Overview of the FCC’s Rate-of-Return Reforms

April 4, 2016

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  - The audience will remain on mute during the presentation
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Agenda

- Introductions
  - **Carol Mattey,** Deputy Chief, Wireline Competition Bureau
  - **Alex Minard,** Deputy Chief, Telecommunications Access Policy Division, Wireline Competition Bureau
  - **Suzanne Yelen,** Acting Assistant Chief, Telecommunications Access Policy Division, Wireline Competition Bureau
  - **Victoria Goldberg,** Deputy Chief, Pricing Policy Division, Wireline Competition Bureau
- Our Focus Today
  - Overview of Major Changes Adopted by the FCC
  - Timing
- Questions

Overview of Two Regimes

Voluntary Election of Model Support

- Support calculated by cost model
- Defined term of support
- Specific deployment obligations with annual interim deployment milestones

Existing (Legacy) Rate-of-Return Support Mechanisms

- Support calculated using existing mechanisms, as modified
- Standalone broadband support
- Operating expense limitations
- Capital investment allowances
- Five-year deployment obligations

Voluntary Election of Model Support

- **Term of Support**
- **Service Obligations**
- **Fully Funded v. Capped Locations**
- **Deployment**
- **Competitive Coverage**
- **Election Process**
- **Budget**
- **Limits on Eligibility**
- **Transitions**
- **Other Requirements**

- Ten years (2017-2026)
- Set amount of monthly support (does not change over the term)

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- 10/1 Mbps to all locations "fully funded" by the model
- 25/3 Mbps to a certain percentage of those locations, by the end of the support term
- Initial minimum usage allowance of 150 GB per month, which over time will increase based on the average usage of a majority of consumers (using Measuring Broadband America data or a similar data source) at a rate that meets the annual reasonable comparability benchmark
- 95 percent or more of all peak period measurements of network round-trip latency are at or below 100 milliseconds.

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- With one exception discussed below, the model calculates support for all census blocks where the average cost exceeds $52.50
  - Census blocks with an average cost below $52.50 are not "high-cost" and not funded
- No location will receive more than $200 in monthly support
- All locations in eligible census blocks where the average cost exceeds $52.50 but does not exceed $252.50 will be "fully funded"
- All locations in census blocks where the average cost exceeds $252.50 will receive a maximum of $200 in monthly support ("capped locations")

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- Requirement to offer 25/3 Mbps service depends on the density of the carrier's service areas across the state
  - The calculation used to determine service area's density will be:

$$\frac{\text{\# of housing units (as determined by U.S. Census Bureau)}}{\text{square miles of the carrier's study area(s) in the state}}$$

Density	Funded Locations (25/3 by end of 10 year term)	Capped Locations (4/1 by end of 10 year term)
10 or more locations per sq. mile	At least 75 percent	50 percent
More than 5 but less than 10 locations per sq. mile	At least 50 percent	25 percent
5 or fewer locations per sq. mile	At least 25 percent	25 percent

- Remaining capped locations subject to the reasonable request standard

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- Defined annual milestones for deployment over the 10-year period

Year	Milestone
Year 1 (2017)	**
Year 2 (2018)	**
Year 3 (2019)	**
Year 4 (2020)	40%
Year 5 (2021)	50%
Year 6 (2022)	60%
Year 7 (2023)	70%
Year 8 (2024)	80%
Year 9 (2025)	90%
Year 10 (2026)	100%

- Must deploy to 95% of the required number of locations by the end of the 10-year period

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- Version 2.2 of the model incorporates June 2015 FCC Form 477 data and make other changes as directed by the Commission
  - That data set include corrections made prior to February 19, 2016
- 21 days for commenters to challenge the competitive coverage contained in the updated version of the model
- The deadline announced in the Public Notice will be the **final deadline** for competitors to submit any Form 477 corrections in order for those corrections to be incorporated into the final cost model

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- The Bureau will release a Public Notice showing the offer of model-based support and deployment obligations for each carrier in a state, predicated upon a monthly funding cap per location of $200
  - Carriers will have 90 days to indicate whether they are interested in electing model-based support
    - That election is irrevocable if collectively electing carriers do not exhaust the budget established by the Commission for the voluntary path to the model
  - If demand does exceed the budget, further steps to determine revised offer
    - Carriers will then have an additional 30 days to decide whether to accept the revised offer
  - Once acceptance of model-based support is finalized, the Bureau will issue a public notice authorizing USAC to disburse model-based support (and transition payments, if any) to electing carriers

