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SPECIAL BULLETIN

Connect America Fund Phase II *Upcoming Auction*

In the 2011 *USF/ICC Transformation Order*, the FCC adopted a new support mechanism for price cap carriers—Connect America Fund (CAF) Phase II. The first step was an offer of support to all price cap carriers, based on the outputs of the FCC’s Connect America Cost Model. Price cap carriers were required to accept the offers of support on a statewide basis and subject to certain public interest and buildout obligations, and this took place in June through August 2015. Next, the support for areas where the price cap carrier declined the offer of support (plus some other areas—more on that below) is to be awarded based on a competitive auction.

The FCC is slowly moving to get the competitive auction in place; so far, in addition to decisions in the *USF/ICC Transformation Order*, the Commission has released an [initial list of eligible areas](#), released an [order adopting certain details](#) about the auction (public interest obligations, etc), and released an [order](#) adopting certain bidding rules. Yet to come is (1) the final list of eligible areas, and (2) the *Auction Procedures Public Notice* that will kick off the actual process. In addition, the FCC is dealing with two petitions for reconsideration on the March 2 auction procedures order ([PA PUC](#) and [Hughes Network Systems](#)).

For those companies considering participation in the CAF Phase II competitive auction, following is a brief summary of actions that can be taken and what to expect as the process continues.

Planning Stage

- * Determine, from initial list of eligible areas, the areas available and the maximum amount of support associated with those areas in proximity to your service area. The map is available [here](#).
- * The term of support is 10 years
- * The industry is awaiting final list of eligible areas, to be issued no later than *three months prior to the short form application deadline*
- * The maximum support (or reserve price) will be no higher than the CAM-calculated support for the eligible census block(s)



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- * Ensure the bidding entity to be used is eligible and can meet, at a minimum, the short form requirements (see below).

Application Stage

- * The auction will involve a two stage application process: Short Form (pre-auction) and Long Form (post-auction)
- * The **Short Form Application** (specifics to be provided in *Auction Procedures Public Notice*):
 - ◇ Prospective bidder must have provided voice, broadband, and/or electric distribution or transmission services for at least two years (or is a wholly-owned subsidiary of an entity that meets these requirements).
 - ◇ Must certify that Form 477 data for the time period during which service was provided.
 - ◇ Includes a financial and technical capabilities certification
 - ◇ Compliance with 47 CFR § 1.21001(b) (see sidebar)
 - ◇ Type of bids, including the technology planned to be used in meeting the public interest obligations
 - ◇ Information or documentation required to establish eligibility for bidding weights or preferences (see below)
 - ◇ If using spectrum to offer voice or broadband services, documentation that bidding entity has authorization to use such spectrum.
 - ◇ Audited financial statements for the prior fiscal year.
 - ◇ Alternate pathway for companies without Form 477 data, provide audited financials and a letter of interest from a qualified back.
- * The **Long Form Application** (post-auction)
 - ◇ Due within 10 business days of being announced a winning bidder
 - ◇ Self-certification regarding financial and technical qualifications
 - ◇ Certification as to the ability to meet public interest obligations for the relevant bidding/performance tiers
 - ◇ Include that services will be provided at rates that are equal to or lower than the FCC's reasonable comparability benchmarks
 - ◇ Description of technology to be used and the system design (certification by professional engineer)
 - ◇ Certification regarding the availability of funds for all project costs that will exceed the amount of support awarded
- * ETC designation
 - ◇ All support recipients must be ETCs
 - ◇ For current non-ETCs, proof of designation must be provided within 180 days of being announced a winning bidder

47 CFR 1.21001(b)

- The identity of the applicant, i.e., the party that seeks support, including any required information regarding parties that have an ownership or other interest in the applicant;
- The identities of up to three individuals authorized to make or withdraw a bid on behalf of the applicant;
- The identities of all real parties in interest to any agreements relating to the participation of the applicant in the competitive bidding;
- Certification that the application discloses all real parties in interest to any agreements involving the applicant's participation in the competitive bidding;
- Certification that the applicant and all applicable parties have complied with and will continue to comply with §1.21002 (prohibition of certain communications during the competitive bidding process);
- Certification that the applicant is in compliance with all statutory and regulatory requirements for receiving the universal service support that the applicant seeks, or, if expressly allowed by the rules specific to a high-cost support mechanism, a certification that the applicant acknowledges that it must be in compliance with such requirements before being authorized to receive support;
- Certification that the applicant will make any payment that may be required pursuant to §1.21004 (winning bidder's obligation to apply for support)
- Certification that the individual submitting the application is authorized to do so on behalf of the applicant; and
- Such additional information as may be required.

Auction Stage

Once the FCC releases the *Auction Procedures Public Notice*, the auction timeline will begin and the specifics of the auction will be finalized. As of now, the auction will be a reverse one (where the



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lowest “score” wins) and is expected to consist of multiple rounds. The minimum geographic area for bidding is expected to be at the census tract or census block level, and the reserve (i.e., maximum) price will be no greater than the model-calculated support.

In the *Auctions Rules Order*, the FCC adopted the formula to be used in scoring bids. Within that formula are weighting factors related to (1) broadband performance (speed and usage) and (2) latency. The formula thus far adopted is:

$$S = 100 \times B/R + T + L$$

S is the bid’s score, *B* is the current bid price, *R* is the reserve price, *T* is the weight assigned to the bid’s associated tier of service, *L* is the weight assigned to the bid’s associated latency

The weighting factors thus far adopted by the FCC are:

Performance Tier	Speed	Usage Allowance	Weight
Minimum	≥ 10/1 Mbps	≥ 150 GB	65
Baseline	≥ 25/3 Mbps	≥ 150 GB or U.S. median, whichever is higher	45
Above Baseline	≥ 100/20 Mbps	2 TB	15
Gigabit	≥ 1 Gbps/500 Mbps	2 TB	0

Latency	Requirement	Weight
Low Latency	≤ 100 ms	0
High Latency	≤ 750 ms & MOS of ≥ 4	25

Post Auction

In general, post-auction considerations for the CAF Phase II competitive auction relate to service milestones. The FCC adopted a schedule of service milestones in terms of funded locations built out as follows:

Year 1	**%
Year 2	**%
Year 3	40%
Year 4	60%
Year 5	80%
Year 6	100%





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In addition, the FCC adopted some flexibility in meeting the deployment obligations: if 95% of the eligible locations are built out at the end of 10 years, then the deployment obligations will be deemed complete.

Conclusion

While the auction start date is still unknown, it is expected to start well before the end of the year. There are still two petitions for reconsideration of the *Auction Rules Order* outstanding (both related to matters regarding the weighting factors). In addition, the Commission stated that the final list of eligible areas will be issued no later than three months prior to the short form application deadline.

There will be approximately \$198 million per year available in CAF Phase II support via this auction (nearly \$2b over the 10 year term). While most of the eligible areas relate to states where the price cap carrier declined the statewide offer of support, there are still a substantial amount of areas eligible outside of these declined areas. As a result, there may be areas of interest to rural ILECs across the country.

If you are interested in exploring possible participation in the CAF Phase II auction, and/or require some assistance in determining where the eligible areas are and what the estimated support is, please contact us. We have established a process for determining and presenting this data that allows for easier analysis.

Contact Zach Cochran if you are interested in further details zcochran@alexicon.net



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