

# Update on the FCC's Connect America Fund

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# Modernization of the Legacy High-Cost Program

- The FCC, in its 2011 *USF/ICC Transformation Order*, began reforming the legacy Federal Universal Service Fund and created the Connect America Fund (CAF).
- The CAF was created to help make broadband available to homes, businesses, and community anchor institutions in areas that do not, or would not otherwise, have broadband, including mobile voice and broadband networks in areas that do not, or would not otherwise, have mobile service, and broadband in the most remote areas of the nation.
- Since 2011, the FCC has issued a series of orders that have transformed the high-cost program to the new Connect America Fund.

# Modernization of the Legacy High-Cost Program

## Legacy High-Cost Program

- Voice Only
- Maintaining Service
- Cost-based Funding



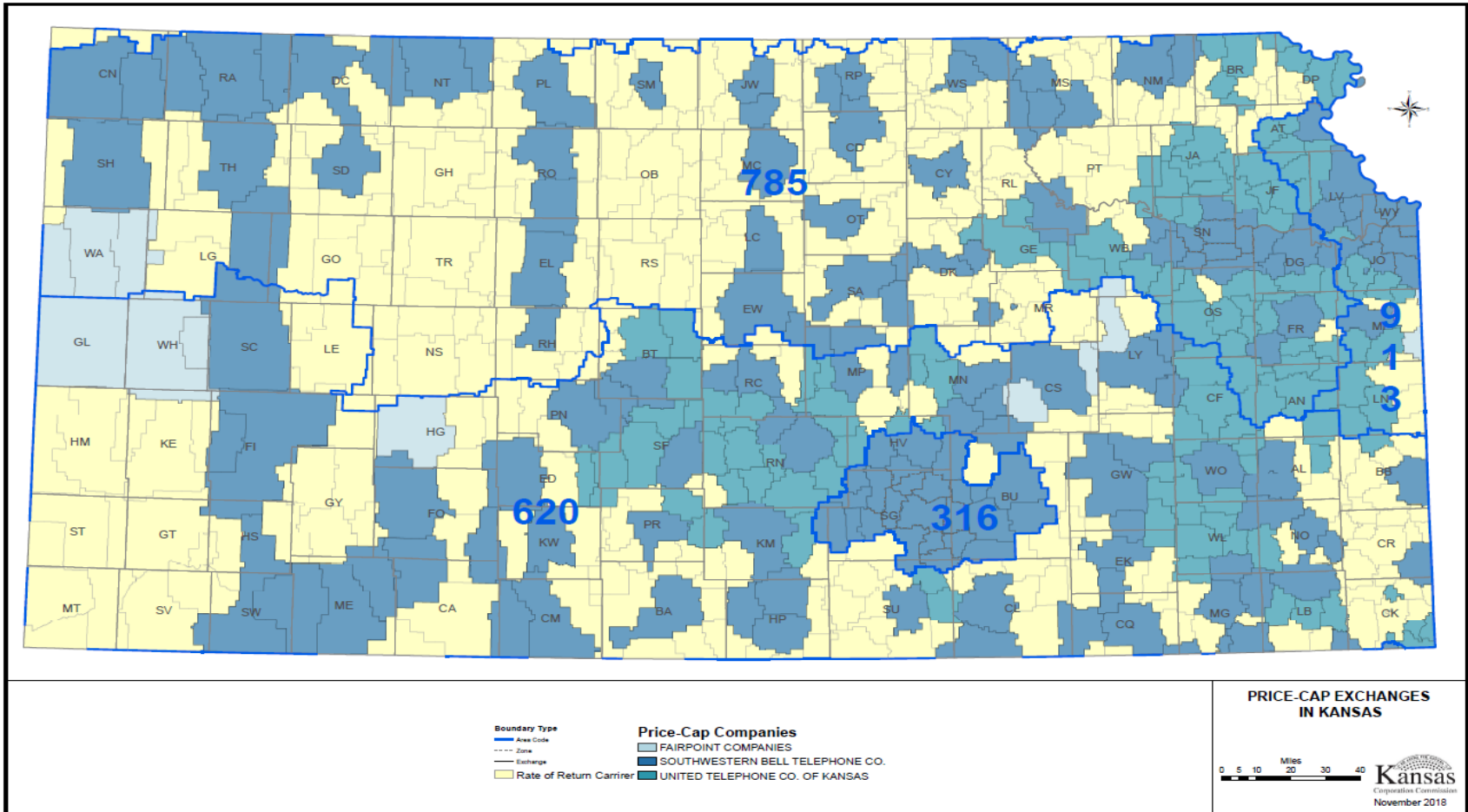
## CAF

- Voice and Broadband
- Maintaining and Expanding Service
- Incentive-based Funding

