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USF Reform:
Wrestling the 600-lb Gorilla



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Principal

Timeline

- NOVEMBER 18, 2011**
USF-ICC Transformation Order makes major changes to RoR revenue structure
- DECEMBER 22, 2014**
Bureau releases CAM v4.2 for price cap carriers and the identical ACAM v1.0 for RoR carriers
- APRIL 16, 2015**
FCC starts 30-day “shot clock” for rural stakeholder consensus on USF reform plan
- AUGUST 31, 2015**
Bureau released illustrative support amounts for RoR carriers for 3 scenarios of ACAM v2.0
- June 10, 2014**
FCC releases *Connect America Order/FNPRM*, proposing voluntary model-based support for RoR carriers.
- MARCH 16, 2015**
Bureau released illustrative support amounts for RoR carriers for 7 scenarios of ACAM v1.0.1
- JULY 29, 2015**
Bureau released Public Notice to make changes to ACAM with regard to study area boundaries, plant mix, competitive overlap, and middle mile costs.



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FCC Commissioners



Michael O'Reilly (R)

Chairman



Tom Wheeler (D)



Mignon Clyburn (D)



Jessica Rosenworcel (D)



Ajit Pai (R)



Critical USF Issues



❖ USF-ICC Transformation Order

- Mandated elimination of USF support in areas with 100% unsubsidized competition
- Broadband deployed upon reasonable request of 4Mbps/1Mbps
- Mandated benchmarks for capital and operating costs



Critical USF Issues

❖ 7th Order on Reconsideration and NPRM

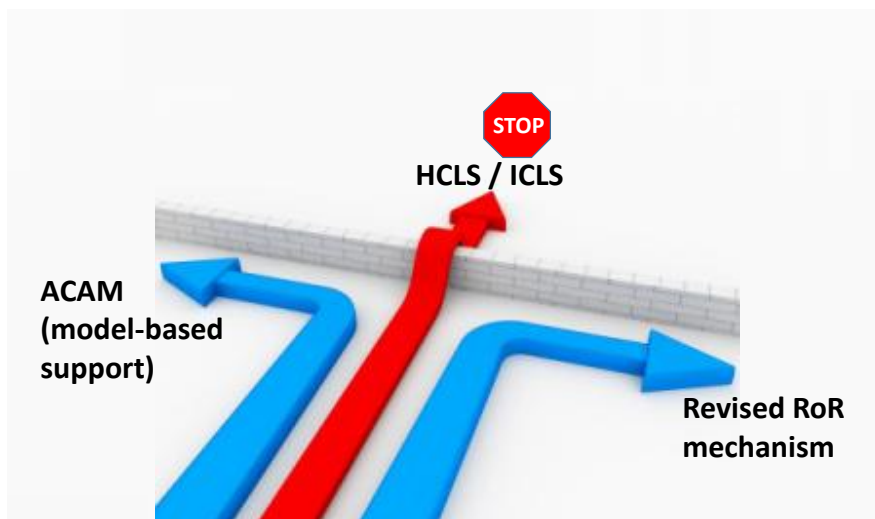


- Redefined broadband as 10 Mbps down / 1Mbps up
- NACPL freeze and percentage reductions of HCLS
- Proposed no HCLS and ICLS support for new investment in competitive areas on a census block basis
- Proposed stand-alone broadband USF support
- Proposed voluntary model-based support for RoR carriers
 - ✓ Based on Connect America Model used for price cap carriers
 - ✓ State level election
 - ✓ 4-year transition to model-based support
 - ✓ Price cap special access
- Proposed transition from HCLS and ICLS to new Connect America Fund using a “bifurcated” approach



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Two RoR Paths



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Stakeholders



The voice of mid-size communications companies



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30-day Group



The voice of mid-size communications companies



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Alternative Cost America Model



❖ Cost Model calculates cost of broadband service for all RoR areas

- Efficient gigabit passive optical network (GPON) fiber-to-the-home
- Capable of 10/1 Mbps broadband and Voice over Internet Protocol
- Models a “greenfield” network – does not take into account any actual network deployment already in place

❖ Support model calculates the support to each service area

- Uses a funding threshold to determine locations eligible for support (\$52.50)
- Uses presence of competitor to determine eligibility
- Utilizes a capping mechanism to keep support within budget limits



