



CenturyLink™

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April 11, 2012

VIA HAND DELIVERY

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
400 North Street, Second Floor
Harrisburg, PA 17120

Re: Implementation of the Federal Communications Commission's Order of
November 18, 2011 as Amended or Revised and Coordination with
Certain Intrastate Matters - Docket No. M-2012-2291824

Dear Secretary Chiavetta:

Per the Commission's Order entered March 22, 2012, enclosed for filing please find an original and five (5) copies of a presentation submitted on behalf of The United Telephone Company of Pennsylvania LLC d/b/a CenturyLink for the April 20, 2012 collaborative session scheduled in the above-referenced docket. CenturyLink's presentation will be given by its Director of Federal Public Policy, Jeffrey L. Lindsey.

Copies of this deck presentation have been sent to all known entities that may have an interest in this matter as set forth in the attached certificate of service. Should you have any questions, please do not hesitate to contact me at 717-245-6346.

Sincerely yours,

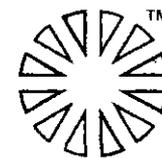


Sue Benedek

ZEB/jrh
enclosures

cc: Attached Certificate of Service *(via electronic mail)*
FCC Order Taskforce *(via electronic mail)*

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PA PUC
SECRETARY'S BUREAU



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The FCC's ICC and USF Order
Pennsylvania Public Utilities Commission
Workshop Presentation

Jeff Lindsey
Director, Federal Public Policy
April 20, 2012

Goals of the FCC's Transformation Order

- Expand broadband networks
- Maintain universal voice service
- Begin reform of the intercarrier compensation system
- Manage impacts of change over a transition period

Expanding Broadband Networks

- The FCC Order makes many aspirational statements regarding the expansion of broadband networks
 - Sufficient, explicit funding without overly burdensome conditions will be required to make these statements a reality
- The FCC wisely established a reasonable transition period to enable and accomplish broadband network expansion
- The CAF I allocates an incremental \$300M; intended to “jump start” broadband investment in unserved areas served by price cap ILECs
 - However, the FCC Order contains several “poison pills”
 - Limit of \$775 per location (household), limited to completely unserved census blocks and vastly overstates coverage of fixed wireless providers
 - These factors, among others, significantly limit areas of broadband network expansion
- The purpose, description, and economic principles of the CAF II cost-model based support appear to be sound
 - The qualifying areas and outputs of the model (and related distributions) will largely determine the success of the CAF II
 - ILECs have an option to exercise a study-area wide Right-of-First-Refusal (“ROFR”)
 - Reverse auctions to be held for areas of ILEC ROFR



Maintaining Universal Voice Service

- Once the CAF II is operationalized, some areas that previously received federal USF support, will lose it
 - Census blocks that are not sufficiently high-cost to receive CAF II funding to support voice and broadband obligations will not receive federal support
 - The FCC does nothing to remove state obligations unique to ILECs
 - ILECs will be left with unfunded COLR mandates
- States must choose one of two policy options:
 - Fund ILEC COLR obligations in these areas, or
 - Remove COLR obligations
- Obligations should be tied to the receipt of USF dollars; not to carrier type
 - Areas receiving USF should be subject to reasonable obligations; areas without funding should not be bound to obligations beyond those subjected to all carriers
- State USF should be considered and utilized to fill the gap
 - State USF provides options for the states to tailor support to their unique needs and circumstances to fulfill broadband and voice policy goals



Reforming Intercarrier Compensation

- A reasonable transition period is critical to allow consumers and carriers time to absorb the massive systemic changes resulting from the FCC's Transformation Order and changes arising post Order
- PUC's should recognize the transitional nature of ICC reform
 - Flexibility is critical
 - Focus on literal interpretation and overly proscriptive solutions will likely bog down the process, waste resources, and produce a loss of focus on long-term CAF reform and will disadvantage Pennsylvania consumers
- The FCC Order mandates rate changes via state and federal tariff processes beginning July 1, 2012
- CenturyLink will comply with the Order and timely file tariff rate changes in Pennsylvania
 - The FCC is developing a template to calculate ICC reductions; CTL will utilize this template to support its tariff filings
 - To the extent that resolution of any ambiguities need to be clarified, the filing of the tariff should instigate this process
 - CenturyLink is willing to meet with PUC staff, if desired, prior to submitting its tariff filing for review purposes
 - CenturyLink is willing to file certain rate and revenue information, on a confidential basis, to support its tariff filing

Reforming Intercarrier Compensation – ICA Impacts

- Interconnection Agreements (“ICA”) amendments are necessary to effectuate the new rules from the FCC Transformation Order
- Many carriers are currently negotiating amendments to the LEC/CMRS ICAs to implement Bill and Keep (B&K) for IntraMTA usage to be effective July 1st, 2012
- Many carriers are also currently negotiating ICA amendments with CLECs to implement Percent VoIP Usage factors to cap access VoIP usage at interstate rates (unless intrastate rates are lower)
- Carriers will also be amending ICAs to reflect reductions in reciprocal compensation rates effective July 1st, 2012 to the extent the current reciprocal compensation rates exceed interstate levels

Reforming ICC: Informal Dispute Resolution

- PA PUC's 3/22/2012 Order seeks comment on a resolution process for: (1) verifications of rates/amounts; and (2) Intercarrier disputes within or outside interconnection agreements
- CenturyLink is not opposed to an informal dispute resolution process whereby promptness and certainty are end goals
- Components of Informal Dispute Process:
 - Letter pleadings to PA PUC
 - Confidentiality
 - Ability to request formal resolution
 - Burden on seeker to demonstrate PA PUC jurisdiction and discretion warranted
 - PA PUC action, or determination of no action, based upon pleadings & within a specified time period.

