of data.
  - 36 competitive wireline or wireless carriers provided data at either the exchange level or by zip code.
  - Several competitive wireline and wireless carriers provided service maps but not underlying data associated directly with the map.
  - Market data had significant gaps as to size, share, product, price, competitors, etc.
  - Service Quality and Consumer Protection; 34 carriers had no comment, 24 carriers thought a industry voluntary "code of conduct" is a good starting point, 2 carriers felt that the only necessary consumer protections include 911 and provider of last resort.

Staff was disappointed in many cases with the insufficient response and has and will continue to follow up with carriers using allowable means to obtain necessary data. Staff will also evaluate with the Commissioners optional ways of alternatively assessing the data to most expediently reach conclusions.

Retail Deregulation Next Steps

- Map presence of competition
- Integrate additional data from other studies such as CDC, FCC reports, broadband maps, etc.
- Review impacts of FCC Order
- Based on presence of sufficient competition, determine what areas still require regulatory oversight for safety, consumer protection or other public interest requirements:
  - Examples:
    - 911
    - Numbering
    - Provider of Last Resort
    - Public Subsidy Oversight
    - Service Quality
    - Consumer Protection

Universal Service Data Summary

- Universal Service analysis will rely on the competition service area map being developed with the retail deregulation audit data and internal sources.
- Qwest Corp currently receives the majority of the state high cost fund (CHCSM)
- Of the 32 rural carriers, 9 currently receive CHCSM:
  - 1 of the 9 is applying to increase support.
  - 2 have applied for initial support.
- Only 1 wireless carrier currently receives CHCSM funding
- Rate elements applied to consumers
  - CHCSM – 2.9%
  - FUSF – 17.9% (effective 1Q12)

Detailed information is being derived from applicable annual reports, audit questions and CHCSM reporting to assist in developing options.

Universal Service FCC Order Impacts

- All current USF support is capped, interstate access support and safety net additive is eliminated
- The FCC is reducing over 3 years and capping it's support per month support at $250/line
- The FCC has established a benchmark rate floor for rate of return cost carriers beginning in 2012 at $10.00, 2013 at $14.00 and 2014 + to be established based on FCC annual survey
  - The $10.00 benchmark has no impact on Colorado rural carriers
  - The $14.00 benchmark will reduce FUSF funding to 7 RLECs
- The FCC eliminates all support in any rural carrier study area that is completely overlapped by an unsubsidized wireline competitor

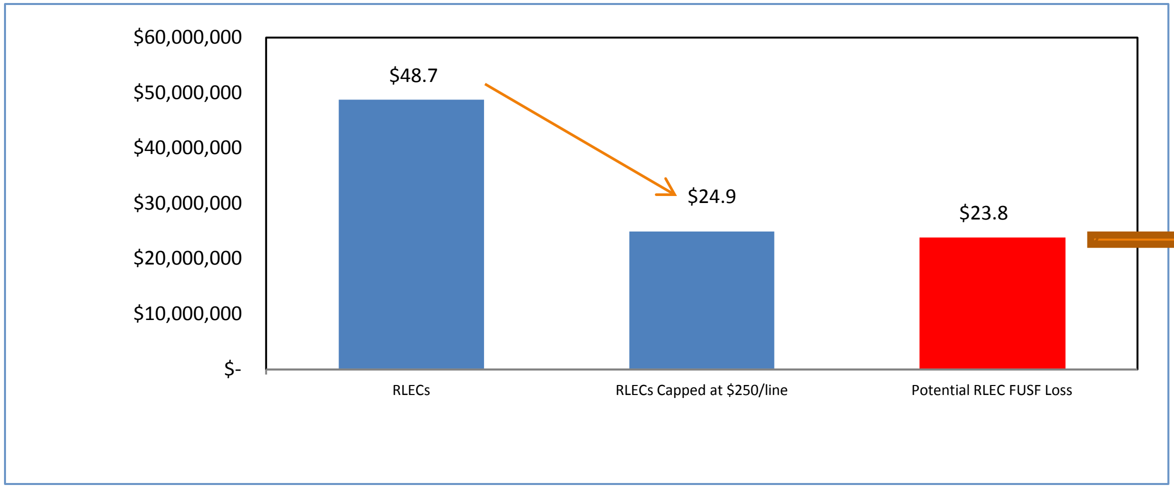
Federal USF changes may shift significant burden to State high cost fund. Challenge exists to balance viable universal service in Colorado while protecting consumers from fee increases.

