

## **FCC Adopts Notice of Proposed Rulemaking for Universal Service and Intercarrier Compensation**

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The Federal Communications Commission ("FCC") has unanimously adopted a Notice of Proposed Rulemaking ("NPRM") regarding plans to reform and modernize the Universal Service Fund ("USF") and Intercarrier Compensation ("ICC") regime.

Consistent with recommendations in the National Broadband Plan (the "Broadband Plan") to bring robust, and affordable broadband access to all Americans, the NPRM proposes: (i) to transition the current voice-based USF program into a broadband-focused Connect America Fund ("CAF"); and (ii) to phase out ICC in favor of market-driven policies. To achieve these goals, the FCC proposes a two-stage reform plan. Although the FCC has yet to resolve many details and continues to seek further comment, it does make several specific recommendations in the first stage for both the USF and the ICC system.

### USF Reform

The FCC proposes to transform the existing USF high-cost program – the component directed toward high-cost, rural areas – into a new, more efficient, broadband-focused Connect America Fund ("CAF"). It proposes to do this in two stages.

In the first stage, the FCC proposes implementing a set of immediate reforms beginning in 2012 including: (i) establishing the CAF, itself; (ii) phasing out Interstate Access Support; (iii) eliminating the "identical support" rule and rationalizing funding for competitive Eligible Telecommunications Carriers ("ETCs"); and (iv) reforming, reducing and/or phasing out high-cost loop support ("HCLS"), local switching support ("LSS"), and interstate common line support ("ICLS") in order to reduce costs and start rate-of-return carriers on the path toward market-driven, incentive-based regulation. The proposed changes will enable significant funds to be placed into the CAF for fixed and wireless broadband support.

In the second stage, the FCC proposes that all remaining high-cost programs be transitioned into the CAF, which would then provide ongoing support to maintain and advance broadband in parts of the country that are uneconomic to serve without such support. In the meantime, the FCC seeks comment on the proper mechanism by which it will award the ongoing CAF support to service providers.

### ICC Reform

In the first stage of ICC reform, the FCC proposes several reforms to reduce wasteful arbitrage and increase certainty in ICC payments during the transition away from a per-minute system. In particular, the FCC proposes to: (i) amend its interstate access rules to address access stimulation issues; (ii) amend its call signaling rules to address "phantom traffic" by ensuring that calls include sufficient call detail information for billing the appropriate party; and (iii) determine the payment and compensation obligations for interconnected VoIP traffic under the ICC framework. The FCC intends its proposals to allow companies to begin directing increased capital resources toward investment and innovation.

In the second stage, the FCC proposes to phase out the current per-minute ICC system and implement a

recovery mechanism (based on costs and/or revenues), which could enable some carriers to receive additional support from the CAF. It will do this over a period of time , in order to provide a more certain glide path for the transition to an all-IP future. As the FCC examines the best approach for implementing a new compensation regime, it seeks comments on the best approach forward, including the role of states in ICC reform. One possible approach relies on the FCC and states to act within their existing roles in regulating ICC, such that states would remain responsible for reforming intrastate access charges.