

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of)	
)	
Connect America Fund)	WC Docket No. 10-90
)	
Connect America Fund Phase II Auction)	AU Docket No. 17-182
)	

VERIZON REPLY COMMENTS¹

Verizon supports the framework for the Connect America Phase II auction described in the *Public Notice*,² but the Commission should make a few targeted changes in order to improve the efficiency of the auction and attract qualified bidders to a broad range of eligible areas. Specifically, the Commission should adopt USTelecom’s proposals to modify the package bidding rule, switching rule, and financial qualifications screen. The Commission should also address the location count issues identified in the record by granting Verizon’s pending petition for reconsideration of the location flexibility rules. Without additional location flexibility, concerns about location count errors will dissuade bidders from bidding on many of the areas eligible for the CAF auction. The Commission should reject proposals to modify the proposed technical qualifications procedures; the *Public Notice*’s framework meets the Commission’s

¹ The Verizon companies participating in this filing are the regulated, wholly owned subsidiaries of Verizon Communications Inc.

² *Comment Sought on Competitive Bidding Procedures and Certain Program Requirements for the Connect America Fund Phase II Auction*, Public Notice, 32 FCC Rcd 6238 (2017) (“*Public Notice*”).

objective of minimizing the burden on applicants while ensuring that bidders can meet the service obligations.

I. The Commission Should Make Targeted Changes to the Auction Framework

The auction procedures outlined in the *Public Notice* are generally reasonable, although targeted changes described below could make them more so. Some commenters complain that the auction procedures are too complex,³ but much of the complexity is unavoidable because (1) bids will be ranked based on an index, rather than on the bid amount alone; (2) bids for all eligible areas will compete in a single nationwide auction; and (3) bids for eight different performance and latency “tiers” will compete in a single auction through the application of “weights.”⁴ In any event, no commenter proposes an alternative to the auction procedures outlined in the *Public Notice*.

The Commission should improve the efficiency of the auction by adopting USTelecom’s targeted proposal to modify the package bidding rule.⁵ The proposed package bidding rule would allow the Commission to award only part of a package, provided that the bidder receives a “minimum scale percentage” of its bid for the package as a whole. As USTelecom explains, the proposal to cap the minimum scale percentage at 80 percent creates a risk that the support amount will not be sufficient for the partial area that is awarded.⁶ In order to ensure that package

³ See, e.g., Wireless Internet Service Providers Association (WISPA) Comments, at 26-27; Rural Coalition Comments, at 6-7; American Cable Association Comments, at 2-7.

⁴ See *Connect America Fund*, Report and Order and Further Notice of Proposed Rulemaking, 31 FCC Rcd 5949 (2016) (“*Phase II Auction Order*”).

⁵ USTelecom Comments, at 6-9.

⁶ *Id.* at 6-7.

bidding is a viable option, the Commission should adopt USTelecom's proposal to increase the minimum scale percentage to at least 95 percent.⁷

The Commission should also adopt USTelecom's proposal to modify the "switching percentage," which limits a bidder's ability to bid in areas where it did not bid in the previous round. The *Public Notice* explains that the proposal for a low switching percentage of only 10 percent is intended to "encourage bidders to express their bidding interests early and sincerely."⁸ However, efficiency gains from the switching limitation are offset by efficiency losses arising from a bidder's inability to substitute between areas in response to market conditions.⁹ The tradeoffs presented by switching can be captured in a more sophisticated way by adopting USTelecom's proposal to adopt a switching schedule in which the switching percentage starts high in the early rounds and decreases as the auction progresses.¹⁰

Finally, the Commission should modify the financial qualifications screen to address the concerns raised by USTelecom.¹¹ The *Public Notice* proposes to use a five-point screen to assess an applicant's financial qualifications; applicants failing to achieve a minimum score would require "a more in-depth review."¹² As USTelecom notes, many companies with significant experience in the provision of broadband services, including the price cap carriers that were offered CAF model-based support in 2015, do not meet some of the proposed metrics.¹³ In order to streamline the financial qualifications review and better assess whether an applicant has the

⁷ *Id.* at 8.

⁸ *Public Notice*, ¶ 98.

⁹ *See* USTelecom Comments at 9.

¹⁰ *Id.* at 10.

¹¹ *Id.* at 2-5.

