



Idaho

Public Utilities Commission

**The Future of
IDAHO'S UNIVERSAL SERVICE
AND ITS RELATIONSHIP TO
BROADBAND DEPLOYMENT**

April 2015

**Idaho
Public Utilities
Commission**

472 W. Washington St.
Boise, ID 83702

208.334.0300

www.puc.idaho.gov

TABLE OF CONTENTS

Executive Summary	1
Introduction.....	3
Background.....	4
A. The Commission’s Jurisdiction over Telecommunications.....	4
B. Universal Service Fund	5
THE TELECOMMUNICATIONS SURVEY	6
CURRENT FEDERAL ISSUES THAT MAY AFFECT IDAHO.....	20
Connect America Fund (CAF I/II).....	20
Mobility Fund	21
Rural Broadband Experiments	21
Open Internet Rules	21
Re-write of the federal Telecommunications Act of 1996.....	22
Court Challenges.....	22
DEFINITIONS.....	23

Executive Summary

Since 1996, the telecommunication industry has developed and deployed new technologies that have produced a more robust infrastructure and a wide array of telecommunications services for consumers. This array of services has also resulted in significant changes in how customers communicate with others and use the Internet. A recent Federal Communications Commission report noted that the number of traditional wirelines (“plain old telephone service” or “POTS”) has decreased and that more American households now rely exclusively on wireless services. More residential customers subscribe to some form of broadband telecommunications beyond POTS. The changes in consumers’ preferences in telecommunications services have impacted federal and state universal service mechanisms.

Since the 1930s, Congress has mandated that all telephone companies providing interstate service must contribute to a federal Universal Service Fund (USF). The USF helps to make phone service affordable and available to all Americans, including those living in areas where the cost of providing telephone service is high. All telephone consumers pay into the fund, which is then disbursed to telephone companies to provide service, mostly in rural under-served areas.

Idaho has a state fund, the Idaho Universal Service Fund, (IC 62-610A), which stipulates that "all consumers in this state, without regard to their location, should have comparable accessibility to basic telecommunications services at just and reasonable rates. Currently, Idaho telecommunications customers pay 16 cents per residential line, 25 cents per business line and \$.0006 per minute on long distance calls. The fund is designed to ensure that average rates in rural areas are no more than 25% higher than average rates in urban areas. The Idaho rural carriers that receive IUSF support are ATC, Cambridge, Direct, Fremont, Inland, Midvale, Rural and Silver Star.

However, the assessable base for Idaho Universal Service Fund contributions has eroded as customers migrate to other services that do not support the fund. Simply put, as more customers move to newer services, the base that supports the IUSF is eroding.

With the advent of nontraditional communications, such as broadband, wireless Voice over Internet Protocol (VoIP) and cable-based communications, federal and state

policymakers are grappling with how universal funds should now be collected and disbursed to ensure new technologies are available at reasonable cost to all.

The Idaho Public Utilities Commission conducted a survey of Idaho communication providers seeking input and suggestions as to how the changing telecommunications field will affect rural high-cost areas and evaluate the sufficiency of the Universal Service Fund and other cost mechanisms to ensure continued availability of telecommunications and broadband services in Idaho.

The survey responders included a selection of Idaho's Incumbent Local Exchange Carriers, Rural Incumbent Local Exchange Carriers, Wireless and Cable providers as well as some Competitive Local Exchange Carriers and a wholesale provider.

Summary of recommendations from Respondents and Commission

- VoIP services should be included in the definition of Universal Service.
- All Federal funding in Idaho should be exhausted and then a reassessment of areas that still need broadband services could then be targeted.
- Customers of all providers of telecommunications services should make equitable contributions to the preservation and advancement of universal service.
- Idaho PUC should follow the federal lead and to the extent that broadband is included in either state or federal universal service requirements, state and federal USF programs should be in place to fund those requirements.
- A consensus that broadband to all of Idaho was necessary for economic development and that all providers should pay into the USF to broaden the base and provide adequate funding to expand.
- Another common observation was that Idaho should wait until the Federal changes are enacted and then follow those changes so that there will be certainty and continuity for business planning and advancement of all communication services.

The Commission is not, at this time, considering the assessment of broadband services or broadening the base to include additional consumers not already contributing to the IUSF. Rather the PUC proposes that, in the future it would be prudent to modernize and reform the contribution mechanism to promote an equitable and sustainable framework in an evolving communications environment. Since, there are many unknowns at the federal level, the Commission and many other survey participants believe it would be wise to defer any actions in Idaho until there is more certainty from the FCC.

Introduction

In June 2014, the Idaho Public Utilities Commission received a letter from Senator Brent Hill, president pro tem of the Idaho Senate, and Representative Scott Bedke, speaker of the Idaho House of Representatives, regarding the rapid changes taking place in the telecommunications industry, specifically in regard to the deployment of high-speed broadband service. Since Congress passed the Telecommunications Act of 1996, "... we have witnessed the dramatic transformation of the entire industry with the explosion of the Internet and the advent of broadband services and other new communication technologies," wrote Senator Hill and Speaker Bedke.

