Implementing USF Reform – Are You Ready?

Presenter: Stacey Brigham
TCA
USF Reform Overview

• New distribution mechanism
  – Optional A-CAM election
• Support for data only customers
  – ICLS updated and renamed Connect America Fund Broadband Loop Support (CAF BLS)
• Reduction to authorized RoR
• Changes to RoR regulation
  – Limits on capital investment and operating expense
• Official cap on RLEC funding
  – $2 billion
  – Plus up to additional $150-200 million to fund A-CAM
• Eliminates support where competitively overlapped
• New broadband buildout requirements
• New reporting requirements
• Seeks comment on future changes
THE GREAT WAIT
(Dates are Approximate)

- A-CAM challenge process begins
- RoR phase down begins
- A-CAM offers made
- A-CAM elections

2016:
- Jan
- Feb
- Mar
- Apr
- May
- Jun
- Jul
- Aug
- Sep
- Oct
- Nov
- Dec

2017:
- Jan
- Feb
- Mar
- Apr
- May
- Jun
- Jul
- Aug
- Sep
- Oct
- Nov
- Dec

- A-CAM distributions
- Geocoded location collection begins
- RoR challenge process
- NECA calculates CAF BLS projections for buildout obligations

- Reductions due to competition begin
- CAF BLS begins

Opex & Capex Limitations implemented

= A-CAM Items
= RoR Items
= Both
First Decision - Distribution Mechanisms

- Rate of Return
- A-CAM
A-CAM DISTRIBUTION
A-CAM Model Basics

- 9.75% Rate of Return
- 10/1 Mbps Model
- 10 Year Plan
- A-CAM calculates the cost of serving all areas, then filters results based on:
  - Existing fiber or cable facilities
  - Competition
  - Required funding
- Participation restricted to RLECs that have made 10/1 available to fewer than 90% of their eligible locations
- $52.50 - $200 funding threshold
  - $200 funding threshold provides $200 of support – meaning total cost to serve customer could be up to $252.50 to be considered fully funded
  - Locations that cost more than $252.50 are capped locations
A-CAM: Where are the Locations?

- The A-CAM determines which blocks are eligible for support.

- A-CAM searches the Census Bureau and proprietary information to find how many housing units and businesses are in that block.

- A-CAM assigns those locations as either fully or partially funded.
# A-CAM Buildouts

<table>
<thead>
<tr>
<th>Year</th>
<th>10/1 Mbps Buildout (fully funded locations)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>*</td>
</tr>
<tr>
<td>2018</td>
<td>*</td>
</tr>
<tr>
<td>2019</td>
<td>*</td>
</tr>
<tr>
<td>2020</td>
<td>40%</td>
</tr>
<tr>
<td>2021</td>
<td>50%</td>
</tr>
<tr>
<td>2022</td>
<td>60%</td>
</tr>
<tr>
<td>2023</td>
<td>70%</td>
</tr>
<tr>
<td>2024</td>
<td>80%</td>
</tr>
<tr>
<td>2025</td>
<td>90%</td>
</tr>
<tr>
<td>2026</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Density (housing units/square miles)</th>
<th>Fully Funded (25/3 Mbps)</th>
<th>Partially Funded (4/1 Mbps)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;10</td>
<td>75%</td>
<td>50%</td>
</tr>
<tr>
<td>10-5</td>
<td>50%</td>
<td>25%</td>
</tr>
<tr>
<td>&lt;5</td>
<td>25%</td>
<td>25%</td>
</tr>
</tbody>
</table>

*Remaining 50-75% of partially funded locations should be served with 4/1 Mbps upon reasonable request*
## Penalties for Missing A-CAM Milestones

