

Update on the FCC's Connect America Fund

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What is Universal Service?

Universal service is the principle that all Americans should have access to communications services.

Universal service is a cornerstone of the law that established the FCC, the Communications Act of 1934. Since that time, universal service policies have helped make telephone service ubiquitous, even in remote rural areas. Today, the FCC recognizes high-speed Internet as the 21st Century's essential communications technology, and is working to make broadband as ubiquitous as voice, while continuing to support voice service.

Universal Service

Both the Kansas Telecommunications Act of 1996 and the Federal Telecommunications Act of 1996 contain provisions to develop universal service funds to maintain and enhance universal service.

- Federal Universal Service Fund (FUSF)/Connect America Fund (CAF) - 47 U.S.C. § 254
- Kansas Universal Service Fund (KUSF) – K.S.A. 66-2008

Federal Universal Service Fund

The Universal Service Fund provides support through four programs:

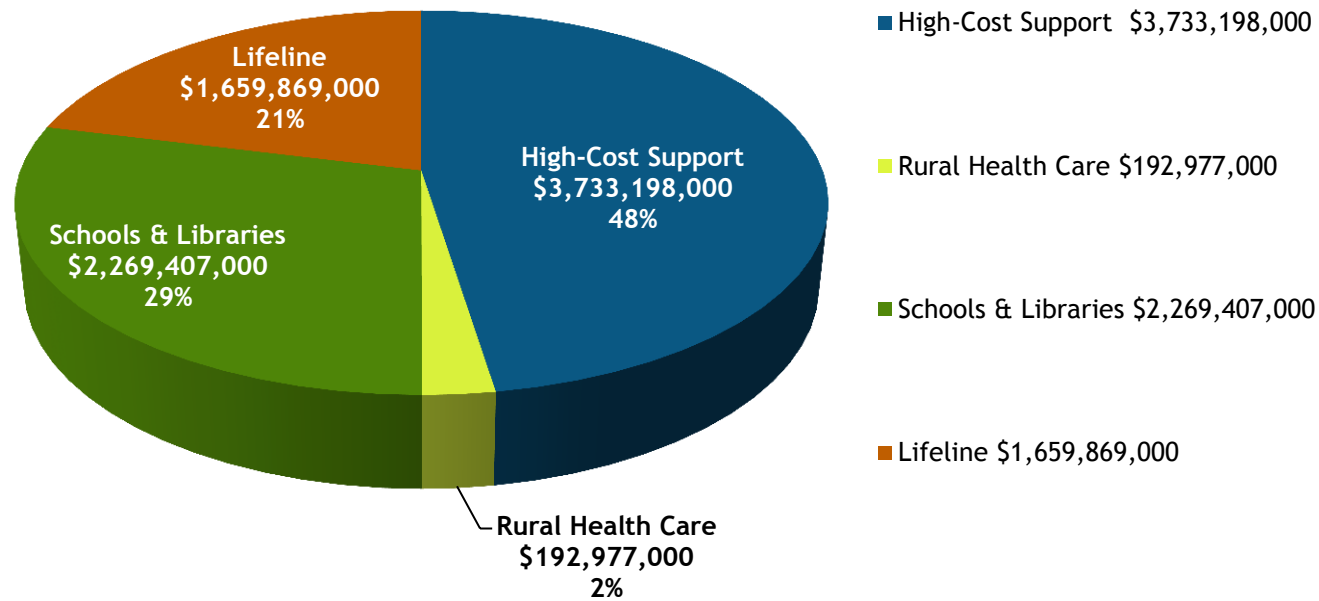
- High-Cost Support (now known as the Connect America Fund) provides support to certain qualifying telephone companies that serve high-cost areas, thereby ensuring that the residents of these regions have access to reasonably comparable service at rates reasonably comparable to urban areas
- Low-Income Support, also called the Lifeline program, assists low-income customers by helping to pay for monthly telephone charges so that telephone service is more affordable
- Schools and Libraries Support, also known as the "E-Rate," provides telecommunication services (e.g., local and long-distance calling, both fixed and mobile, high-speed data transmission lines), Internet access, and internal connections (the equipment that delivers these services to particular locations) to eligible schools and libraries
- Rural Health Care Support allows rural health care providers to pay rates for telecommunications services similar to those of their urban counterparts, making telehealth services affordable, and also subsidizes Internet access

How is Universal Service Funded?