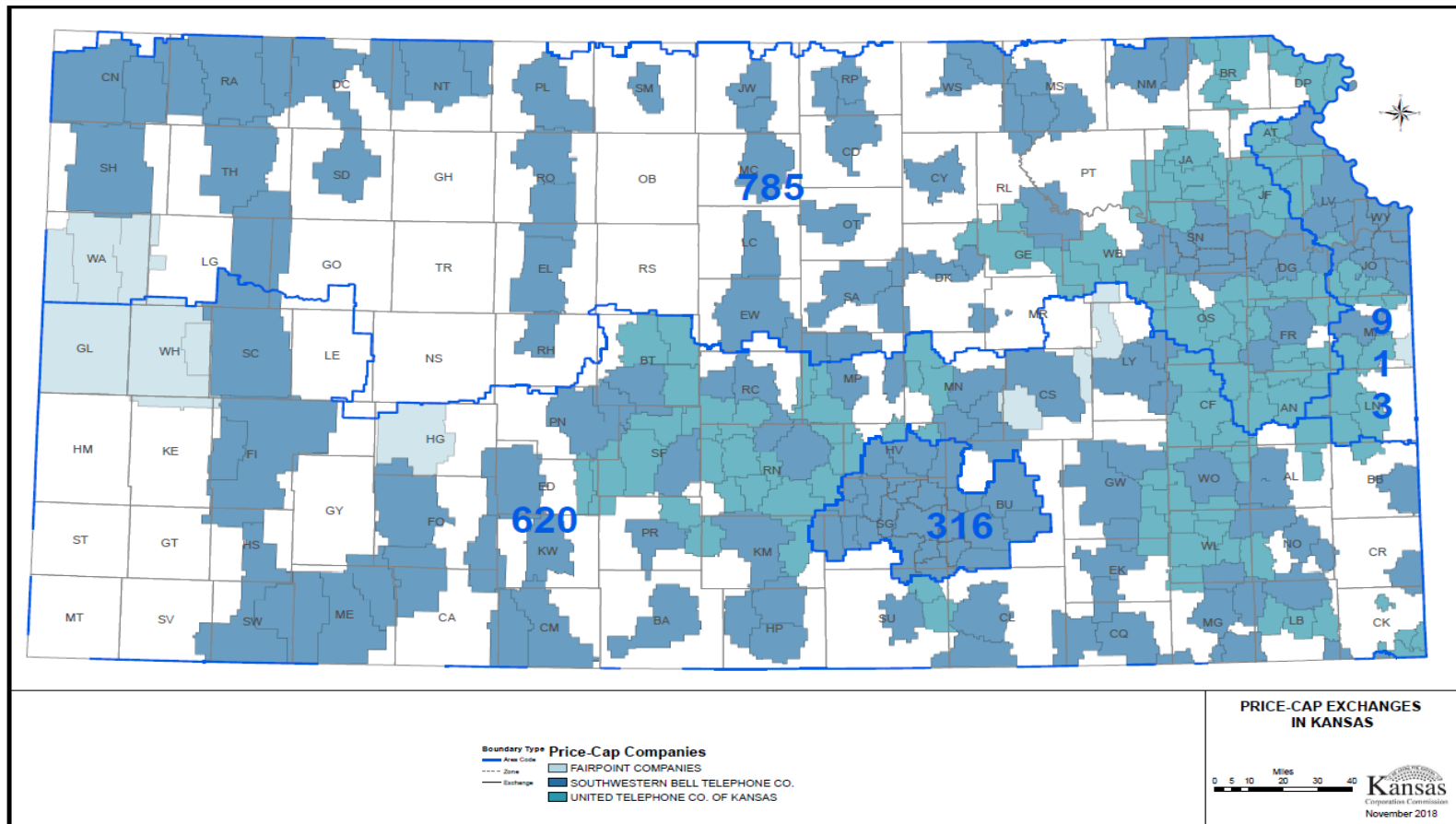
# CAF Program Goals:

- Preserve and advance universal availability of voice service
- Drive universal availability of modern networks capable of providing voice and broadband service to homes, businesses and community anchor institutions
- Drive universal availability of modern networks capable of providing advanced mobile voice and broadband service
- Ensure that rates for broadband and voice services are reasonably comparable in all regions of the nation
- Contain administrative costs and minimize the universal service contribution for consumers and businesses through efficient, effective program management

