



ISSUE: 15-03
DATED: 03/12/2015

WIRELINE COMPETITION BUREAU RELEASES ALTERNATIVE CONNECT AMERICA MODEL VERSION 1.01 WITH ILLUSTRATIVE RESULTS FOR POTENTIAL USE IN RATE-OF-RETURN AREAS

The Federal Communications Commission (“FCC”) in April 2014 proposed a transition framework for a voluntary election by rate-of-return carriers to receive model-based support. At that time the Commission directed the Wireline Competition Bureau (“Bureau”) to make adjustments to the Connect America Cost Model (“CAM”) so that it could be used in rate-of-return areas. In response, the Bureau announced the availability of its first version (A-CAM v1.0) for potential use by rate-of-return carriers in December 2014. More recently, on March 6, 2015, the Bureau announced the availability of its latest version - the A-CAM v1.0.1. The Bureau also provided access to illustrations of seven different versions of how the assumptions used in calculating support can impact potential support for a particular study area. The output is available at http://www.fcc.gov/wcb/ACAM_101_ILL_Rpt_FINAL_030415.zip.

The Bureau’s illustrations of model-based support provide a preliminary opportunity for companies to see how different inputs may affect any future model-based support the company might elect to receive. However, companies should keep in mind while reviewing the different scenarios for their company that future changes to the National Broadband Map or other inputs to the model can cause the support to have a different result. Also, any inaccuracies to the map information that are discovered will need to be timely corrected. In addition, any federal or state obligations that may be tied to any future model-based support will need to be carefully considered by each company before electing to receive model-based support.

About A-CAM v1.0.1

The Bureau’s latest A-CAM model utilizes the same State Broadband Initiative (“SBI”) data which reflects coverage shown on the National Broadband Map as of June 2013. Data from the SBI and the study area boundary date submitted by rate-of-return carriers will be updated in a future version of the A-CAM model. This version of the A-CAM model contains two modules – the first is a cost module that calculates costs for all areas of the country and the second is a support module which calculates the support for each area based on costs. The A-CAM model also incorporates changes to

broadband coverage, including 10 Mbps downstream and 1 Mbps upstream (“10/1”) as the minimum speed standard to determine the presence of a cable or fixed wireless competitor.

Illustrative Model Results For Each Rate-of-Return Study Area

The Bureau hopes that by releasing different versions of the illustrative model results for rate-of-return study areas it will facilitate public dialogue and evaluation of proposals for voluntary election of model-based support sometime in the future. The following is a summary of the seven different illustrative versions released by the Bureau for review by rate-of-return companies:

Scenario 1 – Report 1.1 utilizes a funding benchmark of \$52.50* and an extremely high cost threshold of \$563.38. This version excludes census blocks shown as served by cable or fixed wireless (blocks with competition) on the National Broadband Map from support calculations. Further, it uses \$1.625 billion as the amount of support calculated through the model, based on the assumption that rate-of-return carriers collectively are receiving \$375 million in Connect America Fund Inter-carrier Compensation (“CAF ICC”) recovery mechanism support.

Scenario 2 – Report 1.2 utilizes a funding benchmark of \$52.50 and an extremely high cost threshold of \$461.19. This version includes all census blocks that are shown as served by cable or fixed wireless on the National Broadband Map. Further, it uses \$1.625 billion as the amount of support calculated through the model, based on the assumption that rate-of-return carriers collectively are receiving \$375 million in Connect America Fund Inter-carrier Compensation (“CAF ICC”) recovery mechanism support.

Scenario 3 – Report 1.3 uses a funding benchmark of \$52.50, an extremely high cost threshold is not applicable, and uses a funding cap max of \$230 per location of support provided for eligible census blocks. Thus, all census blocks with average cost above the funding benchmark would receive support, rather than an approach that does not provide any support to high cost census blocks, and recipients could determine what technology is the most cost-effective way to meet the requirement in particular high-cost areas within the study area.

Scenario 4 – Report 1.4 utilizes a funding benchmark of \$60.00 and no extremely high cost threshold. All census block groups below \$60 are excluded from the support calculations. Any census blocks shown on the National Broadband Map are included in the support calculations. Further, this scenario does not contain a budget constraint on support calculations.

Scenario 5 – Report 1.5 utilizes a funding benchmark of \$60.00 and no extremely high cost threshold, but does not average costs across census block groups and excludes census block that are competitively served. This scenario does not contain any budget constraints on support calculations.

Scenario 6 – Report 1.6 utilizes a funding benchmark of \$52.50 and no extremely high cost threshold. This version excludes census blocks shown as served by cable or fixed

wireless (blocks with competition) on the National Broadband Map from support calculation. It does not contain any budget constraints on support calculations.

Scenario 7 – Report 1.7 utilizes a funding benchmark of \$52.50 and no extremely high cost threshold. There is no exclusion of any areas shown as competitively served on the National Broadband Map. It does include competitive census blocks in support calculations.

GVNW believes that the model-based support scenarios provide companies with an opportunity to develop a preliminary view of how model-based support, depending on the inputs, might benefit a company should the Bureau allow rate-of-return carriers to voluntarily elect to use model-based support in the future.

Observations on Initial Scenarios

Given the FCC Bureau staff and Commissioner legal advisors consistent insistence that the budget cap is in place until at least 2017, it is surprising that scenarios 1.4 through 1.7 were included in this March, 2015 data release. Since there has been no official change in the budget cap stance, assuming that the data holds that roughly half the companies receive more money under the model option, it is reasonable to assume that the other half of the companies will accept some form of frozen support. In a scenario of a static budget cap, the purported benefit from the model may need to be adjusted downward on a carrier by carrier basis to achieve the budget cap levels for 2016 and 2017. It is difficult to have a high level of confidence in the data sets related to scenarios 1.4 through 1.7.

The FCC did not make many significant changes to the inputs from the final version of the price cap model. For instance, the same 8.5% rate of return used for price caps is included in this version of the A-CAM. One can conclude that the Commission is attempting to coerce companies to in essence stipulate to the lower rate of return without having to comply with its own rules that are required in a rate of return proceeding.

More analysis is needed on how the FCC might ultimately use its Alternative Technology Cutoff (ATC) in terms of sizing the ROR fund and in controlling the level of ROR model support available. The ATC is a metric that is used by the FCC in the A-CAM to set an upper cost level above which support will not be paid under the model scenario. This would have the most profound impact on carriers that operate in the highest cost to serve territory (e.g., Alaska and several western states).

What will ultimately be required in terms of performance obligations during the term of the model support period will also require thoughtful review. The current 10/1 model standard will be moving upward over time and it is crucial for each carrier to carefully assess their costs of moving to a 25/3 or perhaps even more robust platform over the course of the model support cycle.

Next Steps/Action Plan

Your consultant will be contacting you this month on how GVNW can help review the different scenarios and help to develop a preliminary view of how the model-based support might impact your company. If you have questions on this G-Point, please contact Adam Holstun at aholstun@gvnw.com, 719-594-5812 or Steve Gatto at sgatto@gvnw.com, 830-895-7226.

* Note: Areas with an average cost below the funding benchmark are not funded. Benchmarks were determined by estimating the average revenue per user (ARPU) from voice and broadband services.