- The Universal Service Fund is paid for by contributions from providers of telecommunications based on an assessment on their interstate and international end-user revenues. The assessment may, and typically is, passed along to consumers as a line item on the customer's bill.
- The assessment rate for the 1st quarter 2016 is 18.2%, which is the highest assessment rate to date.

2014 Federal Universal Service Disbursements by Program

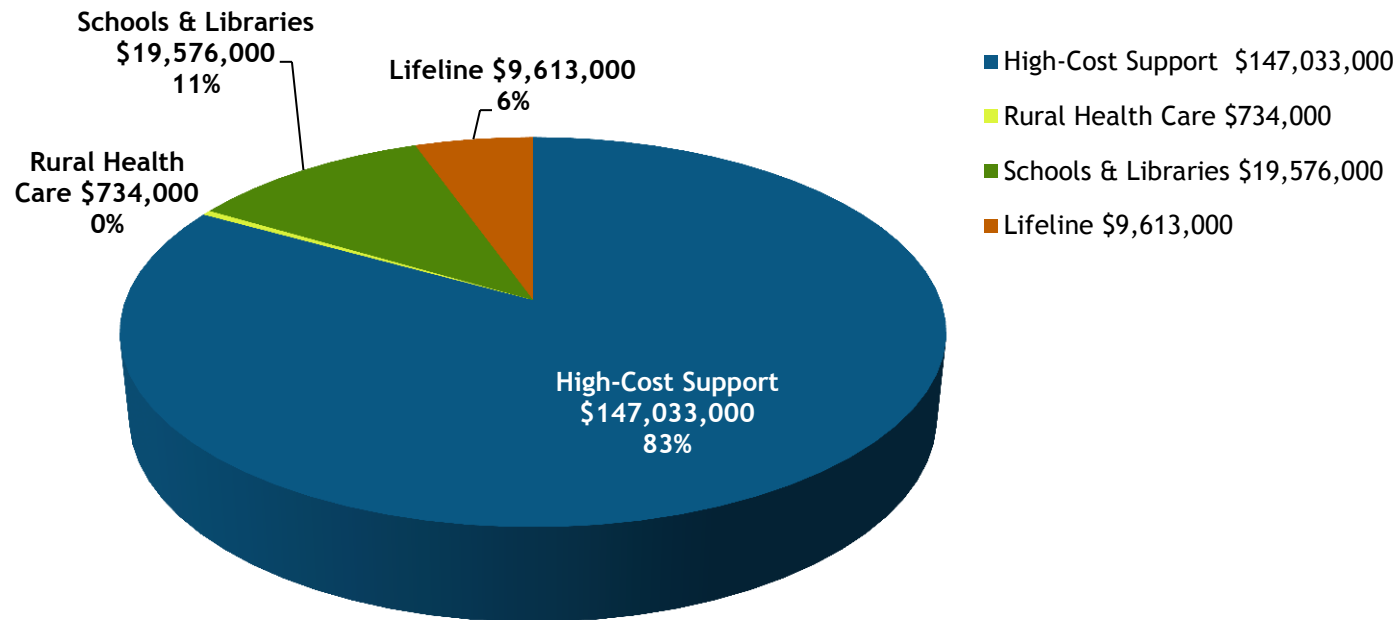
Total Fund Size - \$7.8 billion



*Information obtained from the FCC's 2015 Universal Service Monitoring Report, Dec. 2015.

2014 Federal Universal Service Disbursements by Program for Kansas

Total Disbursements for
Kansas Only - \$177 million



*Information obtained from the FCC's 2015 Universal Service Monitoring Report, Dec. 2015.

The New Fund

- The FCC, in its *USF/ICC Transformation Order* (Docket 10-90, Rel. Nov. 18, 2011) reformed the Federal Universal Service Fund and Intercarrier Compensation. The new Connect America Fund (CAF) was created, consisting of five new funds:
 - 1) Mobility Fund I
 - 2) Mobility Fund II
 - 3) Connect America Fund I (CAF I)
 - 4) Connect America Fund II (CAF II)
 - 5) Remote Areas Fund (RAF)

CAF Mobility Fund

- 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 planned to be phased-down over a 5-year period beginning July 1, 2012. The phase-down of CETC support to cease if Mobility Phase II was not operational by June 30, 2014.