Universal Service Support (USF)

- RLECs (9) receive support:
  - $1.4 million CHCSM per year
  - $48.7 in FUSF per year
- Non-rural (1) ILEC receives support:
  - $50 million CHCSM per year
  - $17.1 million FUSF per year
- Competitive providers (3) receive support:
  - $2.6 million CHCSM per year
  - $7.7 million FUSF per year
- Total Colorado USF (state and federal) is $127.5 million

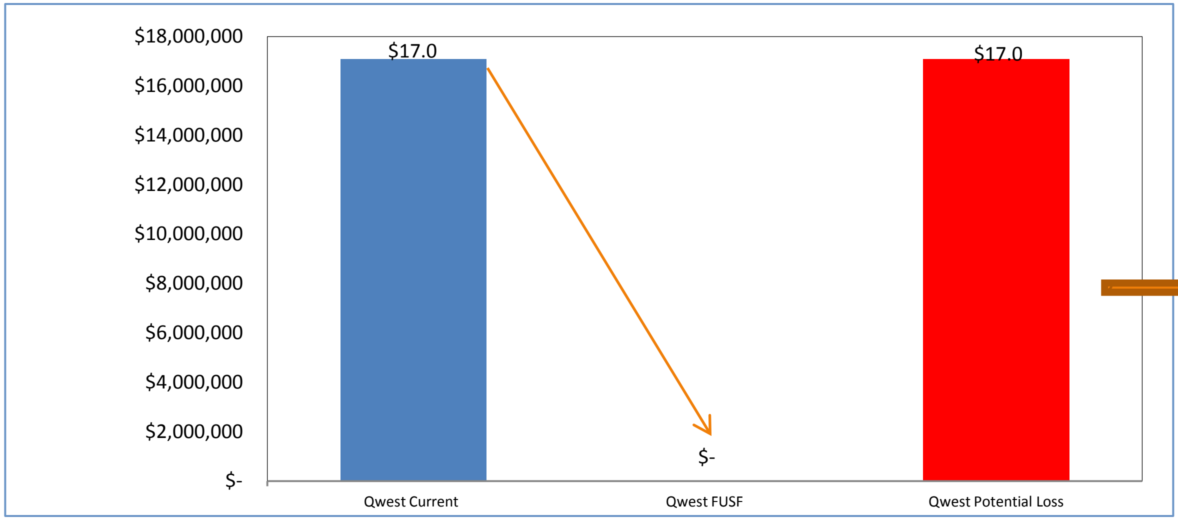
Potential Annual FUSF Support At Risk
($M)