# Kansas Telecom Map – Price Cap vs Rate-of-Return



# Price Cap Areas in Kansas



# CAF Funding in Price Cap Areas

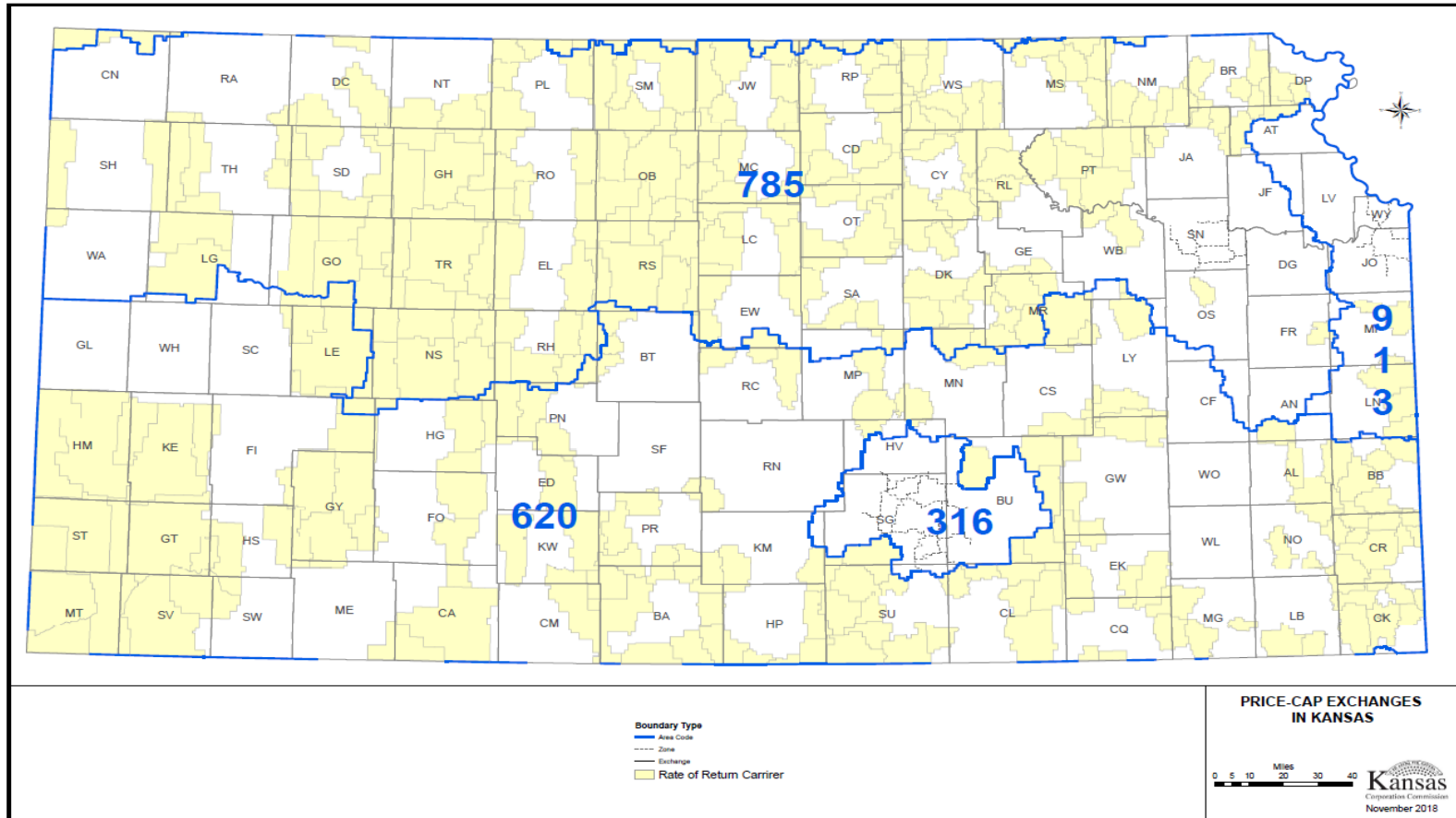
CAF Phase I - Round 1 (2012)	CAF Phase I - Round 2 (2013)	Rural Broadband Experiments (2014)	CAF Phase II Model (2015)	CAF Phase II Auction (2018)
<ul style="list-style-type: none"> <li>• Legacy support frozen</li> <li>• Additional one-time support offered to price cap carriers</li> <li>• Required to deploy 4/1 Mbps broadband to at least 1 unserved location for each \$775 received. (Unserved is below 768 kbps/200 kbps broadband)</li> <li>• Carriers accepted only \$115M of the \$300M offered</li> </ul>	<ul style="list-style-type: none"> <li>• Same as Round 1 EXCEPT: (1) Provided carriers with the flexibility to deploy to any location unserved by 3 Mbps/768 kbps (although only \$550 was provided for these locations); and (2) a challenge process was implemented to allow carriers to challenge the eligibility of census blocks</li> <li>• Round 2 was much more successful than Round 1 - \$324M authorized to deploy broadband to 489,743 locations</li> </ul>	<ul style="list-style-type: none"> <li>• Adopted targeted experiments to help learn more about the impact of technology transitions in rural America</li> <li>• Provided support to competitive carriers in price cap areas through an auction</li> <li>• Up to \$100M available for the experiments, which was divided into 3 groups: <ul style="list-style-type: none"> <li>• (a) \$75M to test construction of networks offering service plans providing 25/5 Mbps</li> <li>• (b) \$15M for service at 10/1 Mbps and</li> <li>• (c) \$10M for 10/1 Mbps service in areas that are extremely costly to serve</li> </ul> </li> <li>• \$41M total allocated over 10 years</li> </ul>	<ul style="list-style-type: none"> <li>• Carriers accepted over \$1.5B in annual model-based support for 6 calendar years (2015-2020)</li> <li>• Provide locations with at least 10/1 Mbps speed broadband</li> <li>• Must be fully deployed by end of 2020, but shortfalls can be cured in 2021</li> </ul>	<ul style="list-style-type: none"> <li>• Support provided through reverse auction for areas LEC declined CAF II model support, extremely high-cost census blocks, and other census blocks removed from model offer</li> <li>• Support for 10 years, but required to be fully deployed within 6 years</li> <li>• Bids were accepted for 4 service tiers, each with varying speed (10 Mbps to 1 Gbps) and usage allowances, and two latency tiers, one high latency and one low latency</li> <li>• \$1.488B over 10 years - would have spent \$5B in model-based support</li> </ul>