CAF Mobility Fund – Phase I

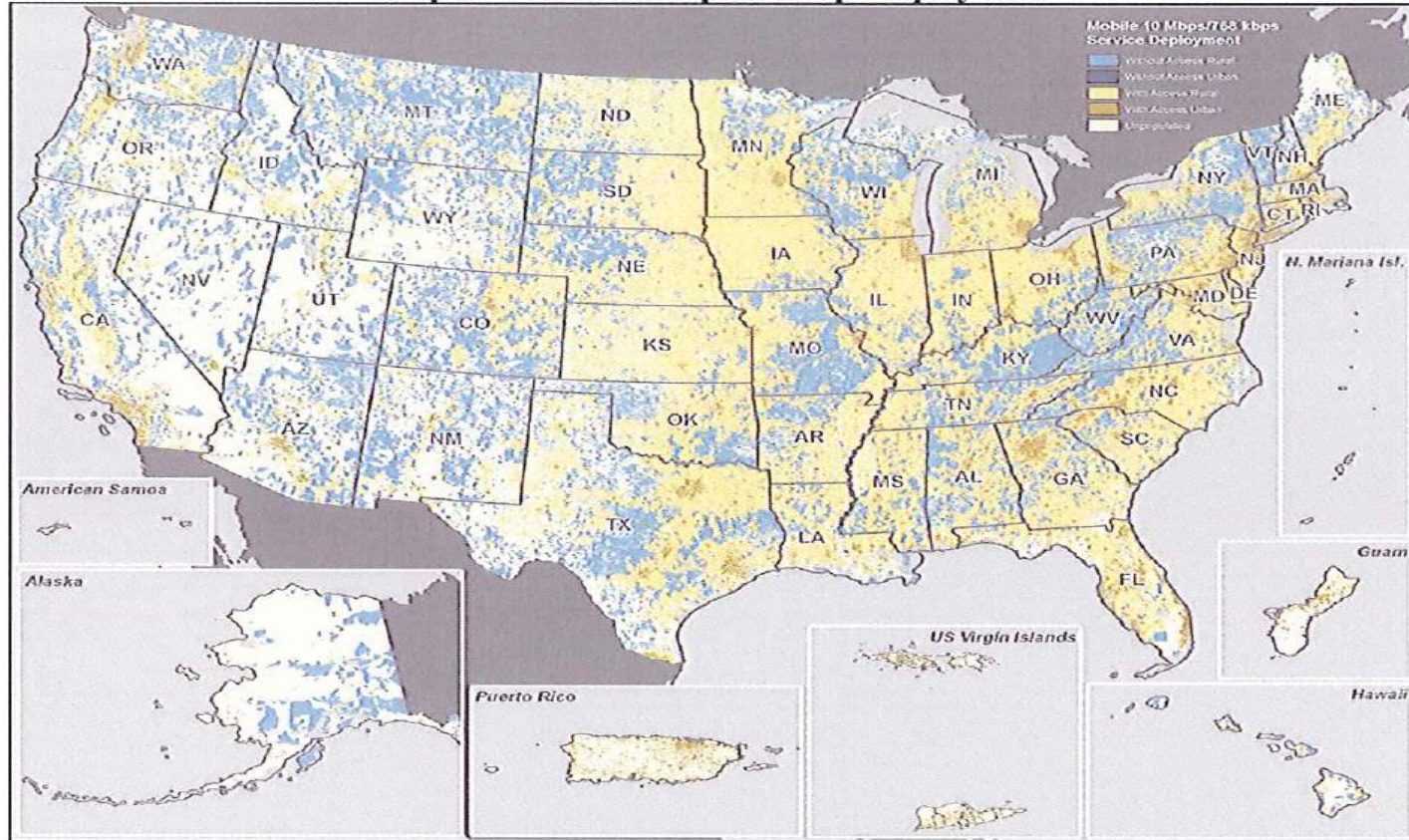
- Created to help attain the FCC's goal of universal availability of mobile networks capable of delivering mobile broadband and voice service in areas where Americans live, work, or travel.
- Up to \$300 million in one-time support awarded through a nationwide reverse auction held on September 27, 2012.
- Eligible areas include census blocks unserved by mobile broadband services, and carriers may not receive support for areas they have previously stated they plan to serve.
- Winners required to deploy 3G service within two years or 4G service within 3 years of the award of support.
- One-time disbursements were made to 33 winning bidders authorized to receive almost \$300 million (none in KS).
- Separate Tribal Mobility Fund
 - Auction held in February 2014 to provide 3G or better service in tribal areas.
 - 5 winning bidders were selected and awarded \$49.8 million.

