

# CAF Phase II: WC Dkt. No. 10-90

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# A History of Serving Rural America

- Rural price cap carriers started investing in broadband long before CAF
  - CenturyLink currently provides high-speed services to 91% of its customers.
    - CenturyLink now offers 12 Mbps broadband service to 55% of customers, and 40 Mbps to 25% of customers.
  - Frontier provided high-speed services to 92% of its low-density legacy markets when it acquired Verizon properties in 2010 that had only 60% availability.
    - Frontier now offers over 6 Mbps to 83% of its customers, 12 Mbps to 75% of customers, and 20 Mbps or higher to 54% of its customers.
- CAF Phase I was an overwhelming success. These three carriers alone will bring broadband to an additional 400,000 rural locations.

# Moving Forward with CAF Phase II

- The delay in CAF Phase II implementation has cost the entire nation as millions of Americans remain without broadband because the support has not been distributed.
- Price caps face uncertainty over how to plan and invest:
  - Investment and deployment decisions have significant lead-time.
  - Resources must flow to more economic areas absent confirmation that the FCC intends to implement its CAF Phase II commitments.
  - Price caps would be investing significant resources in CAF Phase II areas in addition to the FCC's support.
    - In CAF Phase I Round 2, CenturyLink, Frontier and Windstream all agreed to match CAF support.
  - Certainty in timing, rules and process are a necessity for the program's success but there is less certainty with CAF Phase II now than two years ago.
  - 2014 provided no incremental CAF support.

# Price Caps: Positioned to Serve

- Three years ago the FCC determined that price cap carriers are best positioned to provide service to rural America via the right of first refusal
- The facts underlying the FCC's decision have not changed:
  - More than 80% of the high-cost areas in need of broadband support are in price cap areas
    - Frontier alone serves approximately the same number of rural customers as all RLECs combined
  - The areas at issue in CAF Phase 2 are uneconomic to serve; after three years of expansion competitors have not stepped-up to serve these high-cost areas.
  - “The fact that incumbent LECs’ have had a long history of providing service throughout the relevant areas . . . puts them in a unique position to deploy broadband networks rapidly and efficiently in such areas.” — *USF/ICC Transformation Order*
- Despite the costs, price caps have demonstrated their belief in rural America while competitors focused on dense, less-expensive areas.
- Price caps have been awaiting CAF Phase II support to complete their commitment to rural America.

# The Right of First Refusal Maximizes Efficient Broadband Deployment

- No other broadband providers have the efficiencies, scale, scope, and history of providing rural service necessary to make CAF Phase II a success.
- The CAF Phase II right of first refusal option ensures providers have the incentive to cover all unserved areas in their footprint; prevents targeting investment solely to areas with lower cost of service and greater density per square mile
  - All of these areas are high-cost and otherwise unserved.
- Excluding all proposed CAF Rural Experiment areas from the initial offers of support distorts investment decisions and harms high cost, rural areas:
  - Undermines the right of first refusal because the more economic areas will be cherry-picked; the remaining areas will be stranded with limited hope for efficient and timely broadband deployment.
  - Jeopardizes ubiquitous rural broadband by elevating unproven experimental providers over demonstrated success.
  - Broadband deployment to those areas will be delayed and possibly denied due to the administrative procedure of choosing a provider.

# Price Cap Carriers are Ready to Invest

- Price cap ILECs support a 10/1 broadband standard for CAF Phase II.
- Other terms and conditions must be adjusted to reflect the increased capex obligations:
  - Longer term of support;
  - Adjusted build-out terms;
  - Deployment flexibility;
- If 10/1 is the new standard then all high-cost areas lacking 10/1 service today should be eligible for support.
  - The FCC can serve an additional 500,000 locations;
  - Ensures all rural areas are treated equally
  - Ignoring high cost areas that lack 10/1 service would mean stranding these customers with substandard broadband at a time when FCC is calling for higher-speeds across the nation.