Targeting and USF Reform

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<table>
<thead>
<tr>
<th>Exchange</th>
<th>Households</th>
<th>Density (HH per sq. mile)</th>
<th>Monthly Cost</th>
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Embarq Minnesota, Inc. – approx. 160,000 access lines $0 high-cost support annually

United Telephone of Texas d/b/a Embarq – approx. 160,000 access lines $18M high-cost support annually
Gardner, KS
Monthly Cost: $40.30

Sylvia, KS
Monthly Cost: $122.56
Facts…

1. Implicit subsidies are unsustainable in a competitive environment
2. Using entire study area to determine “need” maintains assumption that implicit subsidies can be relied upon, so…
3. With or without reverse auctions, we must re-visit the area used to determine “need” if USF is to be truly sufficient, specific, predictable.
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Separable Issues

- Reverse Auctions: Yes or No?
- One ETC Per Area? More Than One?
- Broadband included in set of supported services?
- Revenue benchmark? Cost benchmark?
- Wireless carriers: Support based on own costs? ILEC costs?

What is the proper geographic area to use to determine the “need” for support?
De Funiak Springs
$ 35.50 per line per month

St. Marks
$ 110.96 per line per month

Starke
$ 30.92 per line per month

Kenansville
$ 143.71 per line per month
Fort Meade, Florida
City Center
Fort Meade, Florida
Investment Overview

Wire Center
Total Lines Served: 2,893
Investment per Line: $2,650

City Center
Total Lines Served: 2,188
Investment per Line: $1,308

Outside City
Total Lines Served: 705
Investment per Line: $6,820
Targeting: Why the need for support must be calculated more granularly...

1. Implicit subsidization exists
   - between wire centers
   - within a single wire center

2. Neither form is sustainable

3. Must re-determine which areas are uneconomic to serve; create zones within individual wire centers
   - Call it a donut-and-hole approach
   - Call it zone-based approach

4. Support—however it is then calculated, whatever it is based on, and whatever services it includes—is then provided to these uneconomic areas

5. ...and it’s not that hard to do
Not just dis-aggregation…
Remington, Indiana
Remington, Indiana
Investment Overview

Wire Center
Total Lines Served
1,415
Investment per Line
$4,600

City Center
Total Lines Served
970
Investment per Line
$1,440

Outside City
Total Lines Served
445
Investment per Line
$11,490
Summary and Conclusions

• Current USF system incorporates implicit subsidies.
• Assumes implicit subsidies can be used to offset costs of serving uneconomic areas.
• They can’t.
  – Competition prevents low-cost wire centers from subsidizing high-cost wire centers.
  – Competition prevents low-cost portions of a wire center from subsidizing high-cost portions of the same wire center.
• Therefore support must be calculated at a more granular level: sub-wire center.
Summary and Conclusions (cont.)

- This is not the same as dis-aggregating existing support to a sub-wire center level.
- A sub-wire center approach can be implemented today.
  - Models currently exist that are more than capable.
  - Advances in modeling make almost any form of increased granularity possible.
- Sub-wire center approach is separable from almost every other policy issue.

Whatever services, whichever companies end up being supported, this is proper method for determining where support belongs and where companies must provide service in order to earn that support.