



July 20, 2017

VIA ECFS

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

Subject: *Ex parte presentation – WC Docket No. 10-90
CAF Phase II competitive bidding auctions Public Notice*

Dear Ms. Dortch:

On July 13, 2017, the Commission released a draft of a Connect America Fund (“CAF”) Phase II auction procedures public notice for consideration at the Commission’s August 3, 2017 Open Meeting.¹ This letter proposes certain minor changes that the Commission should make to the Draft Public Notice before it is considered at the Open Meeting.

Among other things, the Draft Public Notice seeks comment on “the assumptions an applicant will need to make about network usage and subscription rates when determining whether it can meet the public interest obligations for its selected performance tier and latency combination(s).”² The Draft Public Notice “seek[s] comment on whether we should require each service provider to assume a subscription rate of at least 70 percent,” noting that some parties “have suggested that we should not expect that all end users passed by a Phase II support recipient will subscribe to a service package at speeds required by the relevant performance tier, or that they will subscribe to the provider’s service at all.”³

A take-rate metric of this sort is appropriate because it correctly reflects the reality that no broadband provider ever achieves 100% subscribership for its service. In an area where a subsidy is necessary, the available revenue from subscription affects the provider’s bidding strategy. This is true whether the provider is planning to deploy terrestrial facilities or allocate satellite capacity resources.

¹ “Comment Sought on Competitive Bidding Procedures and Certain Program Requirements for the Connect America Fund Phase II Auction (Auction 903),” Public Notice (draft), FCC-CIRC1708-01 (rel. July 17, 2017), available at http://transition.fcc.gov/Daily_Releases/Daily_Business/2017/db0713/DOC-345792A1.pdf (“Draft Public Notice”)

² *Id.* at 12 ¶ 36.

³ *Id.*

It would be entirely artificial, however, to presume that a broadband provider in a new subsidized area will experience a static take rate. A provider entering a previously unserved area will experience an increase in subscribership as time goes by. This will occur in part because customers will become aware of the newly available service over time, but also significantly because the build-out of the provider's network facilities will gradually enable it to serve more customers. Using the Draft Public Notice's proposed 70% take-rate factor as an example, it would not be possible for a terrestrial, fiber-based provider to serve 70% of the locations in the area it wins in the CAF-II auction until it had built out to reach at least that many locations – which, under the Commission's rules, could well be after five years.⁴

As a result, it is crucial for the Commission to ensure that the auction mechanism adequately captures the variation in time to deployment among service providers. Hughes has submitted in this docket a paper by Dr. Scott Wallsten, "A Proposal to Incorporate Time-to-Deployment Into CAF Phase II Auction Scoring," which discusses the importance of including this significant element of consumer welfare in the auction mechanism.⁵ For the same reasons, Hughes urges the Commission to incorporate this factor into the auctions procedures public notice before it is adopted by the Commission.

Please direct any questions regarding this filing to the undersigned.

Sincerely,

/s/
Jennifer A. Manner
Senior Vice President, Regulatory Affairs

cc: Jay Schwarz
Kristine Fargotstein
Claude Aiken
Amy Bender
Lisa Hone
Alexander Minard
Katie King
Heidi Lankau
Mark Montano
Angela Kung

⁴ See 47 C.F.R. §54.310(c).

⁵ See Letter from Jennifer A. Manner, Hughes, to Marlene H. Dortch, FCC, WC Docket No. 10-90 (filed July 10, 2017), attaching Wallsten, "A Proposal to Incorporate Time-to-Deployment Into CAF Phase II Auction Scoring."