- Release of final model/offer no earlier than June 2016

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- Up to an additional $150 million annually (over the electing carriers 2015 legacy support), or up to $1.5 billion over the 10-year term

- If demand for the model exceeds the budget, the Commission may consider whether to allocate additional funding (up to an additional $50 million) in order to maintain the $200 per location funding cap

- Absent an additional allocation of funds, the Bureau will lower the per-location funding cap to a figure below $200 per location if needed to ensure that total support for carriers electing the model remains within the budget for this path

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- Participating carriers must make a state-level election
- No offer will be made to any carrier that reports that it has deployed 10/1 broadband to 90 percent or more of its eligible locations in a state, based on June 2015 FCC Form 477 data that was submitted as of the release date of the Order
- In addition, support **will not** be provided for census blocks where:
  - Incumbent or any affiliated entity is providing 10/1 Mbps or better using either FTTP or cable technologies based on June 2015 FCC Form 477 data

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- Electing carriers for whom model-based support is less than legacy support will also receive tiered transition payments. With the final offer, the Bureau plans to release a Public Notice outlining the transition payments for those carriers that would be eligible

	Difference between model support and 2015 legacy support	Transition Length	Transition Amount
Tier 1	10% or less	Year 1	50% of difference
Tier 2	11% to 25%	Up to 4 years	phased down 20% each year
Tier 3	More than 25%	Up to 9 years	phased down 10% each year

- For tiers 2 and 3, annual reduction is at least 5 percent of the total amount of legacy support

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- Before receiving model-based support, electing carriers must withdraw from the NECA common line pool and refile their special access tariff
  - May choose – but not required – to develop a rate to recover loop costs not recovered under the model-based support
  - May assess a wholesale consumer broadband-only loop charge that does not exceed $42 per line per month
- Electing carriers will continue to charge existing subscriber line charges (SLCs) to their voice or voice/data end user customers
- Electing carriers will continue to receive CAF-ICC support consistent with the rules for rate-of-return carriers
  - They must impute an amount equal to the Access Recovery Charge (ARC) charge they assess on voice/broadband lines to their supported consumer broadband-only lines
- Electing carriers **are not** required to convert to price cap regulation

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Questions?

Existing (Legacy) Rate-of-Return Support Mechanism Reforms

- **Standalone Broadband Support**
- **Operating Expense Limitation**
- **Capital Investment Allowance**
- **Competitive Overlap**
- **Budget**
- **Deployment Obligations**

- ICLS will be renamed Connect America Fund Broadband Loop Support (CAF BLS)
- CAF BLS will provide support for broadband-only lines (as well as voice lines and voice/broadband lines)
  - Will be implemented as soon as the Commission receives Paperwork Reduction Act approval to collect information regarding broadband-only lines and after carriers refile their special access tariffs to remove the costs of consumer broadband-only loops that will now be supported through CAF BLS.
  - Target date for implementation: January 1, 2017
- CAF BLS will provide cost recovery for the difference between a carrier's loop costs associated with providing broadband-only service (the "consumer broadband-only loop revenue requirement") and its consumer broadband-only loop revenues
  - 100 percent allocation of common line costs to the interstate jurisdiction for standalone broadband lines
  - Assumes that carriers will recover at least $42 per loop per month, or $504 per loop per year, from their end users for consumer broadband-only loops, with certain exceptions
  - "Broadband-only" loops include any lines that provide a voice service that is not a traditional regulated local exchange service

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- Carriers that receive CAF BLS:
  - Will have an interstate revenue requirement for their Consumer Broadband-Only Loop category which will be reduced by the projected amount of CAF BLS attributed to that category in accordance with the procedures in Part 54 defining such amounts
  - The remaining projected revenue requirement is the basis for developing the rates the carrier may assess, based on projected loops
- CAF BLS will be applied to meet a carrier’s interstate common line and consumer broadband revenue requirements first
- Only if there is insufficient recovery will a carrier be allowed to raise its consumer broadband loop rate

Existing (Legacy) Rate-of-Return Support Mechanism Reforms

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- Eligible operating expenses for each carrier will be limited, based on a formula that looks at the range of operating costs for carriers that serve a similar number of locations and have similar density
- NECA is required to submit to USAC within 30 days of the effective date of the Order a list of the companies that will be subject to the limits under the adopted formula and the dollar amount of reduction in support
- The opex limitation will be phased in during the first year (12 months) of implementation