With the rapid deployment of broadband technology, the Federal Communications Commission (FCC) is making changes to how telecommunications and broadband services are funded, particularly in rural, high-cost areas. "Some have suggested those changes may not ensure the continued availability of affordable telecommunications and broadband services throughout Idaho," wrote Hill and Bedke. "This is a concern to us. Both traditional telecommunications and broadband services are critical to the economic future of Idaho, particularly rural Idaho. We can ill-afford a digital divide that leaves our rural areas behind."

The legislative leaders asked the IPUC to begin assembling information from interested parties to evaluate the sufficiency of the Idaho Universal Service Fund (IUSF) that provides financial support for traditional telecommunications services and how that fund might be structured and allocated given the advent of broadband deployment. In response, the IPUC opened an investigation and conducted a survey on changing communication services for both traditional and new services. The fundamental consideration focuses on broadband deployment. Should Idaho's Universal Service funds be used to expand broadband? If it is decided that the IUSF should be used to expand broadband, then another question arises - to what extent? Should the funds be used for facility build out or should they also be used for maintenance and operation costs? These are serious questions that require careful deliberation and are ultimately contingent upon pending federal decisions.

Background

A. The Commission's Jurisdiction over Telecommunications

The IPUC's traditional regulatory authority over all utilities offering telecommunication services includes setting rates, service obligations, safety and consumer protection (customer notice, billings, deposits, complaints, etc.).

In 1988, the Idaho Legislature recognized that the telecommunication industry was transitioning from a fully regulated industry to a competitive one and enacted the Idaho Telecommunications Act. *See* Chapter 6 of Title 62. Under the Commission's "Title 62 authority," it no longer sets rates for in-state, long-distance service or rates for local telecommunication service for customers with more than five telephone lines. In addition, the PUC was prohibited from regulating paging, wireless (cellular), and one-way video (cable) services. Idaho Code § 62-603(13).

In 1996, Congress enacted the federal Telecommunications Act that opened local telecommunications markets to competition, with some restrictions for rural markets. Incumbent local exchange companies (ILECs) such as CenturyLink and Frontier, no longer had a monopoly in their traditional service areas and were required to open their local telephone networks to competitors. 47 U.S.C. §§ 251 and 253. Given the increasing competition from both wireline and wireless carriers, our Legislature allowed ILECs to opt-out of price regulation. Idaho Code § 62-622.

Today, the PUC retains authority to resolve disputes between carriers, handle customer complaints, enforce service quality standards and assist with customer relations (e.g., billing, collection, deposits, and termination of service).¹ The PUC continues to set rates for 10 telephone corporations, of which eight participate in the state Universal Service Fund.

¹ Under its Title 62 authority, the Commission also has authority to: designate Eligible Telecommunications Carriers (ETCs) to receive federal USF support (62-610D); implement the federal Telecommunications Act such as approve interconnection agreements and arbitrate disputed interconnection requests (62-615; 47 U.S.C. §§ 252(b), 252(e)); and determine which telecommunication services should be available to consumers of ETCs (62-610C).

B. Universal Service Fund

One of the major components of the 1988 Idaho Telecommunications Act was the creation of the Idaho Universal Service funding mechanism to provide a mechanism to maintain “the universal availability of local [telecommunication] service at reasonable rates and to promote the availability of [long-distance] service at reasonably comparable prices throughout the state of Idaho.” Idaho Code § 62-610. Generally, the IUSF collects a surcharge from all wireline and long-distance customers. Those collected funds are used to keep rates for rural telecommunication customers reasonable. *Id.* at 62-610(2), (3). The rural carriers that receive IUSF support are ATC, Cambridge, Direct, Fremont, Inland, Midvale, Rural and Silver Star.

Since 1996, the telecommunication industry has developed and deployed new technologies that have produced a more robust infrastructure and a wide array of telecommunications services for consumers. This array of services has also resulted in significant changes in how customers communicate with others and use the Internet.

A recent FCC report noted that the number of traditional wirelines has decreased at a rate of 10% per year, and 41% of American households now rely exclusively on wireless services. More residential customers subscribe to some form of broadband telecommunications beyond wireline service. (*NeuStar Petition for Declaratory Ruling*, 2014 WL 6694454.)

The changes in consumers’ telecommunications services preferences have impacted federal and state universal service mechanisms. Specifically in Idaho, the assessable base for IUSF contributions has eroded as customers migrate to other services which do not support the fund. Simply put, as more customers move to newer services, the base that supports the IUSF is eroding.

The FCC has been examining ways to stabilize the federal contribution mechanism since 2002.² After adopting sweeping Universal Service Fund reforms in 2011,³ the FCC again released several contribution reform proposals for public comment

² See generally, *Federal-State Joint Board on Universal Service et al.*, CC Docket No. 96-45, Further Notice of Proposed Rulemaking and Report and Order, 17 FCC Rcd 3752 (2002) (“2002 Contribution Order”).

³ See *Connect America Fund et al.*, WC Docket No. 10-90 et al. Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663 (2011) (USF/ICC Transformation Order”).

in 2012.⁴ On August 7, 2014, the FCC referred contribution reform to the Federal State Joint Board on Universal Service for consideration.⁵ A proposed recommendation was due April 7, 2015. The FCC has one year thereafter to decide whether to adopt, modify or reject the Joint Board’s recommendations. We believe federal reforms may be several years away.