CAF Mobility Fund – Phase II

- Initially designed to provide up to \$500 million per year in on-going support to ensure universal availability, including \$100 million for Tribal areas.
- The FCC has not implemented Mobility Fund II; therefore, CETC support is currently frozen at 60% of the carriers' capped year-end 2011 support amount.
- The FCC released a FNPRM in June 2014:
 - Significant commercial deployment of mobile broadband services has occurred since *USF/ICC Order*.
 - According to some sources, 99.5% of the US 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.

CAF Mobility Fund – Phase II

Map 2: Mobile 10 Mbps/768 kbps Deployment



Source: FCC's 2015 Broadband Progress Report , based on 12/31/13 data. Map may be found at: <https://www.fcc.gov/reports-research/maps/mobile-10-mbps768-kbps-deployment-map-2015-broadband-progress-report>

CAF I - Round 1

- Limited to price cap carriers
- Legacy high-cost support frozen at 2011 levels.
- \$300 million in one-time CAF support made available to price cap carriers to accelerate the availability of broadband to customers who lacked access to fixed, terrestrial Internet access with minimum speeds of 768 kbps/200 kbps.
- Any carrier that elected to receive Phase I support was required to provide broadband with actual speeds of 4Mbps/1Mbps and deploy broadband to at least one currently unserved location for each \$775 in additional high-cost support it received.
- In 2012, carriers initially accepted only \$115 million of the \$300 million available.
 - AT&T declined \$47.9 million offered.
 - CenturyLink accepted \$35 million.
 - Fairpoint accepted \$3.3 million.

CAF I – Round 2

- On May 22, 2013, the FCC announced it would provide for a 2nd round of CAF Phase I incremental funding.
- As with initial round, \$775 provided for each location lacking access to Internet service at speeds of 768 kbps/200 kbps.
- Unlike Round 1:
 - Carriers allowed to expand to any location unserved by Internet service with speeds of 3 Mbps/768 kbps or higher, although only \$550 was provided for these locations.
 - FCC adopted a challenge process to allow competitors to challenge the eligibility of particular census blocks.
- The FCC approved approximately \$324 million in Round 2 to deploy broadband to over 1.2 Americans and 489,743 locations. Of the \$324 million, \$214,825 provided for 346 locations in Kansas.

