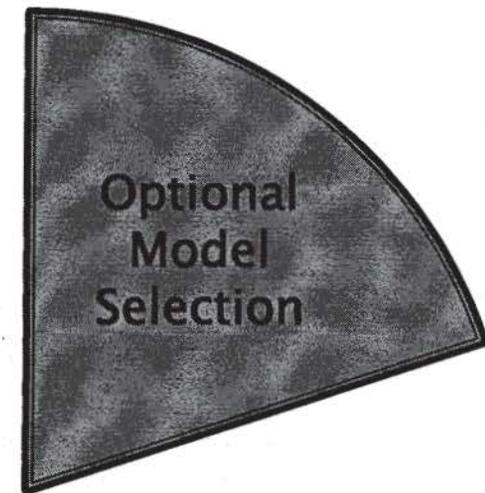


Support Will Transition to Forward-Looking Costs

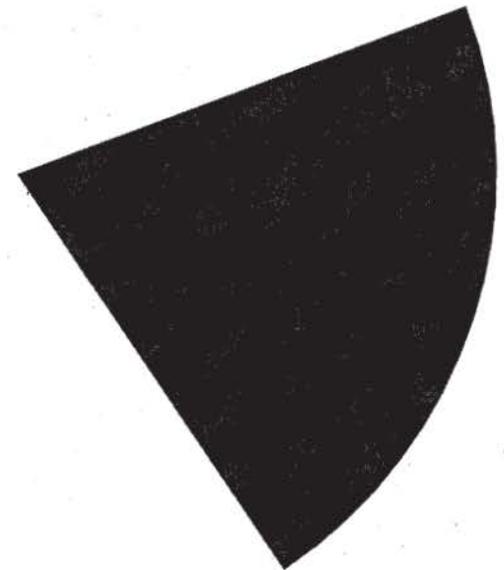
- ▶ Support is directed to areas where there is no competition and a business case cannot be made without support
- ▶ In the first three years of the transition, carriers that so elect can move study areas* to model support
- ▶ Carriers are incentivized to move to the model support because legacy support is frozen and limited
- ▶ All carriers will ultimately receive ROR CAF support
- ▶ Virtual workshops will be used to make the A-CAM appropriate for ROR carriers



*To encourage companies to select model support, the election is made on a study area basis

Companies Opting for Model Support Will Build-Out Over 10 Years

- ▶ Companies electing model support must build-out to 95% of locations within their service areas within ten years
- ▶ ROR carriers need longer to deploy facilities than PC carriers because of the higher cost of ROR areas
- ▶ 100% of support is provided even though only 95% of the locations are served because companies have an obligation to extend service to the remaining 5% of locations on a “reasonable request” basis
- ▶ Companies remaining on legacy support will extend service based on a “reasonable request” basis



The Budget Adjustment Calculation Equitably Allocates the Budget

- ▶ A-CAM will be run without an ATC
 - ▶ Customers with costs over the ATC will not be relegated to substandard service
 - ▶ ROR carriers have built facilities to the highest-cost customers
 - ▶ Some ROR carriers have a large portion of the highest-cost customers
- ▶ In the first year, carriers electing model support receive 50% legacy and 50% model support to ease the budget impact
- ▶ Balances the budget using a Budget Adjustment Calculation
 - ▶ After comparing legacy expenses* to model expenses, excessive legacy expenses will be reduced
 - ▶ Any budget deficit, after utilizing budget reserves, is allocated to all carriers on a per location basis except that no carrier's future support will be less than 50% of the carrier's annual calculated support



Adherence
to ROR
Budget

*General and Administrative Expenses, Plant Specific Operating Expenses, Plant Non-Specific Operating Expenses excluding Depreciation Expense

Support is Distributed Equitably and Efficiently

Year	Expense Overage Percentage
1	100%
2	75%
3	50%
Thereafter	25%

Formula:

$$\begin{aligned} \text{Excessive Legacy Operating Expenses} &= \text{Allowable Expenses} - \text{Actual Expenses} \\ &= \text{ROR CAM Expenses} * (1 + \text{Expense Overage \%}) \\ &\quad - \text{Actual Expenses} \end{aligned}$$

Example:

Expense Overage Percentage_{Year 3} = 50%;
 Study Area_A ROR CAM Expenses = \$3,000
 Study Area_A Actual Legacy Expenses = \$5,000
 Excessive Legacy Operating Expenses = (\$500)

- ▶ Step 1: Adjust Excessive Expenses
 - ▶ For cost companies electing legacy support, actual expenses are compared to modeled expenses to determine excessive expenses
 - ▶ The imposition of excessive expense limits are phased in so that carriers can adjust operations
- ▶ Step 2: Allocate Remaining Overage
 - ▶ The remaining budget overage is allocated on a per location basis to reduce each carrier's support subject to a limit of 50% of each carrier's annual support

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Dashboard for Our Impact Analysis Model

