



Connect America Phase II: Update on Implementation

September 11, 2013



Federal
Communications
Commission

Schedule for Connect America Phase II Webinars

- Webinar #1- General Overview of Connect America Phase II and Update on FCC Progress
- Webinar #2- Connect America Cost Model Overview and Model Access
 - September 12, 2013
- Webinar #3- Overview of the Challenge Process
 - September 25, 2013

Agenda

- Overview of Connect America Fund Phase II
- Connect America Cost Model (CAM) Implementation
 - Opportunities for Comment
 - Connect America Cost Model Platform
 - Pending Issues
- Other Open Issues
- Q&A

USF/ICC Transformation Order: Connect America Fund Phase II

- USF/ICC Transformation Order was released by the Commission in November 2011 (FCC 11-161) (http://fjallfoss.fcc.gov/edocs_public/attachmatch/FCC-11-161A1_Rcd.pdf): “Up to” \$1.8 billion (including CAF-ICC) for territories served by price cap carriers and their rate of return affiliates
- Election process for price cap carriers
 - Price cap carriers offered an amount of support determined by cost model
 - Price cap carrier must make a state-level commitment
 - If price cap carrier declines offer of support, the area is subject to competitive bidding, i.e., auction
- Service obligations
 - Minimum speed of 4/1 to all supported locations; as many locations as possible should receive 6/1.5, consistent with Phase II budget
 - “Sufficiently low latency to enable use of real-time applications, such as VoIP”
 - Reasonably comparable voice and broadband in rural areas (rates, usage allowance)
- While Phase II being implemented, carriers receive Phase I frozen support and Phase I incremental support
 - Round 1- Approximately \$115 million accepted to extend service to nearly 400,000 unserved Americans
 - Round 2- Approximately \$385 million requested to extend service to nearly 1.6 million unserved Americans

USF/ICC Transformation Order: Development of Cost Model

- Wireline Competition Bureau tasked with adopting a cost model that must:
 - Estimate the forward-looking costs of an efficient provider
 - Estimate the cost of wireline network
 - Determine costs at a granular level – census block or smaller
- Non-Contiguous United States
 - Commission directed the Wireline Competition Bureau to consider unique circumstances of carriers operating outside contiguous U.S. (Hawaii, Alaska, Puerto Rico, United States Virgin Islands, Northern Mariana Islands) when adopting cost model
 - If the Wireline Competition Bureau determines that model does not provide sufficient support to these carriers, may maintain existing support levels

USF/ICC Transformation Order: Other Decisions Delegated to the Wireline Competition Bureau

- Set the support thresholds: Connect America Phase II support will only be provided to areas where costs exceed a “Funding Threshold” and below an “Extremely High-Cost Threshold”
- Determine which areas are served by “unsubsidized competitors,” and thus will be excluded from areas eligible for support
- Determine how to maximize the number of supported locations to have voice and data with speeds of 6 Mbps/1.5 Mbps
- Implement Phase II service obligations
 - Benchmarks for reasonably comparable rates
 - “Appropriate minimum for usage allowances”
 - Broadband performance testing

Model Development Process: Public Input

- Connect America Cost Model resources available at <http://www.fcc.gov/encyclopedia/price-cap-resources> and in WC Docket 10-90
- December 2011 - Public notice inviting submission of proposed forward-looking cost models (DA 11-2026) http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-11-2026A1_Rcd.pdf
 - Nationwide model submitted by ABC Coalition (Feb. 2012)
 - State or territory-specific models submitted by Alaska Communications Systems Group, Inc. (ACS) (Alaska, Feb. 2012), Puerto Rico Telephone Co. (Puerto Rico, Jan. 2013), Virgin Islands Telephone Corp. (U.S. Virgin Islands, May 2013)
 - Information on obtaining access to these cost models is available at: <http://www.fcc.gov/encyclopedia/caf-phase-ii-models>
- June 2012 - Model design public notice (DA 12-911) http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-12-911A1_Rcd.pdf
 - Sought comment on model design and data input issues
 - Sought comment on models submitted by ABC Coalition and ACS