THE TELECOMMUNICATIONS SURVEY

Because the FCC is making changes to the federal financial support mechanisms, the IPUC opened an investigation to review the changing communication service landscape in Idaho. The investigation sought input from Idaho telecommunication providers and focused on both traditional and broadband services, which are critical to the economic future of all Idaho, particularly rural Idaho.

The survey responders included a selection of Idaho’s Incumbent Local Exchange Carriers (ILECs), Rural Incumbent Local Exchange Carriers (RLECs), wireless and cable providers as well as some Competitive Local Exchange Carriers (CLECs) and wholesale carriers. The responses helped identify the rapid technological changes occurring in the industry over 20-plus years since the last revisions were made to the Idaho Universal Service support mechanisms in 1993.

Questions for Comment and Analysis

The questions posed to the industry were:

1. Without regard to technology, what services should be considered a component of “universal service”?
2. What level(s) of service should be provided under universal service?
3. Is access to the designated universal services essential to all regions and areas of the state? Please explain.
4. Should universal service be provided at comparable prices regardless of location or cost of service? Please explain.

⁴ See In the Matter of Universal Service Contribution Methodology; A National Broadband Plan for our Future, WC Docket No. 06-122, GN Docket No. 09-51, Further Notice of Proposed Rulemaking, 27 FCC Rcd 5357 (April 13, 2012) (“2012 Contributions FNPRM”).

⁵ See In the Matter of the Federal State Joint Board on Universal Service et al., WC Docket No. 96-45, Order (August 7, 2014) (“Referral Order”).

5. Should there be specific, predictable and sufficient state support mechanisms to advance universal service?
6. Should universal service support be directed to advanced service networks that provide voice services as well?
7. Should universal service support mechanisms and rules be competitively and technologically neutral?
8. What mechanisms should be used to ensure all consumers including low-income consumers and those in rural, remote, and high-cost areas have access to telecommunications and information services?
9. Should the customers of all providers of telecommunications services make equitable contributions to the preservation and advancement of universal service?
10. Should the customers of all providers of telecommunications services be required to support the Idaho Telecommunications Service Assistance Program (ITSAP) and Telecommunications Relay Service (TRS)?
11. Should Idaho's universal service support mechanism be adjusted or changed to direct support in some other fashion such as a customer voucher, technology-neutral reverse auction or some other mechanism?

Following is a summary of the survey responses received.

1) Without regard to technology, what services should be considered a component of “universal service”

Incumbent Local Exchange Carriers (ILECs)

The Idaho PUC should follow the federal lead. To the extent broadband is included in either state or federal universal service requirements, state and federal USF programs should be in place to fund those requirements.

Universal service funds could be used to incent providers to offer broadband services in high-cost areas, but there needs to be a balance between cost (surcharges on customer bills statewide) and benefit (availability of broadband service statewide).

As Universal Service Fund (USF) reform is considered in Idaho, policymakers should make necessary changes to ensure consistency with the federal USF; for example, a model identifying costs at a granular level should be used to determine the amount of support needed.

Rural Local Exchange Carriers (RLECs)

It is important to remember that it is not so much the technology that brings universal service to a consumer; rather it is the network that supports the services which support the technology. The service provided on the network should be something that allows consumers the ability to take advantage of current and future communications applications, including reliable connectivity to nationwide voice network and emergency services.

A reliable voice and broadband service should be the key components of universal service. The ability to connect to emergency services, without difficulty, wherever you live in the state is essential. A voice and/or broadband network are the two major services that obtain this goal.

Wireless Providers

AT&T recommends that this Commission “hold off making material changes to the high-cost support mechanisms funded by the Idaho Universal Service Fund at this time in light of the significant support being made available through the Connect America Fund (CAF)⁶ support mechanisms.”

Cable Providers

The cable industry argues that current Idaho Code §62-610 only provides that local exchange service and MTS are components of the state universal service program. However, unlike the current USF program, direct USF broadband payments should not be made to legacy local exchange carriers based upon the company’s specific high-cost of providing voice service. The flaw with the current USF system is that it is blind to market competition and new market choices that have emerged within many incumbent USF carrier service territories. If USF support is extended to broadband, a system must be developed to focus that spending only on the geographic areas of the state where broadband service is needed but not available because it is uneconomical to provide it at a reasonable price. The unserved areas need to be defined. The data necessary to allocate funding in this manner is available on a census block basis from the FCC. This approach would ensure that the broadband USF program specifically targets pockets of

⁶ **Connect America Fund.** The FCC has adopted comprehensive reforms to modernize the High Cost Program and accelerate the build-out of robust broadband networks across the country.

unserved broadband consumers, rather than providing blanket funding for high-cost companies with large geographic footprints.

Competitive Local Exchange Carriers (CLECs) and Wholesale Providers

All voice services should be considered components of universal service.

2) What level(s) of service should be provided under universal service?

Incumbent Local Exchange Carriers (ILECs)

A state definition of supported voice service that is consistent with the FCC's existing definition would complement the FCC's funding mechanisms. Likewise, if broadband service is supported by a state fund, consistency with the FCC's definition would complement the federal funding mechanism.