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- Each carrier will have a capex allowance that is based on that carrier's inflation-adjusted depreciated loop plant
- Capex allowance adjusted based on the level of the carrier's current broadband deployment:
  - Adjusted upward by 1% for each percentage point the carrier is below average
  - Adjusted downward by 1% for each percentage point the carrier is above average
- The new rule will apply to all investment made **after** the effective date of the Order, so it **will not** impact support calculations for HCLS until 2018 or for CAF BLS until 2017, at the earliest
- Capital investment allowance to be adjusted in specific situations:
  - Areas lacking wireline infrastructure
  - Areas where grant funds used
  - Areas covered by a pre-existing loan where the loan disbursement has occurred
  - Areas where the carrier had awarded a construction contract
  - FCC must obtain PRA approval to collect information from carriers regarding these specific circumstances

Existing (Legacy) Rate-of-Return Support Mechanism Reforms

- Standalone Broadband Support
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- CAF BLS will not be provided in areas that are served by a qualifying unsubsidized competitor
- Next steps to implement this rule:
  - A challenge process to determine which discrete areas are served by unsubsidized competitors
  - Once that process is completed, disaggregation of CAF-BLS support between competitive and non-competitive area
- *Challenge Process*: To be considered an unsubsidized competitor in a given census block, a fixed broadband competitor must offer service in accordance with the Commission's current service obligations
  - Speed (10/1 Mbps), latency (100 ms), and usage allowances (at least 150 GB) at a rate meeting the FCC's reasonable comparability benchmarks
  - Competitors must certify that they are offering requisite service to **at least 85 percent** of the locations in the census block
    - Must provide evidence sufficient to show the specific geographic area in which they are offering service
    - If the competitor declines to participate in the challenge process, an area will not be considered competitively served
  - The Bureau will commence the challenge process at a future date, after PRA approval

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- *Disaggregation Options*: carriers will elect one of several mechanisms to disaggregate their support in areas determined to be served by qualifying competitors:
  - The relative density of competitive and non-competitive areas
  - The ratio of competitive to non-competitive square miles in a study area
  - The ratio of A-CAM calculated support for competitive areas compared to A-CAM support for the study area
- Election of the preferred disaggregation method will occur after PRA approval is obtained for this requirement
- Support reductions for competitive areas will be phased in
  - If disaggregated CAF-BLS support in the competitive area is less than 25% of total CAF-BLS support, that disaggregated support will be reduced 33% in the first year, 66% in the second year, and eliminated in the third year
  - If disaggregated CAF-BLS support in the competitive area is more than 25% of total CAF-BLS support, it will be phased down over a six year period: reduced by 17% in the first year, 34% in the second year, 51% in the third year, 68% in the fourth year, 85% in the fifth year and eliminated in the sixth year

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- Deployment Obligations

- The Order adopts a rule to ensure that total support for rate-of-return carriers stays within the $2 billion per year rate-of-return budget adopted by the Commission in 2011
- After subtracting CAF-ICC and model support, USAC will determine the amount available for disbursement for both HCLS (including safety valve support and any residual safety net additive) and CAF BLS (ICLS)
- If actual demand is higher than that number, USAC will determine a target number for each mechanism
  - This targeted amount is calculated by multiplying the forecasted disbursements for each mechanism by the ratio of the budgeted amount to the total calculated support for the mechanisms
- Reduction of support under each mechanism will be split between a per-line reduction and a pro rata reduction applied to each study area
  - The per-line reduction will be calculated by dividing one half the difference between the calculated support and the target amount for each mechanism by the total number of eligible loops in the mechanism
  - The pro-rata reduction will then be applied as necessary to achieve the target amount

Existing (Legacy) Rate-of-Return Support Mechanism Reforms

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- Carriers less than 80 percent deployed with 10/1 Mbps required to utilize a specified percentage of their five-year forecasted CAF BLS to deploy 10/1 or better broadband service in areas where it is lacking over a five-year period

Carrier-Specific 10/1 Deployment	Percentage of CAF-BLS Support
Less than 20%	35%
20 to < 40%	25%
40 to < 80%	20%