# CAF Funding in Price Cap Areas – Kansas Data

CAF Phase I - Round 1 (2012)	CAF Phase I - Round 2 (2013)	Rural Broadband Experiments (2014)	CAF Phase II Model (2015)	CAF Phase II Auction (2018)
<ul style="list-style-type: none"> <li>• None</li> </ul>	<ul style="list-style-type: none"> <li>• A total of \$214,825 was provided for 346 locations in Kansas - \$109,875 to CenturyLink for 183 locations and \$104,950 to FairPoint for 163 locations</li> </ul>	<ul style="list-style-type: none"> <li>• Initially, 3 successful bidders in KS</li> <li>• Skybeam, LLC only bidder ultimately approved for KS. Skybeam was selected to provide 25/5 Mbps fixed wireless broadband to 267 census blocks - \$61,615 in annual support</li> </ul>	<ul style="list-style-type: none"> <li>• FairPoint companies declined offered support</li> <li>• AT&amp;T accepted \$18.9M to provide 10/1 Mbps to 35,375 eligible locations</li> <li>• CenturyLink accepted \$16.5M to deploy 10/1 to 29,018 eligible locations</li> </ul>	<ul style="list-style-type: none"> <li>• 7 winners initially for KS</li> <li>• 6 winners completed initial paperwork for KS:               <ul style="list-style-type: none"> <li>• AMG Technology, 4,297 blocks, 10,088 locations, \$37.3M</li> <li>• IdeaTek Telcom, 597 blocks, 2,490 locations, \$6.2M</li> <li>• Mercury Wireless Kansas, 331 blocks, 776 locations, \$1.3M</li> <li>• NE Colorado Cellular, 15 blocks, 20 locations, \$87,660</li> <li>• Twin Valley Communications, 2 blocks, 9 locations, \$45,610</li> <li>• Wisper ISP, 196 blocks, 414 locations, \$1.6M</li> </ul> </li> <li>• 5 ETC applications received - must attain by Feb 25</li> </ul>



# Rate-of-Return Carrier Areas in Kansas



# ROR Carrier

## Reasonable Request Standard

- ROR carriers receiving legacy high-cost support or CAF support to offset lost intercarrier compensation revenues must offer broadband service with actual speeds of at least 10 Mbps/1 Mbps, upon their customers' reasonable request. If a request for 10/1 is not reasonable in a given circumstance, but 4/1 Mbps is reasonable, the FCC expects the ROR carrier to offer 4/1 Mbps.
- The FCC has stated that a reasonable request is one where the carrier could cost-effectively extend a voice and broadband-capable network to that location. In determining whether a particular upgrade is cost effective, the carrier should not only consider its anticipated end-user voice and broadband revenues, but other sources of support, such as universal service funding, as well.