CenturyLink supports the FCC's proposed expansion of the speed requirement for broadband service to a download speed of 10Mbps,⁷ and notes that Section 254(f) of the 1996 Telecom Act allows states to expand definitions and requirements, but requires specific, predictable and sufficient mechanisms to support any level(s) of service required. The Company encourages Idaho policymakers to make sure that any state USF reform is consistent with the federal USF.

Rural Local Exchange Carriers (RLECs)

Voice services that give consumers reliable access to local, long distance and emergency services should be provided under Universal Service. In addition to voice, we believe a broadband connection, as defined by the FCC, should also be provided.

Wireless Providers

AT&T recommends that the Commission hold off making material changes to the high-cost support mechanisms funded by the Idaho Universal Service Fund at this time in light of the significant support being made available through the CAF support mechanisms. AT&T recommends that this question be considered once the CAF has been further implemented.”

Cable Providers

Basic voice communication should be provided at “reasonable rates” as defined by Idaho Code § 62-610. The basic voice communications should maintain current access to local

⁷ Current download speed in Idaho for the Broadband tax credit is 125 kbps.

calling and connection to safety services such as 911. A comprehensive study regarding costs and benefits of including broadband as a USF component should also be addressed and consistent with the FCC's minimum speed standards of 4Mbps down and 1 Mbps up.

The state may consider adding broadband as an additional component of state universal service. This would be a significant policy change, so the state should study carefully both the costs and potential benefits compared to the current USF program. If that study results in a consensus that broadband is worthy of USF support, the resulting statutory changes and regulatory actions must ensure that the limited USF resources are allocated carefully to ensure the greatest public benefit.

Voice customers are cancelling their landlines and subscribing to voice services from mobile telecommunications providers, including those offered by the eight legacy phone companies⁸ that are currently receiving Idaho USF, as well as from cable companies providing VoIP. State USF support dollars for voice services should not continue to be used in those service areas, or portions of those areas, where voice competition exists.

Competitive Local Exchange Carriers (CLECs) and Wholesale Providers

Basic calling capabilities including VoIP or all voice services should be included as part of universal service.

3) Is access to the designated universal services essential to all regions and areas of the state? Please explain.

Incumbent Local Exchange Carriers (ILECs)

Comparable service at comparable rates for all regions of the state should continue to be at the forefront of universal service principles. Without such access, the rural and high-cost areas would be left behind. Universal service support should be targeted to only the highest cost census-block groups in the state using an updated forward-looking cost model such as the FCC's Connect America Cost Model (CACM).

CenturyLink believes that the rural high-cost areas of America need broadband service availability at speeds and prices comparable to more urban areas. The company believes that the universal service program must provide support sufficient to create an economic business case for rural broadband deployment in otherwise uneconomic areas. While the FCC expanded universal service to include broadband, it lacked the funding necessary for carriers to build and operate broadband networks in all high-cost regions of the U.S. According to the company, the FCC challenged the states to fill in the gaps where the FCC was unable to devote resources (primarily the highest cost areas, as well as census blocks where only one or just a few locations enjoy broadband service). In areas that are

⁸ The eight legacy rural high cost USF recipient companies are: ATC, Cambridge, Direct, Fremont, Inland, Midvale, Rural and Silver Star.

economic to serve, broadband networks already exist (usually multiple networks). The challenge for Idaho is that in those areas that are uneconomic, networks will not be built unless there is support, regardless of the size of the carrier. Idaho policymakers cannot create unfunded mandates, so funding must be aligned with the obligations.

Rural Local Exchange Carriers (RLECs)

Yes, the cost to provide service to a customer within Idaho can vary depending on the location, without regard to the company providing the service. The continued support of these high-cost areas is critical to providers remaining financially viable and able to provide universal service in Idaho.

Idaho's varying terrain and dispersed populations certainly create unique challenges for utilities. Universal service should level the playing field by supporting those high-cost areas that would not be served otherwise.

Wireless Providers

AT&T recommends that this Commission "hold off making material changes to the high-cost support mechanisms funded by the Idaho Universal Service Fund at this time in light of the significant support being made available through the CAF support mechanisms."

Cable Providers

No, universal service should not be made available to all regions of the state. These are personal choices made by Idahoans on where they live, and some choose to live remotely with the benefits that such choice brings. It should not be the state's obligation to provide universal service to every single resident.

Competitive Local Exchange Carriers (CLECs) and Wholesale Providers

No. If people choose to live in remote areas without service, it should not be deemed a requirement.

4) Should universal service be provided at comparable prices regardless of location or cost of service? Please explain.

Incumbent Local Exchange Carriers (ILECs)

Universal service policies were established to ensure that customers in rural high-cost areas had access to the same reliable and affordable telephone service as the residents in

low-cost urban areas. Access to affordable rates in high-cost areas should continue as public policy although it might now be necessary to continue with uniform statewide averaged residential rates.

CenturyLink points out that if Idaho wants to devote the significant resources required to build and maintain broadband networks to provide services in high-cost rural areas that are comparable to those available in more densely populated areas, then it is essential to recognize that the cost of providing service is dependent on the geography and density of the service area, not on the size of the carrier. The company provides service to very rural areas of Idaho and should be eligible for support from the state's Universal Service Fund. The company further believes that if policymakers determine that no support is available, then it, "cannot be required to continue to service in uneconomic areas." The company believes that through federal CAF programs, the primary issue for Idaho policymakers is to determine how broadband will be expanded to rural areas not covered by CAF, and how this expansion is to be funded.

