

Remarks of Wireline Competition Bureau Chief Matthew S. DelNero

Connect Michigan: 2015 Broadband Conference

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Thank you, Eric, for that kind introduction, and thank you as well for inviting me to Lansing to speak with you all today. This is my first time visiting Lansing, and I'm very impressed – it's wonderful to be here along the banks of the Grand River, especially at this time of the year.

Before I begin, I do have to get something out of the way. Some of you may know that my boss, Chairman Tom Wheeler, is a proud alum of The Ohio State University. So when I told him I was visiting with you all today here in Lansing, he immediately identified that as Michigan State territory. I don't want to get in the middle of anything, but wanted me to let you know that he has November 21st circled on his calendar, and that he sends his apologies in advance.

At the outset, I want to take a minute to comment on how impressive it is to see so many different groups represented here today. This speaks volumes not only to the fantastic work being done here by Connect Michigan, but also to the interest in and commitment to continuing to further broadband deployment and adoption throughout Michigan.

I'm truly pleased to have the opportunity to speak directly with you all today—in Washington, it can be too easy to lose sight of the fact that the important work, the work that has tangible effects on people's lives, is done right here at the local level. With that in mind, I find events like this especially valuable in helping to measure what I as a civil servant, and those who work with me, can do better. So please know that your voice is absolutely being heard. The FCC greatly values your input and takes it seriously as we move forward with developing new policy.

On that note, let me dive in to some substance. I know many of you have been following the Commission over the past year, so you know that it has been full speed ahead on all fronts, and we're not hitting the brakes in the Wireline Competition Bureau anytime soon, either. Already this year, among other things we have reviewed a number of major mergers and acquisitions involving broadband providers, begun implementation of landmark E-rate reforms, played a major role in developing new Open Internet rules, and helped remove roadblocks to community broadband deployment. Needless to say, I could go on and on, but I'd like to use my time to focus on a few that I think would be of particular interest to everyone in this room.

First on that list is our continuing efforts to future-proof the Nation's communications networks through our technology transitions proceedings – a topic that I understand has received great attention here in Michigan. As we are all aware, the networks that have served Americans for over a century are undergoing a transformation, from copper-based legacy networks originally constructed solely to carry basic voice services to alternative platforms built to deliver broadband, video, data, and voice services. This transition is not a simple task, but it is bringing tremendous benefits to people and businesses around the country. It involves changing not only network equipment but also the pathways that make up communications networks, from copper wire to coaxial cable, optical fiber, and wireless technology—all while ensuring that there are no

disruptions in the reliable and innovative communications services Americans have come to expect.

We recently took additional steps to shepherd along this transition by adopting clear “rules of the road” to govern how carriers retire their legacy copper facilities, as well as their ability to discontinue or reduce legacy services. We also proposed specific criteria that would be used to evaluate whether consumers would have access to adequate replacement services in areas where a provider attempted to discontinue its legacy service. In taking these steps, the Commission both safeguarded consumers *and* allowed for the continued deployment of innovative communications services.

Part of the challenge is that unlike some past technological transitions, like the DTV transition, the IP transition won’t “end” at any single point in time around the country. It is instead an organic process that varies from carrier to carrier, area to area, and even in some cases customer to customer. Because there are so many moving pieces to the IP transition, we want to learn through many different means how customers have been and will be affected by changes in technologies. For that reason, we continue to seek public comment on many different issues related to the transitions so we can work with industry to be sure that consumers – especially those in vulnerable populations – do not fall through the cracks.

Let me unpack that a bit and answer what I’m sure is your biggest question: so, functionally, what does all this mean? Well, it means that if a carrier here in Lansing or up in Marquette intends to retire its copper lines to your homes or businesses and transition to a new technology, it can do so but must provide fair notice to retail customers so that they understand how the transition will and won’t affect their service options. It means that residents in Traverse City or Dearborn whose carrier plans to replace traditional telephone service with voice over Internet Protocol or fixed wireless access points can continue to rely on quality phone service and have access to services that meet their needs, just as in the past. And thanks to the efforts of our colleagues in the Public Safety and Homeland Security Bureau, it means that when there is a power outage in Flint or Kalamazoo, residents in those areas will have the opportunity to maintain a reliable line of communication to their home to call 911 and stay in touch with loved ones. Importantly, it also means that the FCC has provided carriers with both the flexibility and certainty needed so they can continue to invest in next-generation networks and services that will benefit everyone.

You may recognize some underlying themes here: consumer protection, public safety, universal access, and competition. This is what the Commission has referred to as the “network compact.” While it is important for us to help facilitate market-driven technology transitions and innovation, we also must preserve these core values of our communications laws in our policymaking.

Another area we aim to do this in is our universal service programs, particularly the high cost program. Converting universal service programs from their narrowband origins to broadband is among our most important initiatives, and, thanks to the hard work and dedication of the staff in our Bureau and other parts of the Commission, one on which we have made great progress over the past year.

First, on the price cap carrier side. In April, the Bureau continued its implementation of Phase II of the Connect America Fund, extending an offer of model-based support based to 10 price cap carriers. These carriers were given four months to make a business-case decision whether to select the support offered—totaling \$1.675 billion annually, for six calendar years—in exchange for providing service of *at least* 10 Mbps downstream and 1 Mbps upstream to all the locations in their service area in a state that were identified by the Bureau’s cost model as being high cost. In August, these carriers accepted approximately 90 percent of this funding—just over \$1.5 billion annually—to provide service in 45 states nationwide and one U.S. territory. Specifically, in Michigan, three carriers—AT&T, CenturyLink, and Frontier—will receive a total of \$60.5 million annually to bring high-speed broadband service to approximately 180,000 locations over the next six years.