<table>
<thead>
<tr>
<th>Compliance Gap</th>
<th>Non-Compliance Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;5%</td>
<td>None</td>
</tr>
<tr>
<td>5-15%</td>
<td>Quarterly reporting</td>
</tr>
<tr>
<td>15-25%</td>
<td>Quarterly reporting and withhold 15% of monthly support</td>
</tr>
<tr>
<td>25-50%</td>
<td>Quarterly reporting and withhold 25% of monthly support</td>
</tr>
<tr>
<td>50% or more</td>
<td>Quarterly reporting and withhold 50% of monthly support for 6 months</td>
</tr>
<tr>
<td></td>
<td>After 6 months withhold 100% of monthly support and recover percentage of support equal to compliance gap plus 10% of support disbursed to date</td>
</tr>
<tr>
<td>State</td>
<td>Rate of Return Carrier</td>
</tr>
<tr>
<td>---------</td>
<td>------------------------</td>
</tr>
<tr>
<td>ROR State SubTotal</td>
<td>ROR State SubTotal</td>
</tr>
<tr>
<td>ROR Nationwide Total</td>
<td>ROR Nationwide Total</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>State</th>
<th>Rate of Return Carrier</th>
<th>Holding Company</th>
<th>Total Number of Rate of Return Locations in Census Blocks Receiving Model-Based Funding</th>
<th>Fully Funded Locations</th>
<th>Capped Locations</th>
<th>Number of Locations in Eligible Census Blocks with Obligation to Offer 25/3 Mbps</th>
<th>Number of Locations in Eligible Census Blocks with Obligation to Offer 10/1 Mbps</th>
<th>Number of Locations in Eligible Census Blocks with Obligation to Offer 4/1 Mbps</th>
<th>Number of Locations Remaining on Reasonable Request Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROR State SubTotal</td>
<td>ROR State SubTotal</td>
<td>ROR State SubTotal</td>
<td>8,776</td>
<td>6,660</td>
<td>2,116</td>
<td>2,385</td>
<td>4,275</td>
<td>522</td>
<td>1,594</td>
</tr>
<tr>
<td>ROR Nationwide Total</td>
<td>ROR Nationwide Total</td>
<td>ROR Nationwide Total</td>
<td>1,217,130</td>
<td>1,049,830</td>
<td>167,300</td>
<td>592,869</td>
<td>456,961</td>
<td>46,965</td>
<td>120,335</td>
</tr>
</tbody>
</table>
A-CAM Considerations

• If you elect A-CAM, what happens to State USF?
  – Treatment of Price Cap LECs in your state set a precedent
• Can you actually deploy to eligible locations for the support amount?
• Do the location counts match your findings?
• Does the support “win” over the entire 10 year period?
Ok, So What’s Behind Door Number Two?

RATE OF RETURN DISTRIBUTION
CAF BLS: New Support Mechanism to Cover Voice and Data Loop Costs
### Consumer Only Broadband Loop Support

#### Offering Broadband Only Service

- July 1, 2017
- $42 “floating rate”
- Retail pricing >$42
- Loss of local revenues
- Imputed ARC
- FUSC
- HCL Support Decrease
- Double Recovery
CAF BLS Mechanism

Voice Loop Support (Current ICLS)

- **CL RRQ**
  - Common Line Revenue Requirement

- **SLC**
  - Subscriber Line Charge Revenues

- **Voice Loop Support in CAF BLS**

Consumer Broadband Only Loop Support

- **CBBO RRQ**
  - Consumer Broadband Only Revenue Requirement

- **CBBO Revenue**
  - Imputed Revenue = $42 “floating” rate

- **Data Only Loop Support in CAF BLS**

Imputed Revenue = $42 “floating” rate
Positioning Retail Offerings: Pricing

Example: Voice with Internet

- Voice: $18.00
- Internet: $39.99
- Features: $5.00
- Voice SLC: $6.50
- Fees: $6.62

Customer Bill = $76.11

Retail Concerns:

- $23.00 loss of local revenue
- $39.99 + $42.00 CBBO SLC

Projected Customer Bill = $81.99*

*Excludes FUSC on CBBO SLC
LIMITATIONS ON OPERATIONS EXPENSE
What is an Operations Expense?