RLECs



Potential amount RLECs may seek to recover

Qwest

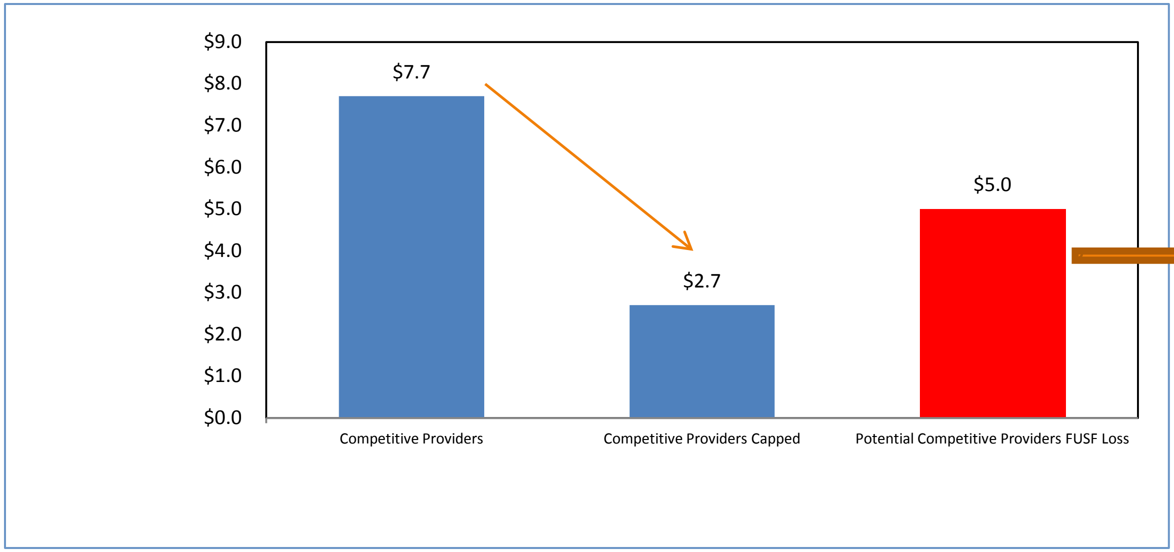


Potential amount Qwest may seek to recover

Assumptions: RLECs capped at $250/line assumes zero support above $250 and elimination of interstate access support. Potential amount RLECs seek to recover may be overstated if certain elements (e.g. ICLS) are not recoverable through the state high cost fund.
2010 USAC data

Potential Annual FUSF Support At Risk
($M)

Competitive Providers

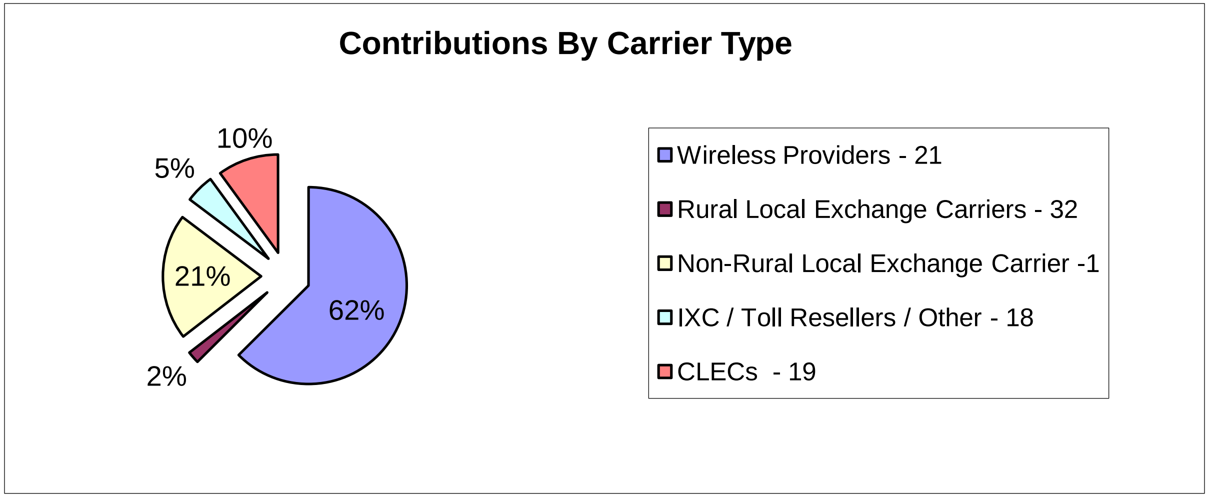


Potential amount competitive providers may seek to recover

Assumptions: Support capped at $250/line assumes zero support above $250 and elimination of interstate access support.
2010 USAC data.

State High Cost Fund Contributions

- Contributions made to fund CHCSM is approximately $56 Million



Universal Service – Conclusion

Current state universal service program is not consistent with the redefined federal program both in terms of the breadth of supported services and the methodologies used to determine support levels. Key policy decisions will be required by the legislature and Commission in order to assure statewide availability of affordable modern telecommunications and advanced services while balancing the cost burden by all consumers.

Conclusion & Recommendation