By all accounts, the Phase II offer of model-based support was a success and we are proud of the fact that it will have a direct influence on the lives of Americans, including many in Michigan. However, our work here is not complete. Over the coming months, we will be working toward developing the next part of Phase II, a competitive bidding process. This auction will provide support for further broadband deployment in a number of areas, such as those where a price cap carrier declined the offer of model-based support and those where the Bureau’s cost model estimates the cost of building out a network to be extremely high.

To help construct the rules and parameters of this auction, we will look to a number of lessons learned from the rural broadband experiments process we conducted late last year. We saw great interest in the experiments from entities in Michigan, with seven entities successfully submitting bids to serve over 4,000 census blocks. As the Commission stated at the time, this was simply an experiment, conducted on a limited scale. While we were successful in quickly selecting a number of entities to receive support in areas currently lacking reliable broadband services, we also identified a number of alternative, non-traditional entities interested in providing service and increasing competition. So my message to those entities whose proposed experiments were not accepted is simple: keep a close eye on the Phase II competitive bidding process proceeding. Given the interest in the rural broadband experiments and the fact that a number of areas in this state will be eligible, we hope to see a high level of participation in Michigan,

On the rate-of-return side of the high-cost program, working hand in hand with multiple Commissioners’ offices, we have been actively engaged with carriers towards a practical, timely solution to meet the shared policy objectives of the Commission and rate-of-return carriers who want to bring more and better broadband to communities in rural America. Among the elements of this solution is a *voluntary* path to a cost-model-based support mechanism. Under the current version of the cost model we are developing for rate-of-return carriers, the total high-cost support for the state of Michigan potentially would increase from approximately \$15 million a year to between \$33 million to \$35 million. We’re not done yet, and there are some significant policy decisions still to be made by the Commission, but that gives you some idea of the positive direction. We encourage carriers to take a close look at voluntarily electing to receive model-based support, as the increased support can help create tangible effects on the lives of many Michigan residents and small businesses.

Additionally, for those carriers that choose not to opt-in to the model, we are looking at creating a new mechanism for all loop costs to replace—*over time*—two legacy rate-of-return high-cost support mechanisms: HCLS and ICLS. This would ensure that support for new investment in broadband networks isn't tied to old mechanisms designed for narrowband. And we are looking measures to be sure that funds go to serve rural communities efficiently and effectively. I want to emphasize that we're not looking for an elusive, "perfect" solution in this process. I'm not sure that such a solution exists, but in any event rural communities are rightly counting upon prompt action.

Finally, in keeping with the theme of our universal service programs, I want to briefly touch on our recent rulemaking to update the Lifeline program. As I think we can all agree, we have entered an era where broadband is essential to participation in everyday life. The Lifeline program, despite helping scores of Americans afford vital communications services since its inception in 1985, has failed to keep pace as communications technologies and markets have evolved. That is why, in June, the Commission proposed a number of commonsense reforms aimed at modernizing the program to incorporate broadband. For example, the Commission proposed putting in place minimum service standards for voice and broadband service that Lifeline providers would offer to all Lifeline customers in order to be eligible to receive Lifeline reimbursement. The idea behind the proposal is that minimum standards will make sure that the funds invested in Lifeline will go towards service that keeps pace with technology.

As with our high-cost reforms, as we transition the Lifeline program, we are always mindful that we must manage public resources in an effective, efficient manner that advances the public interest. This requires not only improving the program's management, but also building on existing successes in reducing fraud by streamlining the eligibility and enrollment processes. We also are seeking input on other mechanisms to enhance administration and reduce waste, including making improvements to the National Lifeline Accountability Database. We're realistic about the challenges ahead, but are committed to bringing the Lifeline program into the 21st century.

So now that you have a flavor of the work we have been doing at the Commission, you are probably wondering where you all fit in. I was fortunate enough to meet with Tom Koutsky and Eric Frederick a few weeks ago and came away extremely impressed by the success Connect Michigan has experienced, so first and foremost I would encourage you to keep doing the great work you are already doing. The Connected Community Engagement Program is a fantastic resource for residents and businesses in Michigan and is exactly the type of program we at the Commission love to see. Community engagement, consumer education, and local government involvement are all critical components to ensuring the continued growth of broadband deployment and adoption in Michigan.

As I mentioned earlier, events such as these help gauge the success of the Commission's broadband policies. Those of you in this room are the front lines, so we need your participation—continued collaboration with our state and local partners ensures that we have all the information necessary to make informed policy decisions. If you have any data you believe would be useful or individual experiences with federal or state programs—whether positive or negative—let us know. And if there are specific areas where we can work together to arrive at a common goal, we should explore those opportunities as well. In the budget-conscious

environment we all are experiencing, we should not miss any chances find efficiencies wherever possible.

Finally, perhaps the most important thing you all can do is let your voices be heard. All of the issues I discussed today—tech transitions, the Phase II auction, rate-of-return and Lifeline reform—are open proceedings. For instance, right now we’re asking for the public to help us identify the right criteria to ensure that modern replacements for legacy services that carriers take off the market continue to meet key needs like reaching 911, ensuring access for individuals with disabilities, and providing reliable service. We want to hear your thoughts on the proper levers to pull and buttons to push so that our policies lead to sensible outcomes.

Thank you again for inviting me to speak with you today. I look forward to hearing from you all and working with you all to continue to good work that Connect Michigan is doing to further broadband deployment adoption throughout this great state.