Rural Local Exchange Carriers (RLECs)

The cost for providing a quality network will vary depending on location. The recovery from universal service should reflect the specific cost for that area. Comparable service at comparable rates for all regions of the state has been, and should continue to be, at the forefront of universal service principles. Without such access, the rural and high-cost areas will be left behind

The cost of providing services varies from area to area with the type of geographic terrain encountered. If a comparable cost of service is going to be obtained regardless of location, a universal service funding mechanism needs to follow the actual costs incurred, as long as all universal service funding requirements have been met.

Wireless Providers

AT&T recommends that the commission delay making material changes to the high-cost support mechanisms funded by the Idaho Universal Service Fund in light of the significant support being made available through the CAF support mechanisms. AT&T recommends that this question be considered once the CAF has been further implemented.

Cable Providers

The Cable Association believes that universal service as referred to in the context of this question as a monthly service, should be provided at a "reasonable rate" (Idaho Code § 62-610), and at a relatively comparable price, regardless of location. However, in remote or unserved areas where the cost of extending telecommunications facilities far exceeds

investment, the bulk of the capital cost of line extensions should be the primary responsibility of the consumer(s) or “cost-causer.”

CLEC/Wholesale Providers

Consumers in rural Idaho should have reasonably comparable prices to urban areas. Provider costs will always vary depending on geographic location. Support should be based on these costs using IPUC oversight and reporting.

5) Should there be specific, predictable and sufficient state support mechanisms to advance universal service?

The consensus answer to this question was yes. One mid-size provider stated that specific, predictable and sufficient state support mechanisms are necessary in order to incent service providers to continue to invest in multi-purpose networks. Recent FCC decisions have capped the Federal Universal Service Fund programs. That will make it difficult for companies to expand broadband services and increase speeds without support from the states. Moreover, the state as a whole benefits from advanced networks. Uncertainty created by unknown support mechanisms would slow the construction of advanced network deployment. Specific and known support mechanisms would create the ability to plan and budget accordingly.

Incumbent Local Exchange Carriers (ILECs)

Funding must be predictable. Building broadband networks is capital-intensive and takes multiple years to complete. Without predictable support, carriers cannot make long-term capital decisions. Funding must also be sufficient. In areas where it is not economical to provide services, carriers cannot borrow the funds necessary to deploy and operate networks, and therefore need sufficient support to make the networks economic for the carrier and the consumer.

Rural Local Exchange Carriers (RLECs)

Rural providers pointed out that without predictable and sufficient universal service support, most lenders are very cautious to lend money to service providers. With that type of restriction it makes it difficult to place infrastructure to support consumers’ future needs without some form of support.

Wireless Providers

AT&T still maintains that the Commission should do nothing until the CAF monies are disbursed and then reassess what the state universal service funding should be.

CLEC/Wholesaler

TW Telecom wants verification that those receiving funds are using those funds for those remote areas and not to support their overall business.

6) Should universal service support be directed to advanced service networks that provide voice services as well?

Most all responders were in agreement with this proposal. Some of their statements were that specific, predictable and sufficient state support mechanisms are necessary in order to incent service providers to continue to invest in the multi-purpose networks. The responders also pointed out that recent FCC decisions have capped federal USF programs. That will make it difficult for companies to expand broadband services and increase speeds without state support.

Incumbent Local Exchange Carriers (ILEC)

Universal Service should be used to support both voice and broadband services that are fixed services. By doing that, Universal Service funding that is received for a specific area will stay in that area so that current and future consumers have costs that are comparable to others in that state.

As long as voice service is essential enough that Carrier of Last Resort obligations are imposed on certain carriers, the primary goal of universal service should be to support voice service. The additional benefit is that the supported voice infrastructure will also provide the fundamental infrastructure to support broadband services.

CenturyLink believes this question raises the issue of selecting winners and losers based on technology. Policymakers should be technology-neutral; they should consider any technology that is comparable in terms of service and price. Idaho policymakers should identify the minimum services it wants providers to offer and identify the funding available for providing and maintaining the services in high-cost areas, rather than specifying the technology that should be used. Selecting winners and losers based on technology will seldom be an efficient use of taxpayer funds.

Rural Local Exchange Carriers (RLECs)

The ability to support traditional voice and data on the same network is beneficial. At this point, one benefits from the same network as the other. As long as the same network that supports both voice and data (fiber) is being improved, the support is justifiable.

Support should be directed to high-cost rural areas within Idaho, not urban areas. By providing support to nomadic voice (cellular and VoIP), there is no guarantee that the dollars will be used in these high-cost areas to build the necessary facility-based networks.

Wireless Provider

AT&T maintains that the Commission delay making material changes to the high-cost support mechanisms funded by the Idaho Universal Service Fund in light of the significant support being made available through the CAF support mechanisms. AT&T recommends that this question be considered once the CAF has been further implemented.

Cable Providers

The cable industry does not support this and believes that it should be used for basic services only.

CLEC/Wholesale Provider

The provider believes that Idaho Universal Service Funds should support fiber networks and not support VoIP.