Model Development Process: Workshops

- September 2012 – Wireline Competition Bureau held in-person workshop providing overview of models submitted by ABC Coalition and ACS <http://www.fcc.gov/events/connect-america-phase-ii-cost-model-workshop>
- October 2012 – Wireline Competition Bureau commenced virtual workshop <http://www.fcc.gov/blog/wcb-cost-model-virtual-workshop-2012>
 - Sought comment on 28 different topics over 10 months, including platform decisions, input values, issues related to calculating support
 - All questions and comments were submitted to WC Docket 10-90
 - Virtual workshop closed July 2013 (DA 13-1635)
http://transition.fcc.gov/Daily_Releases/Daily_Business/2013/db0724/DA-13-1635A1.pdf

Connect America Cost Model: Overview

- Eight versions of the Connect America Cost Model (CAM) released to date
 - Each version refines prior versions and shows how changes impact model results
 - Releases are accompanied by public notice explaining changes; many changes made in response to parties' comments
- CAM allows Commission staff and interested parties to calculate costs based on series of inputs and assumptions for Phase II

Connect America Cost Model: Released Versions

- December 2012 - CAM Version 1
 - DA 12-2011: http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-12-2011A1_Rcd.pdf
- January 2013 - CAM Version 2 (updated data input sets)
 - DA 13-70: http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-13-70A1_Rcd.pdf
- March 2013 - CAM Version 3 (further updated data input sets, added June 2012 State Broadband Initiative data)
 - DA 13-381: http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-13-381A1_Rcd.pdf
- April 2013 - CAM Version 3.1 (adjusted default take rate, revised plant mix, modified fixed wireless coverage)
 - DA 13-956: http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-13-956A1_Rcd.pdf
- May 2013 - CAM Version 3.1.2 (modified cable coverage)
 - DA 13-1136: http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-13-1136A1_Rcd.pdf
- June 2013 - CAM Version 3.1.3 (updated coverage table to remove subsidized providers)
 - DA 13-1394: http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-13-1394A1_Rcd.pdf
- June 2013 - CAM Version 3.1.4 (code change for heavy data usage, added illustrative values for support thresholds)
 - DA 13-1439: http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-13-1439A1_Rcd.pdf
- August 2013 - CAM Version 3.2 (new inputs to capture undersea cable and landing station costs, revised Alaska plant mix)
 - DA 13-1846: http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-13-1846A1_Rcd.pdf

Connect America Cost Model: Access to Cost Model

- Parties that have signed the Third Supplemental Protective Order's (TSPO) Acknowledgement of Confidentiality and Licensing Agreement can run model reports in a number of ways (e.g., by company, study area code, state)
 - Access to CAM: <http://www.fcc.gov/encyclopedia/caf-phase-ii-models>
 - TSPO (DA 12-1995): http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-12-1995A1_Rcd.pdf
- Parties that have signed the relevant TSPO Acknowledgement of Confidentiality, Licensing Agreement and/or Non-Disclosure Agreement:
 - Have access to model documentation, results, and other explanatory material on the CAM website
 - Can request access to model source code
- Public can access latest CAM methodology documentation and illustrative reports
 - Methodology: http://transition.fcc.gov/Daily_Releases/Daily_Business/2013/db0829/DOC-323071A1.pdf
 - Illustrative result reports: <http://www.fcc.gov/encyclopedia/connect-america-cost-model-illustrative-results>

Connect America Cost Model: Illustrative Result Reports and Peer Reviews

- Wireline Competition Bureau has released reports of illustrative model results
 - Available at: <http://www.fcc.gov/encyclopedia/connect-america-cost-model-illustrative-results>
 - Reports illustrate how changes in certain input values and other decisions impact total support per carrier on statewide level and number of locations eligible for support
 - Reports present various combinations of inputs and support assumptions (e.g., cost of money, funding support threshold, treatment of carriers serving non-contiguous areas)
 - these are not final support amounts
- July 2013 – Wireline Competition Bureau submitted peer reviews into WC Docket 10-90
 - Submitted copies of the peer review charge letter, two peer review submissions, and Wireline Competition Bureau's responses
 - Available at: <http://www.fcc.gov/encyclopedia/peer-review-connect-america-phase-ii-cost-model>