The labor that goes into making your company run

- Network related expenses
- Capped Corporate Expenses
- Customer operations expense (marketing & customer services)

Corporate Expenses

- Overhead expenses, including:
  - Executive and planning activities
  - Supervision
  - Office support
  - Training
  - HR
  - General and Administrative

- Already limited by a separate cap
Operations Expense Limitation Considerations

- Standard Deviation of 1.5 of similar RLECs
  - By density
- 50% phase in for year 1
- USAC sent letters to impacted companies after Labor Day
  - No transparency
  - Significant errors uncovered
CAPITAL EXPENSE LIMITATIONS
Capital Expense Limits

- Capital Budget Mechanism
  - Ties to percent depreciation of network
  - National buildout targets
  - Limits begin in 2017

- Greater of Adjusted AAPLI and Minimum AALPI
  - Minimum AALPI is lesser of TALPI or $4M
  - Maximum Average Per Location Construction Limitation - $10,000
Capital Expense Limitations Considerations

• If you are currently building out, reevaluate your deployment plans
• Work with lenders to overcome challenges
BUDGET CONTROL MECHANISM
Budget Constraint

Reductions Needed

- Pro Rata Revenue
- Per Access Line
Budgetary Controls

- 2016 reductions begin this month
- Only 4 months of difference incurred

Reduction Required \( \div \) 6 Months = Monthly Reduction

Monthly Reduction \( \times \) 4 Months = Total Impact
What Happens in 2017?

Hierarchy of Caps + Additional Factors

Corporate Operations Expense
- Rate of Return Reduction
- Operations Expense Limits
- Capital Expense Limits
- HCLS % Haircut
- Budget Constraint

HCLS Recalculation due to A-CAM Elections
CAF ICC support changes as rates phase down

What Happens in 2017?
LOSS OF SUPPORT IN AREAS WITH COMPETITIVE OVERLAP
Process Highlights

Expected to take place in “Late 2016”

- FCC will provide initial list of potential competitive census blocks
  - Based on latest Form 477 Data
- Competitors file data with USAC
  - Must include “documentary evidence” of service availability sufficient for interested parties to determine where the service is
    - Maps encouraged
    - Customer bills encouraged
  - Must certify to the accuracy of the data
- RLECs given the opportunity to challenge these filings
Competitive Overlap

- Competitive overlap of 85% or more
- Census blocks that are deemed competitive will lose funding
  - Subject to affirmative challenge process — burden of proof in on the competitor
  - Expect costs will be disaggregated so not a 1 for 1 reduction
    - Density
    - Square mile of CB to SA
    - Use of model
Number of Fixed Providers of Residential Internet Access Service at least 10/1 Mbps by Census Block

As of June 30, 2015
Overview of Data

- All facilities-based broadband providers are required to file data with the FCC twice a year (Form 477) on where they offer internet access service at speeds exceeding 200 kbps in at least one direction.
- Fixed providers file lists of census blocks in which they can or do offer service to at least one location, with additional information about the service.
  - Note: A provider that reports deployment of a particular technology and bandwidth in a census block may not necessarily offer that service everywhere in the block. Accordingly, a list of providers deployed in a census block does not necessarily reflect the number of choices available to a particular household or business location in that block, and the number of such providers in the census block does not purport to measure competition.
- Mobile providers file maps of their coverage areas for each broadband technology (e.g., EV-DO, HSPA, LTE).

Explanation of the Data

Nationwide Data

<table>
<thead>
<tr>
<th>Data As Of</th>
<th>Fixed Broadband Deployment Block Data</th>
<th>Mobile Broadband Deployment Coverage Areas</th>
<th>Release Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>(includes revisions made through 06/24/16)</td>
<td>Fixed Provider Summary Table (Excel)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Who Counts?

- Unsubsidized Competitors
  - Fixed, terrestrial, stand alone voice
  - Fixed, terrestrial, stand alone broadband
  - Reasonably comparable rates
  - No federal or state funding of any kind
  - E911 access, CALEA Compliant, LNP capable
Disaggregation of CAF BLS

• If a competitor successfully claims service coverage in a census block, the effected RLEC may disaggregate its CAF BLS costs.