CAF II

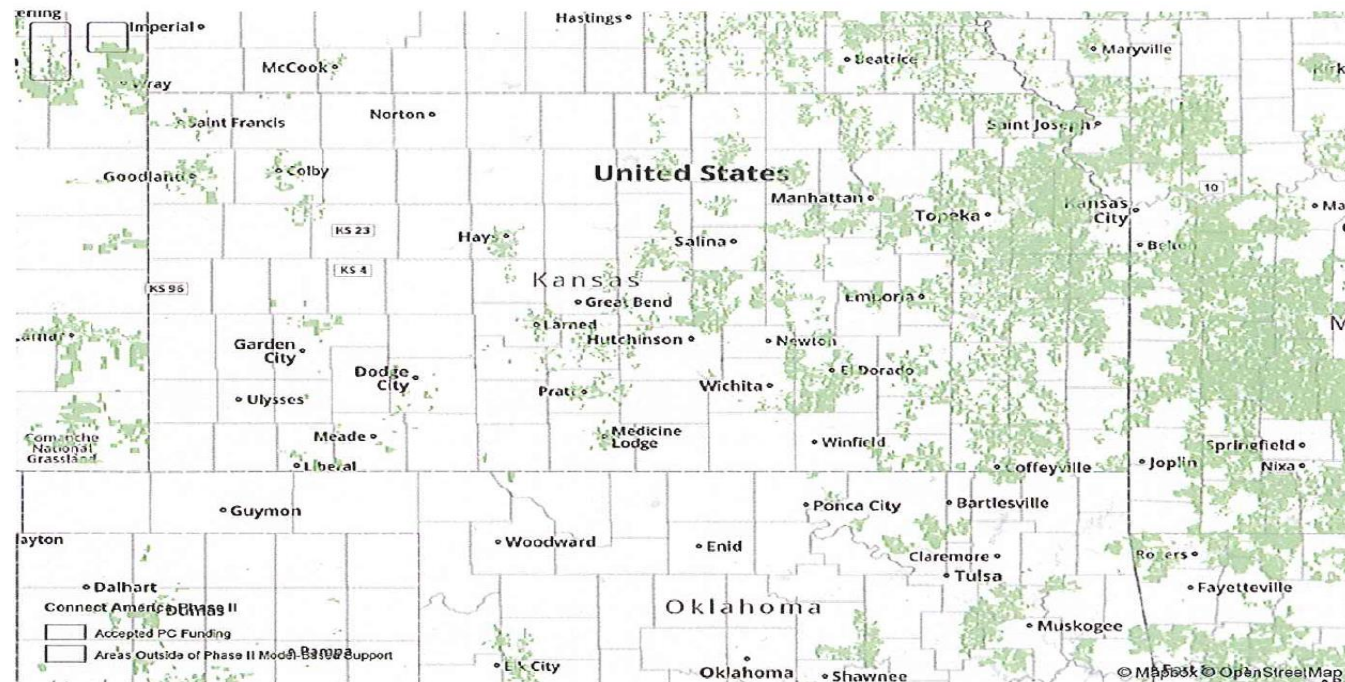
- In April 2015, the FCC offered over \$1.675 billion in annual CAF II model-based support to price cap carriers to fund the deployment of voice and broadband-capable services of at least 10 Mbps/1 Mbps in the eligible areas.
- Support targeted to price cap areas that are high-cost, but not extremely high-cost. An area was deemed “eligible” if the average monthly cost-per-location for that census block was above the \$52.50 funding benchmark but below the \$198.60 extremely high cost threshold, and not served by an unsubsidized competitor, subsidized wireline competitor, or was not subject to specific types of bids in the rural broadband experiments.
- Support provided for six calendar years (2015-2020). Carriers that accept the support are required to meet the following deployment milestones:
 - 40% of the eligible households by the end of 2017
 - 60% of the eligible households by the end of 2018
 - 80% of the eligible households by the end of 2019
 - 95-100% of the eligible households by the end of 2020
- If the incumbent declines the state-level commitment, CAF support is to be auctioned off by the FCC in a competitive bidding process, which is planned to occur in 2016.

CAF II

- **AT&T** accepted the **\$18.9 million** in CAF II support offered for Kansas; therefore, it will be required to deploy 10 Mbps/1 Mbps voice and broadband-capable services to at least 95% of the **35,375 eligible areas** by the end of 2020.
- **CenturyLink** accepted the **\$16.5 million** in CAF II support offered for Kansas; therefore, it will be required to deploy 10 Mbps/1 Mbps voice and broadband-capable services to at least 95% of the **29,018 eligible areas** by the end of 2020.
- **Fairpoint** declined the **\$336,236** it was offered to provide 10 Mbps/1 Mbps broadband to **497** eligible locations in Kansas. Therefore, the 497 eligible locations in Fairpoint's service area in Kansas will be included in the CAF II competitive bidding process.

CAF II – Accepted Areas Map

Connect America Fund Phase II - Accepted Areas Map



Source: FCC's Connect America Fund Phase II - Accepted Areas Map. Map may be found at: <https://www.fcc.gov/reports-research/maps/caf-2-accepted-map>

Kansas Corporation Commission

Rate of Return (ROR) Regulated Carriers

The FCC, in its *USF/ICC Transformation Order*, made numerous revisions to ROR carrier high-cost support:

- 1) Eliminate support in areas that are overlapped by an unsubsidized competitor
- 2) Cap total FUSF support at \$250/line per mo.
- 3) Eliminate Safety Net Additive
- 4) Reduce high-cost loop support for carriers that maintain artificially low end-user voice rates
- 5) Transition Local Switching Support to ICC Reform
- 6) Limit capital investment and corporate operations expenses for High Cost Loop Support and Interstate Common Line Support.

ROR Carrier Cost Model

- The FCC has sought comment on using a cost model to facilitate the provision of Connect America Fund support to ROR carriers that voluntarily elect to transition to model-based support.
- The latest version of the model (A-CAM 2.1) was released December 17, 2015.

ROR Carrier Broadband Requirement

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 10Mbps/1Mbps, 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.

Thank you. Questions?

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