Avoid Calls to Reform Originating Access

- The FCC has an active FNPRM for originating access
 - Pennsylvania should not move ahead of the FCC and risk actions that may be inconsistent with its future decisions
- Originating access is a service performed for the IXC and is a valid cost input
 - It would be economically irrational and market distorting to require originating carriers to provide this input for free to other carriers upon request
 - Ultimately, it would be impossible to recover the cost of building and maintaining those networks
 - If there were no charges for originating traffic for IXCs pursuant to equal access obligations, the appropriateness of equal access regime would come into question
- Rebalancing or eliminating originating access rates on top of the substantial reform of terminating access rates would be disruptive and burdensome to consumers
 - Retail customers already face the prospect of significant rate increases through terminating access reform

Pitfalls to Avoid

- **Unnecessary Focus on ILEC “Over-recovery”**
 - The FCC’s rules effectively preclude ILECs from a reasonable chance of full recovery of displaced ICC revenues
- **Premature or bad IP-Interconnection policy**
 - Independent of universal service policy
 - Conflicting goals: universal service = availability, not competition
 - Competitive policy issue
 - ILEC-centric policy is obsolete; Cable, wireless, CLECs, OTT are VoIP leaders – not ILECs
 - Exchange of IP traffic is growing rapidly and is not LATA-based
- **Failure to Align Funding and Obligations**
 - The order will remove funding from some previously supported areas for voice services
 - Policy must fund COLR obligations in these areas or remove them
 - Explicit funding will produce broadband networks in high-cost areas, subject to obligations
- **Failure to Recognize the Transitional Aspects of ICC Reform**
 - The ICC system is largely going away and USF/CAF will be the primary federal universal service policy tool going forward
 - Overly proscriptive rules and processes for ICC tariff filings will not be productive



The FCC's Rules Preclude a Reasonable Chance of Full Recovery of Displaced ICC Revenues

- Use of static demand analysis for computation purposes
 - Dynamic demand analysis produces more realistic results
 - Static demand fails to account for consumer reaction to the Order
- 10% arbitrary reduction of otherwise recoverable displaced intercarrier compensation (“ICC”) revenues
- Additional 10% reduction for original CALLS carriers
- Retail recovery is capped; methodology overly proscriptive
 - Further reduces recovery of displaced revenue
 - Adds unnecessary complexity
- CAF ICC recovery phases out after a transition period
- On a positive note, the FCC Order describes the ARC at a holding company level, permitting an increased level of flexibility

Conclusion

- Universal Service Policy pits rural vs urban/suburban interests
 - Urban/suburban areas do not need a universal service policy to thrive
 - Consumers in rural high-cost areas are dependent upon an effective universal service policy
 - Once competition enters the market, internal carrier-based support erodes and explicit universal service funding – targeted to high cost areas - is required
 - Such funding must be obtained from all carriers/consumers on a competitively equal basis
 - FCC expected to launch contribution reform soon
 - The CAF II attempts to meet these principles, but may fall short of its aspirational goals
- *What actions will Pennsylvania policymakers take to participate in the federal process and ensure that PA gets its “fair share” of CAF?*
- *What actions will Pennsylvania policymakers take to reform state policies to complement and support the FCC’s ICC/USF order?*
 - State USF is a critical tool to fulfill broadband and voice universal service policy goals

**The ultimate success or failure of this order
will depend on the outcome of the CAF II**



**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Implementation of the Federal Communications)
Commission's Order of November 18, 2011 As)
Amended or Revised and Coordination With)
Certain Intrastate Matters)
_____)

Docket No. M-2012-2291824

CERTIFICATE OF SERVICE

I hereby certify that I have this 11th day of April, 2012, served a true copy of the foregoing Presentation upon the persons below, via electronic mail, in accordance with the requirements of 52 Pa. Code §1.54:

Norman J. Kennard, Esquire
Thomas, Long, Niesen and Kennard
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Harrisburg, PA 17109

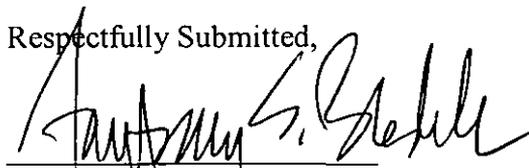
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Respectfully Submitted,



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