- Dashboard allows for the selection of various input parameters
 - A-CAM
 - Budget Constraints
- The annual support amount for each company is calculated
- Support amounts are summed to determine the total support paid to all ROR companies

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The Challenge Process Should be Efficient and Appropriately Target Funding

- ▶ The PC challenge process is time consuming, expensive and places the burden and risk on the ILEC
- ▶ If rigorously enforced, the Performance Standards Order would only fund cable competitors
- ▶ No reduction in support based on the actions of a competing provider will be permitted for the life of the investment
- ▶ The Nebraska Companies' proposal
 - ▶ Streamlines the ROR challenge process for companies electing model support
 - ▶ Achieves the policy objective of targeting support to areas in need

Competitive Areas Can be Determined by Geography, Not a Challenge Process

- ▶ The challenge process could be streamlined by not providing support in some census blocks with costs higher than \$52.50

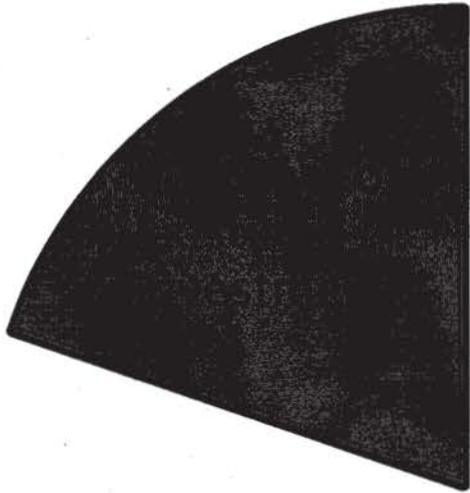
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Cost	Competitive	Support
Less than \$52.50	Yes	No support because the cost is less than the funding threshold
Between \$52.50 and \$60.00	Yes	No support because it is assumed to be competitive
Over \$60.00	No	Support for cost above \$52.50

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Companies Are Allowed an Opportunity to Recover Existing Investment



- Frozen legacy support, adjusted for excessive expenses, is available for a period of time
- Even though legacy operating expenses are adjusted, capital recovery is frozen
- The transition provides an opportunity for carriers to meet debt obligations and adjust operations
- The transition does not cause a company's support to "whipsaw" as might happen with other data-only plans



Transition to ROR Permanent CAF Support

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11 and Thereafter
FCC Activity	Proceeding to establish permanent ROR CAF Support										
Optional ROR CAM Support	50% frozen & 50% ROR CAM support*	100% ROR CAM Support*									
Legacy Support Transition	Frozen Support = Legacy Capital Expenditure Support plus Constrained Operating Expenses			80% Frozen Support + 20% ROR CAF Support	60% Frozen Support + 40% ROR CAF Support	40% Frozen Support + 60% ROR CAF Support	20% Frozen Support + 80% ROR CAF Support	100% ROR CAF Support			

*Companies may opt for model support in years 1, 2 or 3. Prior to opting for model support companies will follow the legacy support transition. In the first year of election, companies will receive 50% frozen support and 50% ROR CAM support.

ROR Carriers Serve the Most Sparsely Populated Thus the Highest Cost Areas

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Source: CAM v4.2
Calculations done
on a CBG basis.

Policies Adopted in the PC Order Should be Modified for ROR

- ▶ Retain funding in areas currently capable of 4/1 M because USF is necessary to make the investments financially viable
 - ▶ The FCC recognized the difference between ROR and PC companies in the Transformation Order
- ▶ An ATC should not be used to balance the budget
 - ▶ ROR carriers extended facilities based on historical service commitments and the understanding that USF would be available
 - ▶ **REDACTED FOR PUBLIC INSPECTION – Confidential Information – Subject to Third Supplemental Protective Order in WC Docket No. 10-90 Before the Federal Communications Commission**
 - ▶ ROR carriers are committed to deploy broadband to all customers
- ▶ In most ROR service areas, ongoing support is necessary
 - ▶ The fewer the number of locations in a given area, the greater the need for ongoing support
- ▶ Budget constraints don't allow full funding, so the build-out times must be extended
 - ▶ In extremely rural locations, the cost differential between 4/1 M and 10/1 M is significant

Conclusions

- ▶ Allow companies to opt into model support
 - ▶ Use a streamlined competitive ROR challenge approach by eliminating support in areas with costs less than \$60 per month
 - ▶ Require build out to 95% of locations with the remaining 5% of locations to be served on a “reasonable request” standard
 - ▶ Retain funding for areas with 4/1 M service currently
- ▶ Companies may remain on legacy support
 - ▶ Freeze legacy capital support for three years, then transition to ROR CAF support over the next five years
 - ▶ Limit company’s legacy expenses by comparing actual expenses to model expenses
- ▶ After incorporating budget reserves, balance the budget without an ATC by allocating any budget overage to companies on a per location basis, subject to a maximum support loss of 50%
- ▶ On-going support is necessary in most ROR areas