7) Should universal service support mechanisms and rules be competitively and technologically neutral?

There was some consensus between some rural providers and cable providers. Both agree that the delivery technology should not be a critical component and any company that services a high-cost area should be able to apply for and receive support. Moreover, as the cable entity points out, the funds should be charged for all types of voice services, including VoIP.

Incumbent Local Exchange Carriers (ILECs)

Incumbents support this if it is technologically neutral and as long as it is a facility-based network and not funding an over-build in an area already funded by USF. One commenter believes that universal service support should be available only to support the

services of the providers that are subject to Carrier of Last Resort obligations regardless of the technology used to provide service.

Yes, both the obligations and funding for Idaho universal service should be competitively and technologically neutral. However, because universal service is designed to provide service in areas where it is otherwise uneconomic, the funding should be provided to a single provider to avoid unnecessary duplication or a waste of scarce funding.

Cable Providers

One cable provider believes universal service support should be distributed on a competitively neutral and technologically neutral basis. If, after a comprehensive study, it becomes the state's policy that USF support should be extended to broadband, the support should be limited only to unserved areas. If broadband is to receive USF support, that support must not be based on the cost structure of an incumbent telephone provider, nor should the scope of the support be tied to the incumbent's service area. Broadband service is identifiable on a census-block basis, and census block analysis should be the basis by which USF support for broadband is based.

Wireless

AT&T maintains that the Commission delay making material changes to the high-cost support mechanisms funded by the Idaho Universal Service Fund in light of the significant support being made available through the CAF support mechanisms. AT&T recommends this question be considered once the CAF has been further implemented.

8) What mechanisms should be used to ensure all consumers, including low-income consumers, and those in rural, remote and high-cost areas have access to telecommunications and information services?

Incumbent Local Exchange Carriers

Mechanisms should be based upon costs that support existing networks, as well as funding to promote improvements to rural networks. The state should implement programs that incent both capital investment (such as investment grant programs) and help recover the costs of upgrading and maintaining existing networks, as is done with existing state and federal programs.

Two suggested funding mechanisms should be utilized: one mechanism to providers (both rural and non-rural) with carrier of last resort obligations to support the cost of offering reasonable rates in high-cost areas. The second mechanism would be used to provide support to ensure affordability for low-income individuals that is now offered through the state Lifeline (or Idaho Telecommunications Service Assistance Program,

ITSAP). The high-cost mechanism should be based on the extent to which forward-looking costs at the census block level exceed a benchmark level that is determined to be generally affordable. This second mechanism should bridge the gap between the generally affordable level and the level deemed affordable for low-income individuals.

Availability and affordability are related by separate questions that both deserve discussion. Service availability relates to the build-out and maintenance of services in high-cost areas, while service affordability is related to the ability of consumers to pay for such services in both urban and rural areas of the state. The mechanisms to ensure service availability include the federal CAF programs, as well as the Idaho USF plan. Idaho policymakers also need to decide how to best provide services to the very high-cost rural areas that may be served via satellite. USF reform must result in customers having similar services at comparable prices.

Service affordability is addressed through the federal Lifeline program and the Idaho Telecommunications Service Assistance Program. While the Lifeline and ITSAP plans provide credits toward voice service only, these credits could be expanded or redirected to include broadband services. CenturyLink has offered a low-income broadband discount program known as “Internet Basics” for the past three years. Lifeline eligibility is one of several requirements for the program. CenturyLink has also partnered with local and federal groups for both promotion of Internet Basics and computer training.

Rural Local Exchange Carriers

Universal service recipients should be required to build a reliable communications network to any consumer who requests service, within reason. These Carriers of Last Resort obligations will ensure consumers in rural and high-cost areas have access to advanced communication services.

Wireless

AT&T explained that in its “Transformation Order,” the FCC established a \$100 million per year “Remote Areas Fund” to address affordable access through alternative technology platforms in the most remote areas of the nation. Parties subsequently filed comments regarding the structure of the RAF and other issues identified by the FCC. Implementation is pending. The company believes that the RAF continues to be the appropriate mechanism to address this universal service objective.

CLEC/Wholesale Provider

The IPUC can monitor, inspect and audit providers to ensure that consumers are protected from fraud and abuse. Audits should be paid for from the fund.

9) Should the customers of all providers of telecommunications services make equitable contributions to the preservation and advancement of universal service?

Unanimously, the answer was yes. Comments included observations that universal service is a social policy and value that has been in place since the 1934 Communications Act. The users of the service provided should equally support the implementation of such policy. The commenters also wanted the inclusion of VoIP services.

Other observations were that the availability of all the state telecommunications networks is important for the proper functionality of the state. All should contribute to have access to these networks.

Support for voice service should be provided by all voice customers, including interconnected VoIP customers and wireless customers. Limiting funding from only a segment of the voice market would create two problems. First, it would establish artificial incentives for customers to migrate to services not subject to surcharges. Second, it would create funding instability as customers migrate to services not subject to surcharges.

Cable providers believe that wireless/mobile communications services should also be included. This may require a statutory change to Idaho Code § 62-610.

