



Transformation Order Report Card

Many Steps, Some in the Right Direction

By Marshall K. Essig, CFA
Senior Credit Officer

Transformation Order: Two-Year Retrospective

Inside this Issue...

I. Executive Summary.....	1
II. Background/Overview	2
III. Connect America Fund & Intercarrier Compensation Reform Order – Two Years On.....	3
Summary.....	4
Glossary.....	8

- The Transformation Order *did*:
 - Put the legacy system of Intercarrier Compensation (ICC) payments on a path towards elimination;
 - Cap the size of the high-cost support funds, and abolished the “Identical Support” rule for (mainly wireless) competitors to local telcos; and
 - Implement the first stages of support mechanisms for the buildout of rural broadband networks by wireless carriers and larger Price Cap landline carriers.
- The Transformation Order *did not*:
 - Attempt to reform the contribution mechanism for the Universal Service Fund; or
 - Break the link between high-cost support and voice access lines for Rate of Return carriers.
- The Transformation Order left several items *pending*, including:
 - What the replacement for the Quantile Regression Analysis (QRA) will be;
 - A potential revision to the level of the allowable rate of return;
 - Specification of the cost model for the second phase of the Connect America Fund (CAF), and of the format of the related reverse auction; and
 - Determination of the form of the second phase of the Mobility Fund support.

I. Executive Summary

After years of debate and discussion about reforming the Universal Service Fund (USF) and the Intercarrier Compensation (ICC) system, the FCC issued its Transformation Order in November 2011 (TO-2011). The Transformation Order reflects the FCC’s attempt to refocus support away from voice service and towards broadband service, as well as a reorientation of subsidies away from intercarrier access charges and towards direct financial support. While the USF funding mechanism itself was not changed (contributions into the high-cost fund are still based on voice usage), the size of the programs was effectively