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JANUARY 5, 2016

SPECIAL BULLETIN

2016—A Look Forward

The past year, as promised, proved to be another step in the FCC’s quest to reform just about everything it does and over which it has control. Items as big as the Connect America Fund support for price cap carriers, to how the FCC does business were all on the docket. Added to this activity was the court appeal of the FCC’s third attempt at adopting open Internet rules, which places many providers in a state of flux. Looking forward to 2016, more of the same can be expected, but with substantially added importance as several items are expected to be decided that have the potential of affecting all carriers for years to come.

Connect America Fund, Phase II

The FCC offered \$1.675b in CAF Phase II support to price cap carriers willing to accept certain obligations related to providing broadband service on a statewide basis. Along with the award of support are several states where the price cap carrier refused the offer of support. CAF Phase II support for these areas will be awarded via a competitive, reverse, auction, which should take place in 2016. Any ETC is eligible to bid for the support, including the price cap carrier that originally refused the state-wide offer.

RoR USF Reform

As has been chronicled in the *Alexicon Insider* this year, work on USF reform for RoR carriers has been intense and is expected to result in a decision by the FCC in early 2016. The most likely result will result in a choice for all RoR carriers—a model path where federal support is generated by the Alternate Connect America Model (ACAM), or a path where cost-based support is continued, but investment as of a date certain will generate support differently (the bifurcated approach). Thus, it can be expected that all RoR companies will have to analyze the short and long term implications, both financial and operational, of the two paths and make a decision that will likely affect federal support for a decade.

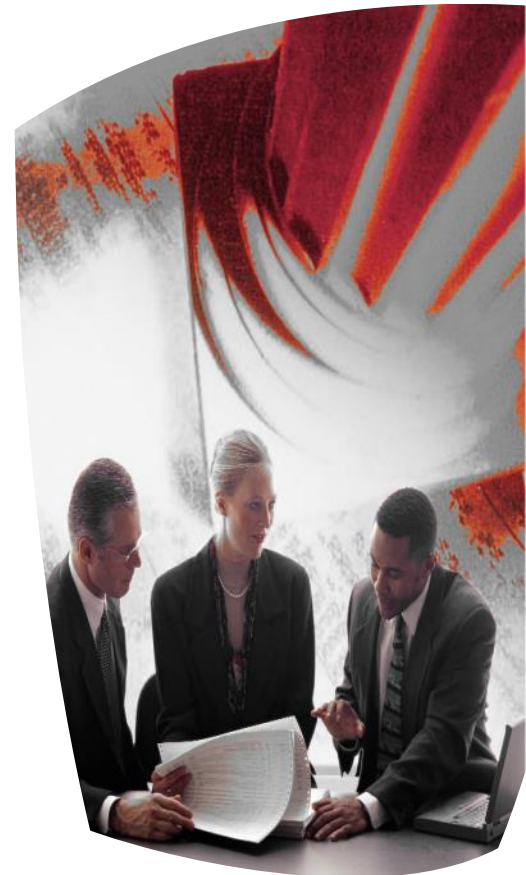
Transformation Order Transition

Local Rate Floor—The FCC adopted a floor for residential local rates in the Transformation Order that reduces federal support for any rates below the floor. Subsequent to the Transformation Order, the FCC delayed full implementation of the local rate floor over a period of time. As a result, the local rate floor has been essentially frozen at \$16 even though the data gathered by the Wireline Competition Bureau (see April 20, 2015 Special Bulletin) supports a rate floor of \$21.22. Beginning July 1, 2016, however, the rate floor will begin the transition and increase to \$18. This means basic local residential rates must be \$18 or above effective June 1, 2016 or else federal high cost loop support will be reduced.

Filing Alert

Basic Local Residential Rates must be at least \$18 effective 6/1/16. Please consult state commission or Tribal government rules for tariff filing date.

Intercarrier Compensation Rates—Year 5 of the FCC’s ICC rate transition takes place in 2016 and will result in a reduction of interstate access and terminating state access rates to \$0.005/minute. In addition, the Access Recovery Charge (ARC) caps will increase to \$2.50



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Questions? Comments?