With everyone receiving telecommunications services contributing equally, it will only strengthen the overall program and allow all consumers the same opportunities wherever they reside. There needs to be parity in contributions to the Idaho USF. All providers of voice services, regardless of their regulatory status, should contribute to the fund. In many states, wireless providers pay into the state USF and, in some states, VoIP providers pay as well. If Idaho expands the definition of universal service to include broadband networks, broadband providers should also contribute to the “preservation and advancement of universal services.”

Recently, the FCC directed the Federal-State Joint Board⁹ to report back to the FCC by late 2015 regarding the recommendations for updating federal USF contributions policy. Idaho should also review and update its contributions policies to ensure parity in the contributions to the Idaho USF.

AT&T supports universal service contribution methodologies being broadly based and competitively neutral as possible and not driving purchasing decisions.

⁹ The Federal-State Joint Board on Universal Service was established in March 1996, to make recommendations to implement the universal service provisions of the Act. This Joint Board is comprised of FCC Commissioners, State Utility Commissioners, and a consumer advocate representative.

10) Should the customers of all providers of telecommunications services be required to support the Idaho Telecommunications Service Assistance Program (ITSAP) and Telecommunications Relay Service (TRS)?

Again, a near unanimous yes was given. All agreed that VoIP providers be included in the providers' category.

Funding for public service programs should be recovered from customers of all providers throughout Idaho.

AT&T believes that universal service contribution methodologies should be as broadly based and competitively neutral as possible and should not drive purchasing decisions.

The cable providers had no opinion.

Summarized: The customers of all voice providers in Idaho benefit by being able to communicate with low-income and hearing-impaired customers and therefore should contribute to these funds.

11) Should Idaho's universal service support mechanism be adjusted or changed to direct support in some other fashion such as a customer voucher, technology-neutral reverse auction, or some other mechanism?

The voucher support mechanism was rejected outright by all providers.
Incumbent Local Exchange Carriers

CenturyLink points out that Idaho policymakers have historically been leaders in promoting broadband investment in Idaho and in rural high-cost areas. Previously, the Legislature created the "Rural Broadband Matching Fund" as a way to incent broadband investment in high cost rural areas. In addition, broadband providers in Idaho have the ability to receive a tax credit for broadband investment in Idaho. The company believes policymakers should continue to utilize and enhance these options as well as considering USF reform and other possible options to increase broadband investment in rural high-cost areas.

Finally, CenturyLink stated that the FCC is planning a reverse auction in 2015–2016 for areas where the price cap provider does not exercise its 'right of first refusal' and declines CAF funds. This type of auction has not been attempted, and the FCC has not finalized the rules and service obligations for the auction. Therefore, it is premature for Idaho to attempt a similarly-styled auction. One option that a number of states have adopted, or are considering, is funding the deployment of broadband networks through a grant program, similar to one-time distributions from the USF as an aid to construction. While this would not work for all areas, it would work for many areas where operating the network is economic, but capital assistance is required to deploy the network.

Nebraska, Utah and California have existing programs, and other states are currently considering similar models.

Rural Local Exchange Carriers

The current Idaho USF system promotes high-quality networks and should be based upon the cost of expanding the network. USF support should be provided through a competitively neutral mechanism to a single entity so that facilities can be deployed and the requisite services offered.

Wireless Provider

AT&T recommends that this question be considered once the CAF has been further implemented.

Cable Providers

The cable industry advocates that a system be focused on USF support as a contribution in aid of construction (CIAC) paid to a provider that otherwise finds it uneconomic to extend facilities into an unserved area. If the capital investment is subsidized by the USF, the monthly service would not have to be. Capital investment in unserved areas could be competitively bid, with the winning provider receiving some level of USF support as a CIAC. The level of CIAC would be calculated to bring the capital cost per customer down to some reasonable industry standard of investment per customer.

CURRENT FEDERAL ISSUES THAT MAY AFFECT IDAHO

Many issues are underway at the Federal level that may have a direct impact on Idaho. Following is a list of many that could impact Idaho in the future.

Connect America Fund (CAF I/II)

- The FCC has adopted comprehensive reforms to modernize the High Cost Program and accelerate the build-out of robust broadband networks across the country. In November 2011, the Federal Communications Commission (FCC) released the USF/ICC Transformation Order.
- For Connect America Phase II, high-cost support is calculated using a forward-looking cost model was offered to incumbent price cap carriers for each state they serve in exchange for their commitment to offer voice and broadband services throughout their service territories. For the areas where the incumbent price cap carriers decline model-based support, support was to be disbursed using a

competitive bidding mechanism. The Federal Communications Commission expects that what it learns from conducting the rural broadband experiments will inform its decisions in the coming months as to how to implement a Phase II competitive bidding process.

Mobility Fund

- The Mobility Fund is the wireless component of the Connect America Fund. It provides support for the expansion of mobile broadband networks in areas that might otherwise not be served. The Mobility Fund consists of two phases.
- Phase I provides immediate one-time support to accelerate the deployment of mobile broadband and voice service to unserved areas. A nationwide reverse auction held in September 2012 awarded \$300 million of Phase I funds to more than 30 service providers. A separate auction, called the Tribal Mobility Auction, will award up to \$50 million to providers that serve Tribal lands.
- Phase II provides ongoing support to deploy and maintain mobile broadband and voice service in high-cost areas. Up to \$500 million will be available every year; however, the FCC is studying the exact amount to be allocated for services on Tribal lands in future years.