¹² *Public Notice* ¶ 58.

financial resources to take on CAF obligations, the Commission should either deem current CAF recipients to be financially qualified or modify the financial qualifications screen.¹⁴

II. The Proposed Technical Qualifications Requirements are Reasonable

Verizon supports the proposed technical qualifications requirements. The Commission intends “to use the short-form application to assess the likelihood that an applicant will default if selected as a winning bidder.”¹⁵ Consistent with rules adopted in the *Phase II Auction Order*, the *Public Notice* proposes to require potential bidders to (1) indicate the tiers for which the applicant plans to bid; and (2) provide short narrative responses to a series of questions about the applicant’s experience in providing network services and the network that the applicant intends to use to meet its obligations.¹⁶ Staff will then review the information provided by the applicant in order to determine whether the applicant is reasonably expected to be capable of meeting the relevant public interest obligations.¹⁷

The Commission should reject WISPA’s proposal to eliminate questions about the number of subscribers served by the applicant and the services provided by the applicant.¹⁸ Because an applicant’s experience in the provision of broadband services is clearly relevant to an assessment of the applicant’s technical qualifications, the Commission should retain those questions. Similarly, the Commission should not adopt WISPA’s proposal to delete proposed

¹³ USTelecom Comments at 3.

¹⁴ *Id.* at 3-4.

¹⁵ *Public Notice* ¶ 32.

¹⁶ *Id.* ¶ 36.

¹⁷ *Id.* ¶ 52.

¹⁸ WISPA Comments at 8.

Question 2, which asks the applicant to explain how its proposed network will meet the performance tier requirements, or WISPA's proposal to delete parts of Question 3, which asks for information about the applicant's subscription rate and peak period data usage assumptions.¹⁹ Narrative responses to those questions will allow Commission staff to assess whether the applicant's network design can meet the relevant tier's public interest obligations and will also confirm that the applicant has developed a preliminary design or business case for meeting those obligations.²⁰

The Commission should also reject proposals to expand the scope of the short-form application and impose additional requirements on applicants. The *Public Notice* framework, including the questions listed in Appendix A, would provide the Commission with sufficient information to assess the applicant's qualifications, without imposing an unreasonable burden on applicants or Commission staff.²¹

In particular, the Commission should not adopt the Rural Coalition's proposal to require applicants to submit propagation maps or network maps with their short form applications.²² The proposal would apparently limit an applicant to bidding on only those areas for which the applicant has submitted a map with its short-form application, which would further complicate the auction design and impose significant costs on applicants. Applicants would have to determine all potential bid areas by the time they submit their short-form applications, several months before the start of the auction. As a result, applicants could be forced to incur the cost of

¹⁹ *Id.* at 8-9.

²⁰ *Public Notice* ¶ 35.

²¹ *Id.* ¶ 31.

mapping areas for which they may not ultimately bid, and would also be precluded from considering additional areas once they have submitted their short-form applications.

The Commission does not need propagation maps or network maps in order to assess an applicant's technical qualifications. The proposal in the *Public Notice*, which would require the applicant to provide information about its experience providing network services, a description of the anticipated network architecture, and an explanation of the technology's performance characteristics, would provide the Commission with enough information to determine whether an applicant can be expected to meet the performance obligations.

Finally, the Commission should not adopt ITTA's proposal to limit applicants to bidding on "performance tier and latency combinations that they or similar providers are currently offering."²³ ITTA argues that "attempting to evaluate speculative, unproven service levels based on eventual technological advances would defeat the objectives of assuring that applicants are qualified."²⁴ While it may be appropriate to restrict an applicant from bidding if its plan relies on purely "speculative" technological advances, it is not in the public interest for the Commission to bar an applicant from bidding on a service tier that it does not currently offer or from describing a technology in its short-form application that is not currently in commercial service. Because the first deployment milestone will be in 2021 at the earliest, and the last deployment milestone will be in 2024 at the earliest, it would be reasonable for an applicant's plan to contemplate

²² The Rural Coalition proposes to require "providers using spectrum to submit propagation maps," but in a footnote indicates that "it does not object to submitting maps as well." Rural Coalition Comments at 16, 19 and n.37.

²³ ITTA Comments, at 6. The Commission sought comment on such a limitation in the *Public Notice*, suggesting that "it may not serve the public interest to award Phase II support ... based on future technological advances." *Public Notice* ¶ 50.

