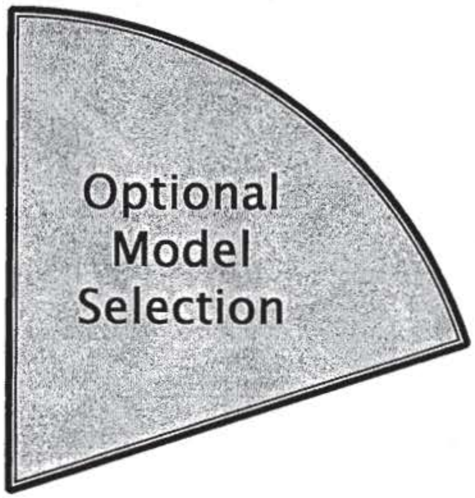
Support Will Transition to Forward-Looking Costs

- 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

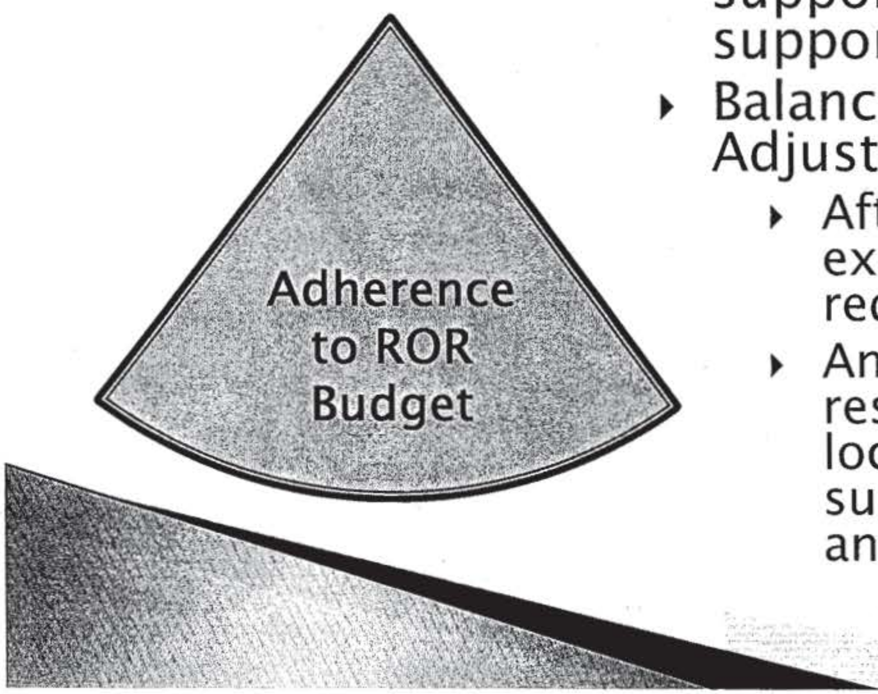
Companies Opting for Model Support Will Build-Out Over 10 Years

- 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

Performance and Build-Out Requirements

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



*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:

Excessive Legacy Operating Expenses
=Allowable Expenses - Actual Expenses
=ROR CAM Expenses * (1+Expense Overage %) - Actual Expenses

Example:

Expense Overage $\text{Percentage}_{\text{Year 3}}$ = 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 NRIC's 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

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

*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
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  - 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