- Deployment obligations will be determined by dividing the dollar amount of the targeted CAF BLS by a cost-per-location figure.
  - The cost per location metric will be either:
    - the average cost of providing 10/1 Mbps service, based on the actual cost per loop of carriers with similar density offering 10/1 service to at least 95% of their locations, or 150 percent of the average cost for carriers with similar density and similar deployment, whichever is higher, or
    - at the carrier's election, the A-CAM calculated cost of providing 10/1 Mbps service in the unserved census blocks in that carrier's study area
- No requirement to deploy broadband using terrestrial wireline technology in any census block if that would result in total support per line in the study area exceeding the $250 per-line per-month cap or $10,000 per location/per project

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- Carriers subject to a defined five-year deployment obligation may choose to meet their obligation at any time during the five-year period
- Failure to meet these obligations can result in support reductions which will be determined on a case-by-case basis
- Rate-of-return carriers also remain subject to the reasonable request standard for their remaining locations
- Carriers remaining on the legacy mechanisms are encouraged to identify any census blocks where they expect not to deploy broadband for inclusion in an upcoming auction

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Cost Allocation and Tariffing

- Part 69 will be updated to include a new "Consumer Broadband-Only Loop" category to encompass the costs of the consumer broadband-only loop facilities that today are recovered through special access rates for the transmission associated with wireline broadband Internet access service

- A rate-of-return carrier may – but is not required – to tariff a consumer broadband-only loop charge for the consumer broadband-only loop service
  - In the alternative, a carrier may detariff such a charge
  - However, the carrier may not tariff the charge to some customers while detariffing it for others

- Any carrier that chooses to detariff its wholesale consumer broadband-only loop offering is not subject to federal universal service contributions for that service.

- Carriers will continue to be eligible to assess SLCs on end-user customers of voice and voice/broadband lines subject to the current rules. Carriers will also be permitted to assess an Access Recovery Charge (ARC) on any line that can be assessed a SLC, the same as today.

CAF-ICC Considerations

- Rate-of-return carriers must impute an amount equal to the Access Recovery Charge (ARC) they assess on voice/broadband lines to their supported consumer broadband-only lines

- It is possible that some of the facilities used to provide switched access service will now be used to provide broadband-only service, especially with respect to transport and circuit equipment.
  - In some cases, therefore, the carrier would be receiving some special access revenue recovering the costs of these facilities
  - Such circumstances would result in double recovery under the rules adopted in the *USF/ICC Transformation Order* because the carrier would receive CAF ICC to account for the lost switched access revenues, as well as special access revenues for the service being offered—either tariffed or detariffed

- Therefore, a carrier must reflect any revenues recovered for use of the facilities previously used to provide the supported service (voice or voice-broadband) as double recovery in its Tariff Review Plans filed with the Commission, which will reduce the amount of CAF ICC it will receive.

Authorized Rate of Return

- Represcription of the currently authorized rate of return from 11.25 percent to 9.75 percent for the calculation of interstate common line rates, consumer broadband-only loop rates, special access rates, and universal service calculations
  - This action does not affect the calculation and recovery amounts associated with switched access rates that are currently capped or transitioning pursuant to the *USF/ICC Transformation Order*

- The current 11.25 percent rate of return will be reduced by 25 basis points per year, starting July 1, 2016, and continuing until July 1, 2021, when the authorized rate of return will be 9.75 percent

ETC Reporting Requirements

- All rate-of-return ETCs must provide geocoded location and speed information of newly served locations no later than March 1 for the prior calendar year
  - USAC to develop on online portal to submit this information
  - ETCs encouraged to submit such information on a rolling basis throughout the year

- Rate-of-return ETCs electing model-based support also must provide information for the locations already served, with such information provided no later than March 1, 2019

- Rate-of-return ETCs no longer are required to file a five-year plan and annual progress reports

- Rate-of-return ETCs that fail to file their geolocation data and associated deployment certifications by March 1 for the prior calendar year subject to same reductions in support as previously established for annual FCC Form 481

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Thank you!

FCC Contact Information

- Alex Minard

Deputy Chief, Telecommunications Access Policy Division, WCB

Alexander.Minard@fcc.gov

- Suzanne Yelen

Acting Assistant Chief, Telecommunications Access Policy Division, WCB

Suzanne.Yelen@fcc.gov

- Victoria Goldberg

Deputy Chief, Pricing Policy Division, WCB

Victoria.Goldberg@fcc.gov