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ACAM Latest News (10/23/2015)

❖ Funding

- Model will not be fully funded
- Budget = legacy support of model electors plus \$100M - \$200M in CAF Reserves
- Upper threshold will be used to reduce number of eligible locations to fit budget
- Support for 10 years with year 8 rulemaking to determine what is next

❖ Build-out Obligations

- Build-out requirement determined by budget threshold adjustments (win or lose)
 - ✓ Locations over eligibility cap still subject to reasonable request rules
- Milestones for 10/1 new builds begin at 40% in year 4 and increase 10% per year



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ACAM Latest (continued)

❖ Election Process

- Single, two-step opt-in process after final ACAM released
- 120 days to decide to elect ACAM support
- FCC will run budget and build-out obligations based on model electors
- 30 days to change your mind, but support levels will not change based on opt-outs
- Elections on a statewide basis
- For multiple study areas in state, aggregate model support is effectively pooled



❖ Competitive Overlap

- Competition based on June 30, 2015 Form 477 data with no update thereafter



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ACAM Latest (continued)

❖ Glide Path

- Carriers receiving less model support than legacy can still opt-in to the ACAM
1. Tier 1 (<10% support difference)
 - Yr 1:** 50% legacy, 50% model support
 - Yrs 2-10:** model support
 2. Tier 2 (10%-25% support difference)
 - Yrs 1-5:** 20% per year reduction in legacy
 - Yrs 6-10:** model support
 3. Tier 3 (>25% support difference)
 - Yrs 1-?:** 10% per year reduction in legacy until crossover to model support reached



❖ Annual report w/ served locations

- New locations require geolocation



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Bi-furcated Support



- ❖ This is NOT a rural association plan
 - FCC asked to work collaboratively to see “if” and “how” such a plan could work
 - Primarily developed by US Telecom
- ❖ “Bi-furcated Approach”
 - Previous broadband loop investments supported through HCLS + ICLS
 - New broadband loop investments supported through new mechanism
- ❖ All rate base and operating expenses split between “Existing” and “New”
 - Only broadband loop assets and depreciation are tracked, all other assets and expenses are allocated



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Bi-furcation Issues

- ❖ FCC jurisdiction
 - Desired 100% interstate approach is disastrous for state USF and local rates
- ❖ Transition from HCLS & ICLS
 - Net plant approach runs until assets are fully depreciated
 - Gross plant approach would keep in place for life of assets
 - Arbitrary deadline (favored by Wheeler)



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Bi-furcation Latest News



- ❖ HCLS and ICLS
 - RoR 11.25%
 - Transition options on the table
 1. Set period of time
 2. When support gets to a *de minimus* %
- ❖ Broadband Universal Service Support (BUSS)
 - Accepted as written with two small changes: 9.5% RoR and allocation based on Net Plant
 - Straight revenue requirement calculation of broadband loop costs less benchmark
 - \$42-\$45 customer retail benchmark; static for 5 years and then adjusted annually
- ❖ Existing Data Only Broadband Support
 - Rejected the HCLS+ICLS concept
 - Will be recovered through BUSS



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Bi-furcation Latest News



- ❖ Budgetary Controls
 - Ultimate haircuts will be half on a % basis and half on a per-line basis
 - Applied across the board (HCLS, ICLS, BUSS)
- ❖ CapEx and OpEx Limits
 - Most recent Capital Budgeting Mechanism to be applied across all funds for CapEx
 - Adopt the double log model discussed with NECA as OpEx limit; not the proposed regression model
- ❖ Obligations
 - Annual report of all newly served and upgraded areas by geolocation
 - 10% of all support spend on previously unserved customers within the service area



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Bi-furcation Latest News



❖ Tentative Schedule

- Want to adopt an Order at December Open Meeting
- December 31, 2015 will be “date certain” dividing old & new investment
- Target implementation date June 30, 2016
- Further NPRM on accounting rules (supported vs. non-supported expenses) and cost allocations (regulated vs. non-regulated)