Rural Broadband Experiments

- On January 31, 2014, the Commission released the Technology Transitions Order, which, among other things, adopted targeted experiments to help learn more about the impact of technology transitions on rural America. In addition to furthering the FCC's goal to gain experience and data on how to ensure universal access as networks transition, this experiment is designed to help inform the policy decisions in various proceedings pending before the FCC.
- On July 11, 2014, the Commission adopted a \$100 million budget for the rural broadband experiments and established an objective methodology for selecting projects among formal applications, which were due 90 days after release of the order.

Open Internet Rules

- An Open Internet means consumers can go where they want, when they want. This principle is often referred to as Net Neutrality. It means innovators can develop products and services without asking for permission. It means consumers will demand more and better broadband as they enjoy new lawful Internet

services, applications and content, and broadband providers cannot block, throttle or create special "fast lanes" for that content.

- The FCC's Open Internet rules protect and maintain open, uninhibited access to legal online content without broadband Internet access providers being allowed to block, impair, or establish fast/slow lanes to lawful content.
- The FCC's Open Internet rules are designed to protect free expression and innovation on the Internet and promote investment in the nation's broadband networks.

Re-write of the federal Telecommunications Act of 1996

- The Committee on Energy and Commerce has issued a series of white papers as a first step toward modernizing the laws governing the communications and technology sector. Changes in technology and the rate at which they are occurring warrant an examination of whether, and how, communications law can be rationalized to address the 21st Century communications landscape.
- Comments have been sought so that the objective of a statutory rewrite should consider a flexible and technologically neutral framework that will be capable of adapting to technical invention and innovation, whatever it may prove to be.

Court Challenges

- Open Internet
- Re-write of the Telecommunications Act of 1996
- Cost model for rural exchanges may be challenged

DEFINITIONS

CLEC – Competitive Local Exchange Carrier –

Created as a result of the Telecommunications Act of 1996. Essentially the idea of the CLEC was that it would be a new local phone company that would compete with the ILEC.

Carrier of Last Resort (COLR) –

Idaho currently does not have COLR statutes; but it is part of the national discussion. A carrier of last resort is a telecommunications carrier that commits (or is required by law) to provide service to any customer in its service area that requests it, even if serving that customer would not be economically viable at prevailing rates.

Connect America Fund (CAF) –

The FCC adopted a comprehensive reform process to modernize the High Cost Program and accelerate the build-out of robust broadband networks across the country.

Connect America Cost Model (CACM) –

The Wireline Competition Bureau at the FCC adopted the platform and inputs for the forward-looking Connect America Cost Model. The model allows Commission staff and interested parties to calculate costs based on a series of inputs and assumptions for Connect America Phase II implementation.

Federal-State Joint Board –

An organization with representatives from the FCC and the state public service commission's which tries to resolve Federal and State conflicts on telecommunications regulatory issues.

ILEC – Incumbent Local Exchange Carrier –

The dominant phone carrier within a geographic area as determined by the FCC.

Idaho's 10 Legacy Rural Telecoms –

ATC, Cambridge, Direct, Fremont, Inland, Midvale, Oregon-Idaho Utilities, Potlatch, Rural and Silver Star.

Idaho's 8 State USF recipients –

ATC, Cambridge, Direct, Fremont, Inland, Midvale, Rural and Silver Star

ITSAP –

A telecommunications service assistance program established within the department of health and welfare to provide eligible recipients with a reduction in costs of telecommunications services to promote universal service.

Lifeline –

A minimal telephone service designed for the poor and elderly to assure they can be reached by phone and have a “Lifeline” to the world in case of emergency.

RLEC – Rural Local Exchange Carrier –

Defined by the FCC as an independent phone company serving rural communities, small towns, etc but could be adjacent to a major metropolitan area. Government protects these companies by making them permitted monopolies which are extremely difficult to compete with both because of government regulation and economics. Certain rules apply which determine whether or not an ILEC qualifies as a RLEC.

TRS – Telephone Relay Service

Established under the Title IV of the Americans with Disabilities Act, the TRS allows individuals who are hearing- or speech-impaired to engage in telephone communications in a manner functionally equivalent to that of individuals without hearing or speech impairments. Communications is accomplished with the assistance of an operator service and the use of specialized equipment.

USF/ICC Transformation Order –

On November 18, 2011, the FCC released the *USF/ICC Transformation Order*, which comprehensively reforms and modernizes the universal service (USF) and intercarrier compensation (ICC) systems. Intercarrier compensation is what carriers charge each other for originating, transporting and terminating telephone traffic. In the *Order*, the FCC adopted a framework for providing ongoing support to areas served by price cap carriers, including areas where broadband service is not currently provided, known as Connect America Phase II. Specifically, the Commission will provide ongoing support to these areas through “a combination of a forward-looking cost model and competitive bidding.”

VoIP – Voice over Internet Protocol

A methodology and group of technologies for the delivery of voice communications and multimedia sessions over Internet Protocol (IP) networks, such as the Internet. Other terms commonly associated with **VoIP** are IP telephony, Internet telephony, broadband telephony, and broadband phone service.