²⁴ ITTA Comments at 6.

technologies that are currently under development and that may reduce costs or achieve higher speeds than current-generation technology. Rather than automatically prohibit an applicant from bidding unless its short-form application describes a currently-deployed technology, the Commission should emphasize that the applicant can demonstrate, in its response to proposed Question 4, that the technology described in the short-form application will be available in time to meet the CAF program’s network buildout milestones.

III. The Commission Should Provide Additional Location Flexibility

Evidence in the record demonstrates the need for additional location flexibility. The rules adopted in the *Phase II Auction Order* require winning bidders to build out to 100 percent of the locations in their funded areas, as determined by the Commission’s cost model, by the end of the sixth year of funding.²⁵ The *Phase II Auction Order* provides only limited “location flexibility” to address cases in which the actual location count is less than the modeled location count or the bidder faces other challenging “facts on the ground.”²⁶ Carriers may elect to deploy to less than 100 percent of funded locations but (1) must deploy to a minimum of 95 percent of funded locations; and (2) must return support equal to the number of unserved locations multiplied by 1.89 times the average support per location in the state.²⁷

Because the Commission requires auction winners to deploy broadband to at least 95 percent of funded locations, and because carriers must return funding even if they achieve the 95 percent minimum, carriers have significant incentives to avoid bidding on any area where the

²⁵ 47 CFR § 54.310(c).

²⁶ *Phase II Auction Order*, ¶ 44.

²⁷ *Id.* ¶ 45; 47 C.F.R. § 54.310(c)(2).

accuracy of the modeled location count is uncertain. Indeed, in the *Phase II Auction Order* the Commission rejected proposals for additional location flexibility because potential bidders had the option of excluding “problematic” areas from their bids.²⁸

In 2016, Verizon filed a petition for reconsideration of the *Phase II Order*’s location flexibility rules.²⁹ Verizon urged the Commission to provide more location flexibility to CAF bidders in order to reduce the incentives for bidders to avoid problematic areas in the CAF II auction.

In its comments on the *Public Notice*, Vantage Point Solutions provides evidence that location count errors are widespread in CAF II-eligible areas.³⁰ In its work with companies that are considering bidding in the CAF II auction, Vantage Point has found many instances in which the real-world location counts fall short of the modeled location counts. Conversely, Vantage Point “has not identified many census blocks (or census block groups) where model locations are less than the observable locations.”³¹ As a result, “errors tend to compound, making the locations gap larger.”³²

In light of this evidence that the Commission’s cost model often overstates the number of locations, the Commission should grant Verizon’s petition for reconsideration of the *Phase II Order* and revise its rules to provide Phase II bidders with additional location flexibility. If location errors are widespread, then there will be many unserved high-cost areas that bidders will

²⁸ *Phase II Auction Order* ¶ 47.

²⁹ Verizon Petition for Reconsideration, WC Docket No. 10-90, at 5-8 (Aug. 8, 2016) (“Verizon Petition”).

³⁰ Vantage Point Comments, at 4-5.

³¹ *Id.* at 5.

³² *Id.*

avoid in the auction. As Verizon explained in its petition for reconsideration, an auction framework that causes bidders to avoid bidding on unserved areas because of modeling errors or other challenging facts on the ground is at odds with the Commission's universal service obligations.³³

Verizon's petition for reconsideration explained that the Commission should (1) reduce the minimum buildout threshold from 95 percent to 90 percent of modeled locations; and (2) eliminate the requirement that a provider return funds if it meets the minimum buildout threshold but falls short of 100 percent of modeled locations.³⁴ The Commission should adopt Verizon's proposals, and should also adopt Vantage Point's proposal that a carrier that deploys service to all of the actual locations in a census block be credited with the modeled location count for that census block.³⁵ These simple changes will increase the likelihood of robust bidding in the auction and attract bids for more eligible areas.

³³ Verizon Petition, at 7.

³⁴ *Id.* at 7-8.

³⁵ Vantage Point Comments at 7.

IV. Conclusion

The Commission should make targeted changes to the auction framework, and should also grant Verizon's petition for reconsideration of the *Phase II Order*'s location flexibility rules. The Commission should adopt the technical qualifications requirements proposed in the *Public Notice* without eliminating key requirements or imposing additional obligations.

Respectfully submitted,

By: /s/ Tamara L. Preiss

William H. Johnson
Of Counsel

Tamara L. Preiss
1300 I Street NW
Suite 500-East
Washington, DC 20005
(202) 515-2540

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