# CAF Funding in ROR Areas (Rural Local Exchange Carriers)

## Alternative Connect America Cost Model (A-CAM) (2016)

- Voluntary
- Support based on cost model, provided for 10 years
- Required to provide at least 10/1 Mbps to all locations “fully funded” by the model and 25/3 Mbps to a certain percentage of the locations based on the carrier’s density
- “Capped locations” (average cost exceeds \$252.50) remain subject to reasonable request standards (4/1 Mbps min.)
- Deployment milestones, 95-100% by 2026
- Six Kansas ROR carriers elected to receive A-CAM support: Haviland, JBN, Totah, Moundridge, S&A, and Zenda

## Connect America Fund Broadband Loop Support (CAF BLS)(2017)

- Supports voice, voice and broadband, and broadband-only services
- BLS support replaced Interstate Common Line Support (ICLS) and is received in addition to the carrier’s High-Cost Loop Support (HCLS)
- BLS provides cost recovery for the difference between a carrier’s broadband loop cost and broadband revenue received from customers
- Carriers with less than 80% 10/1 Mbps broadband are required to utilize a specified percentage of their BLS to deploy 10/1 in areas where it is lacking over 5-year period
- Not required to deploy broadband using terrestrial wireline technology if support per line would exceed \$250/line monthly or \$10,000 per location/per project
- Remain subject to the reasonable request standard for remaining locations
- Encouraged to identify any census blocks where expect not to deploy broadband for inclusion in auction

# December 12, 2018 ROR CAF Reform Report & Order

- Offers additional funding to carriers that currently receive A-CAM support if they expand the availability of 25/3 Mbps broadband, while deploying at least 10/1 Mbps to new locations in their service areas
- Provides an opportunity for ROR carriers that did not elect to transition to A-CAM support in 2016 to transition to A-CAM II model-based support in return for specifically tailored obligations to deploy 25/3 Mbps broadband
- Authorizes additional support for those carriers that elect to remain on legacy ROR support in exchange for build-out of 25/3 Mbps broadband service

# Competitive ETC Support

- Competitive Eligible Telecommunications Carriers (CETCs) received approximately \$1.2B in high-cost support in 2011.
- FCC wanted more targeted support. Thus, it eliminated the Identical Support Rule and created the Mobility Fund to explicitly support wireless networks.
- Identical support frozen per study area as of year-end 2011 and existing support was initially planned to be phased-down by 20% per year, over a 5-year period, beginning July 1, 2012.
- The phase-down of CETC support was to remain at 60% if Mobility Phase II was not operational by June 30, 2014. This deadline was not met; therefore, CETC support remains frozen at 60% of 2011 support amount.
- Proposed order currently slated for January 30, 2019 FCC Open Meeting. If adopted, FCC may continue phasing down CETC support in 2019.

# CAF Funding – Mobile (Wireless) Services

## Mobility Fund Phase I (2012)

- One-time support awarded through a nationwide reverse auction held in 2012
- Eligible areas include census blocks underserved by mobile broadband services and carriers could not receive support for areas they have previously stated they planned to serve
- Winners required to provide 3G service (50/200 Kbps) within 2 years or 4G service (200/768 Kbps) within 3 years of the award of support
- \$300M authorized for 33 winning bidders - none for Kansas

## Mobility Fund Phase II - Take 1 (2014)

- Initially designed to provide up to \$500M in annual on-going support to ensure universal availability, including \$100M for Tribal areas.
- The FCC released a FNPRM in June 2014:
  - Significant commercial deployment of mobile broadband services has occurred since 2011 *USF/ICC Order*.
  - According to some sources, 99.5% of the U.S. population is covered by some form of mobile broadband technology.
  - FCC proposed reducing Mobility Fund II amount and retargeting CAF Mobility Fund II to expand access to 4G LTE in areas that the market will not serve.

## Mobility Fund Phase II - Take 2 (2019?)

- \$4.53B allocated via a reverse auction and provided over 10 years to advance 4G LTE service
- Provided in areas where there is no "qualified" unsubsidized service
- Qualified service is defined as mobile broadband with download speeds of at least 5 Mbps at the cell edge with 80% cell edge probability and a 30% cell loading factor
- Area in which a CETC receives frozen support or Mobility I support is considered subsidized and is eligible for support
- Challenge process for eligible areas: KS Governor's Office partnered with Connected Nation to challenge eligible areas, to be supplemented by KS Farm Bureau challenge data

# Thank you. Questions?

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