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(from \$2.00) for residential and single-line business customers. The maximum residential ARC can be charged as long as the total rate ceiling components (local rate, mandatory EAS, state E911, state TRS, and state SLC or per-line USF charge) does not exceed the \$30 residential rate ceiling. The ARC cap does not apply to single line business customers. For multiline business customers, the maximum ARC increases from \$4.00 to \$5.00 but is limited by a \$12.20 total ARC plus SLC cap (which most companies reached in 2014). All these changes are effective July 1, 2016.

Annual ICC Filings. A major effort each year is related to the FCC’s schedule for transitioning ICC rates to bill and keep levels—annual CAF ICC/Tariff Review Plans. All companies are required to submit certain data to the FCC and USAC (NECA handles this for pool companies) necessary to calculate the resulting Connect America Fund support for intercarrier compensation rate reform (CAF ICC). The resulting CAF ICC calculations are due to the FCC and USAC concurrently with the annual tariff filings, which is typically around the middle of June. It is also important to remember that this data must also be provided to the state commission or other governmental entity at the same time.

Form 481-Annual ETC Reporting

The annual ETC reporting requirement, manifested in FCC Form 481, continues to evolve. For 2016, there are two major new reporting requirements:

- **Broadband Rate Certification.** ETCs will for the first time this year be required to certify that broadband services are at or below an affordability threshold. Specifically, ETCs are to provide “A certification that the pricing of a service that meets the Commission’s broadband public interest obligations is no more than the applicable benchmark to be announced annually in a public notice issued by the Wireline Competition Bureau, or is no more than the non-promotional price charged for a comparable fixed wireline service in urban areas in the states or U.S. Territories where the eligible telecommunications carrier receives support.” The threshold rates will be released later in 2016, but for references purposes the following represents some of the 2015 data:

| Download Speed (Mbps) | Upload Speed (Mbps) | Usage Allowance (GB) | Benchmark |
|-----------------------|---------------------|----------------------|-----------|
| 10 | 1 | 100 | \$71.40 |
| 10 | 1 | 250 | \$75.99 |
| 10 | 1 | Unlimited | \$77.80 |
| 25 | 5 | 250 | \$95.98 |
| 25 | 5 | Unlimited | \$96.89 |

- **E-rate Certification.** A Rate-of-return carrier recipient of high-cost support must provide a certification that it bid on category one telecommunications and Internet access services in response to all reasonable requests in posted FCC Form 470s seeking broadband service that meets the connectivity targets for the schools and libraries universal service support program for eligible schools and libraries (as described in §54.501) within its service area, and that such bids were at rates reasonably comparable to rates charged to eligible schools and libraries in urban areas for comparable offerings. (47 CFR § 54.313(f)(1) iii))

Some other Form 481 requirements to keep in mind are:

- ⇒ **Service Quality Improvement Plan Progress Reports.** All carriers receiving high cost support will be required to provide another progress report on the five year service quality improvement plan on file with the FCC. These progress reports are to include maps detailing progress towards the plan’s goals and how universal service support was used to improve service quality, coverage, or capacity. This is the second year of progress reports for most companies, so it can be expected that an



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update of last year's report will suffice.

⇒ *Voice Services Certification*. All ETCs receiving high cost support are required to annually certify that pricing of voice services is no more than the level established by the WCB. For the next Form 481 filing, this rate level is expected to be marginally higher than last year's \$47.48. The Bureau usually releases this data in April.

Open Internet Rules

While the bulk of the Open Internet rules adopted by the FCC in 2015 are currently subject to a court appeal, and the expanded transparency rules adopted were waived for small carriers until later in 2016, companies are reminded that the base transparency rules are still in effect. In addition, the FCC's Consumer and Governmental Affairs Bureau will decide by December 15, 2016 whether the waiver for small carriers will become permanent.

Key Due/Other Dates

January 31—Form 555, Annual Lifeline Certification report

March 1—Annual CPNI certifications

March 1—Form 477, including broadband mapping data

June 1—Local Rate Floor measurement date (note—rate floor increases to \$18)

Various—State access tariff filings to reflect the ICC transition (as applicable, differs by state)

June 15—(annual tariff filing) CAF ICC data due to the FCC and USAC (see NECA for pooling company-specific deadlines)

July 1—Form 481

July 1—Local rate floor reporting

July 1—Effective date for new access rates (for state rate changes, filing dates will vary)

October 1—Annual ETC USF use certification (47 CFR §54.314)

Please let us know if you have any questions.