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Bi-furcation Latest News



❖ Competitive Overlap

- ALL SUPPORT subject to a threshold of 75% of locations served in a study area
- If competitor serves >75% of locations, all support would be disaggregated using the ACAM to determine ratio of costs between competitive and non-competitive areas
- Example of >75% competition:
 - ✓ Study area has \$1M in USF costs
 - ✓ ACAM says 60% of costs are in non-competitive areas
 - ✓ \$600k in costs used to determine USF



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Bi-furcation Mechanics

	12/31/2016		
	Total	Existing	New
COE Cat. 4.13 - Basic Exchange Line Circuit	\$850,000	\$500,000	\$350,000
C&WF Cat. 1 - Exchange Line (nonWB)	\$8,500,000	7,500,000	1,000,000
C&WF Cat. 2 - Wideband Exchange	\$575,000	500,000	75,000
Broadband Loop Tangible Assets	-	-	-
Total Broadband Loop Plant	\$ 9,925,000	\$ 8,500,000	\$ 1,425,000
Accum Depr - COE Cat 4.13	(251,875)	(230,000)	(21,875)
Accum Depr - C&WF Cat. 1	(1,500,000)	(1,475,000)	(25,000)
Accum Depr - C&WF Cat. 2	(86,875)	(85,000)	(1,875)
Accum Amort - Tangible Broadband Plant	-	-	-
Net Broadband Loop Plant	\$ 8,086,250	6,710,000	1,376,250
Allocation Factor		82.9804%	17.0196%



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Determine Existing & New

RATE BASE		OPERATING EXPENSES	
General Support Facilities	Allocate	Plant Specific Expenses	Allocate
Central Office Switching	Allocate	Plant Non-Specific Expenses	Allocate
COE Cat. 4.13 - Basic Exchange Line Circuit	Specific ID	Depreciation Expense	Specific ID / Calculate
Other COE Transmission Equipment	Allocate	Amortization Expense	Specific ID / Calculate
C&WF Cat. 1 - Exchange Line (nonWB)	Specific ID	Customer Operations	Allocate
C&WF Cat. 2 - Wideband Exchange	Specific ID	Corporate Operations	Allocate
Other Cable & Wire Facility	Allocate	Taxes	Allocate
Tangible Assets	Allocate	Other	Allocate
Intangible Assets	Allocate		
Telephone Plant Under Construction	Allocate		
Materials and Supplies	Calculate		
Accumulated Depreciation	Specific ID / Calculate		
Accumulated Amortization	Specific ID / Calculate		



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Calculate Legacy Support

❖ High Cost Loop Support (HCLS)

- Calculated using Existing Investment
- Corp Ops, CapEx and OpEx limits calculated on Total balances and allocated to Existing and New Investments
- Frozen \$647.87 NACPL benchmark reduced per allocation of Existing and New SACPL

❖ Interstate Common Line Support (ICLS)

- P36 and P69 studies for Existing Investment
- 11.25% RoR
- Allocated Corp Ops, CapEx & OpEx limits
- Still charge Subscriber Line Charge but SLC is allocated between Existing and New Investment



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Calculate New Support


❖ Broadband Universal Service Support (BUSS)

- P36 and P69 studies for New Investment
- Revenue Requirement calculation of 100% of broadband loop costs
 - ✓ ICLS by comparison is 25% of loop costs
- 9.50% RoR
- Allocated Corp Ops, CapEx & OpEx limits
- Allocated portion of Subscriber Line Charge
- Less a Broadband Benchmark Rate
 - ✓ This is NOT a customer charge
 - ✓ It is a threshold number for support
 - ✓ Based on customer retail rates per Urban Survey
 - ✓ \$42-\$45 range (static for 5 years, then adjusted)
 - ✓ Expect some other budgetary constraint mechanism




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Issues Requiring Attention



- ❖ ACAM election and build-out obligations
- ❖ Competitive overlap
 - Threshold percentage
 - Disaggregation of support
 - Challenge process
- ❖ HCLS & ICLS transition period
- ❖ Changing speed requirements mid-term
- ❖ Use of support requirement
 - FCC difficulty with the concept that support is a reimbursement.
 - The funds are already obligated to repay that investment, placing a future obligation them is illogical.
- ❖ Operationalizing the OpEx limit

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Questions?



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