Connect America Cost Model: Platform Order

- April 2013- Order addressing a basic platform for CAM (i.e., framework for the model consisting of key assumptions about design of network and network engineering) (DA 13-807)
http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-13-807A1_Rcd.pdf
- Specifically, the Wireline Competition Bureau has decided that CAM will:
 - Estimate the average monthly forward-looking cost of operating and maintaining a wireline network
 - Estimate costs of an IP-based, green-field, fiber-to-the-premises network offering both voice and broadband
 - Model an efficient network by using a combination of commercial and census data to determine residential/business locations where possible, employing a clustering approach and routing methodology to build the network, and sizing the network to ensure there is sufficient capacity at peak usage
 - Calculate total cost of serving an entire area, allocate shared costs, and estimate costs of serving locations irrespective of whether currently provided broadband service
 - Assume each state made up of three density zones, and for each density zone assume a specific plant mix for three parts of the network (i.e., distribution, feeder, and inter-office transport)
 - Use uniform input values for various capital costs, with adjustments for regional variations in labor and material costs

Connect America Cost Model: Treatment of Carriers Serving Areas Outside Contiguous U.S.

- USF/ICC Transformation Order directed Wireline Competition Bureau to consider “unique circumstances” of non-contiguous areas
- February 2013- Wireline Competition Bureau sought comment on options for providing Phase II support to non-contiguous areas (DA 13-162)
http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-13-162A1_Rcd.pdf
 - Whether to modify design of and/or specific inputs of CAM, or maintain existing support levels
 - Whether to adjust service obligations if support is maintained at existing levels
- August 2013- Wireline Competition Bureau sought further comment on how to modify CAM to account for costs of serving non-contiguous areas (DA 13-1846)
http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-13-1846A1_Rcd.pdf
 - Method for calculating middle mile investment and cost for undersea and landing station facilities from areas outside contiguous U.S.
 - Appropriate plant mix values
 - Cost adjustment for U.S. Virgin Islands

Connect America Cost Model: Open Model Issues

- Issues delegated to the Wireline Competition Bureau that remain pending include:
 - Cost per location
 - Input values for capital expenses (capex)
 - Values for taking into account factors that affect capex costs
 - Input values for operating expenses
 - Methodology for calculating average per-unit costs
 - Methodology for sizing network to include special access and private line locations
 - Support thresholds - whether support is available in a given census block
 - Scope of obligation, e.g. number of 6/1.5 Mbps locations

Connect America Phase II: Other Implementation Activities

- April 2013 – Wireline Competition Bureau adopted a survey of urban rates for fixed voice and broadband services to produce reasonable comparability benchmarks (DA 13-598) http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-13-598A1_Rcd.pdf
 - Will allow carriers to certify that their rates are reasonably comparable to the national average urban rates
 - Working with OMB for Paperwork Reduction Act approval before conducting survey
- May 2013 – Wireline Competition Bureau released Footprint Challenges and State-Level Commitment Elections Processes Order (DA 13-1113) http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-13-1113A1_Rcd.pdf
 - Established challenge process to finalize the areas eligible for Connect America Phase II funding
 - Set presumptions for whether an area is served by an unsubsidized cable or fixed wireless provider
 - Set forth process for price cap carriers to accept or decline model-based support

Connect America Phase II: Pending Non-Model Related Decisions

- February 2013- Wireline Competition Bureau released public notice seeking to further develop record on metrics for determining compliance with service obligations (DA 13-284) http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-13-284A1_Rcd.pdf
 - Comment cycle closed on April 12, 2013
- February 2013- Wireline Competition Bureau released public notice seeking to further develop record on the design of the Remote Areas Fund (DA 13-69) http://fjallfoss.fcc.gov/edocs_public/attachmatch/DA-13-69A1_Rcd.pdf
 - Comment cycle closed on March 18, 2013
- USF/ICC Transformation FNPRM sought comment on competitive process in areas where price cap carrier declines to make state-level commitment (FCC 11-161) http://fjallfoss.fcc.gov/edocs_public/attachmatch/FCC-11-161A1_Rcd.pdf
 - Comment cycle closed on February 17, 2012

Connect America Phase II: Opportunities for Comment

- Parties invited to file comments or ex partes about pending issues to WC Docket 10-90 using Commission's Electronic Comment Filing System

<http://apps.fcc.gov/ecfs/proceeding/view?z=2jc9&name=10-90>

Questions?

Thank You!