• Costs will be disaggregated so not a 1 for 1 reduction:
  – Relative density of competitive and non-competitive areas
  – Relative square miles of competitive census blocks to the study area
  – Ratio of costs in the A-CAM between competitive and non-competitive areas
## Phase down of CAF BLS

<table>
<thead>
<tr>
<th>% Competitive Area BLS of Total BLS</th>
<th>Reduction of CAF BLS Schedule</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;25%</td>
<td>33% - Year 1</td>
</tr>
<tr>
<td></td>
<td>66% - Year 2</td>
</tr>
<tr>
<td></td>
<td>100% - Year 3</td>
</tr>
<tr>
<td>&gt;25%</td>
<td>17% - Year 1</td>
</tr>
<tr>
<td></td>
<td>34% - Year 2</td>
</tr>
<tr>
<td></td>
<td>51% - Year 3</td>
</tr>
<tr>
<td></td>
<td>68% - Year 4</td>
</tr>
<tr>
<td></td>
<td>85% - Year 5</td>
</tr>
<tr>
<td></td>
<td>100% - Year 6</td>
</tr>
</tbody>
</table>
BROADBAND BUILDOUT OBLIGATIONS
Rate of Return Option...5 Year Obligation

5yrs Targeted CAF BLS \[\div\] Cost per Location = Buildout Requirement
Targeted CAF BLS

<table>
<thead>
<tr>
<th>Current deployment of 10/1 Mbps</th>
<th>CAF BLS used for deployment (i.e., Targeted CAF BLS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;20%</td>
<td>35%</td>
</tr>
<tr>
<td>20-40%</td>
<td>25%</td>
</tr>
<tr>
<td>40-80%</td>
<td>20%</td>
</tr>
<tr>
<td>&gt;80%</td>
<td>None</td>
</tr>
</tbody>
</table>

Targeted CAF BLS may not be used to increase speeds elsewhere if the RLEC still has unserved locations.
Cost per Location

A-CAM
- Cost per location found in A-CAM input

Average Cost of RLECs
- Weighted average cost per loop for RLECs that have deployed 95% or more 10/1 Mbps
- 150% of weighted average cost per loop of similarly situated RLECs
RoR Obligation Example
(assuming 64% 10/1 Mbps current availability)

- Projected CAF BLS = $20,000,000 (average of $4,000,000 annually)
- Targeted CAF BLS = $20,000,000 \times 20\% = $4,000,000
- Cost per Location (assume ~150% above NACPL for demonstration purposes only) = $1,000

\[
\frac{4,000,000}{1,000} = 4,000 \text{ Locations by 5 years}
\]
Reasonable Requests for Broadband

- All other customers must be served upon reasonable request for 10/1 Mbps
  - If 10/1 Mbps is not reasonable, must serve at 4/1 Mbps if reasonable
- Reasonable Request
  - Documented evaluation process (must provide in an audit)
  - Cost of deploying broadband to a requesting customer should not exceed revenues from upgraded line, including:
    - Broadband service revenue
    - Federal USF (ICLS & HCLS)
    - State high cost fund if applicable
  - Incremental cost may not cause total High Cost Support to exceed $250/line/month
  - Existing High Cost Support may not exceed $250/line/month
  - RLECs are not obligated to extend broadband to customers in census blocks served by an unsubsidized competitor
Remote Areas Fund

• “Optional” process to identify customers that will not meet a reasonable request standard
• FCC will relieve RLEC of requirement to deploy to the customer upon reasonable request
  – Locations will be included in Remote Areas Fund Auction
    • Relaxed service quality standards
    • LECs, WISPs, Cable & Satellite companies may participate

BUT

• Does not preempt state Carrier of Last Resort Obligations – you may still have to provide voice to those customers
NEW REPORTING OBLIGATIONS
Reporting Requirements

• Geolocation for newly served locations
  – A-CAM Participants also provide information on existing deployment
• Beginning 2017
• Information made publicly available
• Eliminate 5 year plan progress reports after this year
QUESTIONS?

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