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WIRELINE COMPETITION BUREAU RELEASES ALTERNATIVE CONNECT AMERICA COST MODEL VERSION 1.0.1 AND ILLUSTRATIVE RESULTS FOR POTENTIAL USE IN RATE-OF-RETURN AREAS

WC Docket No. 10-90

In the *April 2014 Connect America Order and FNPRM*, the Commission proposed a transition framework for a voluntary election by rate-of-return carriers to receive model-based support and directed the Wireline Competition Bureau (Bureau) to make the adjustments necessary to the Connect America Cost Model (CAM) so that it could be used for rate-of-return areas, including incorporating the results of the study area boundary data collection.[1] On December 22, 2014, the Bureau announced the availability of the first version of a model that could be used for rate-of-return carriers that voluntarily elect to transition to model-based support, the Alternative Connect America Cost Model (A-CAM v1.0).[2] Today, the Bureau announces the availability of version v1.0.1 of A-CAM incorporating changes to broadband coverage and releases results illustrating how different assumptions used in calculating support impact the potential support calculated for a particular study area.

In the *December 2014 Connect America Order*, the Commission adopted a new minimum speed standard of 10 Mbps downstream and 1 Mbps upstream (10/1 Mbps) for recipients of high-cost support that are subject to broadband public interest obligations.[3] Consistent with this decision, A-CAM v1.0.1 incorporates changes to the broadband coverage used by the model; the minimum speed standard of 10/1 Mbps is used to determine the presence of a cable or fixed wireless competitor.[4]

A-CAM v1.0.1 utilizes the same State Broadband Initiative (SBI) data as the adopted version of the CAM, reflecting coverage shown on the National Broadband Map as of June 2013. A future version of A-CAM will incorporate more recent SBI data. The Bureau also currently is

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[1] *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order et al., 29 FCC Rcd 7051, 7074, para. 70, 7139-40, para. 276, 7143, para. 290 (2014) (*April 2014 Connect America Order and FNPRM*).

[2] *Wireline Competition Bureau Announces Availability of Version 4.2 of the Connect America Fund Phase II Cost Model and the First Version of an Alternative Cost Model Being Developed for Potential Use in Rate-of-Return Areas*, WC Docket No. 10-90, Public Notice, 29 FCC Rcd 16157 (Wireline Comp. Bur. 2014) (*A-CAM v1.0 Public Notice*).

[3] *See Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order, 29 FCC Rcd 15644, 15649, para. 15 (2014) (*December 2014 Connect America Order*).

[4] The Bureau uses 10Mbps/768 kbps as a proxy for 10/1 Mbps because this speed tier is used in the National Broadband Map.

working on incorporating the study area boundary data submitted by rate-of-return carriers into A-CAM.[5]

A-CAM contains two modules. The first is a cost module that calculates costs for all areas of the country. That module itself has two parts – one part that figures out an efficient routing to ensure each location is "passed" by a network, namely a network topology, and a second part that calculates the costs associated with that network topology.

The second module of A-CAM is the support module, which calculates the support for each area based on those costs. The support module allows users to "filter" the cost data to focus on specific geographic areas, such as those census blocks that are not served according to the SBI data. Support amounts depend on the funding threshold, also referred to the funding benchmark, that determines which areas are funded: areas with an average cost below the funding benchmark are not funded because it is assumed that end user revenues are sufficient to cover the cost of serving such areas. Support amounts also depend on the mechanism utilized to keep total support calculated under the model within a given budget.[6]

In order to facilitate public dialogue and evaluation of proposals for a voluntary election of model-based support, the Bureau now is releasing illustrative model results for each rate-of-return study area in the country utilizing a variety of different assumptions in the support module.[7] The results released today and posted on the Commission's website are produced using A-CAM v1.0.1 and illustrate seven different scenarios.[8] We note that under all seven scenarios, more than half of the rate-of-return study areas in the country would receive more support if they elected voluntarily to receive model-based support than they do today under the legacy support mechanisms.

The first two scenarios use an extremely high-cost threshold as the mechanism to keep total calculated support within the total budget for rate-of-return carriers. Report 1.1 is similar to the approach adopted for the Connect America Cost Model that will be used to calculate the offer of

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[5] A-CAM v1.0 and A-CAM v1.0.1 use the same GeoResults service area boundaries used in CAM. The next version of A-CAM will incorporate the study area boundary data submitted by rate-of-return carriers pursuant to the Bureau's data request.

[6] For the price cap carrier model, the Commission directed that the Bureau set an "extremely high cost threshold" above which the model would not calculate support amounts. No decision has been made regarding the mechanism that might be used to maintain the overall $2 billion budget for rate-of-return areas if the Commission were to adopt reforms allowing a voluntary election by rate-of-return carriers to receive model-based support.

[7] Support model results are not available for Guam and American Samoa because middle mile, undersea and submarine costs developed for CAM have not been expanded to include these non-contiguous rate-of-return areas at this time. *See A-CAM v1.0 Public Notice* at 16158, n. 9. In addition, the illustrative results published today do not show support amounts for ETS and Sandwich Isles because both companies have pending petitions for waiver of their respective study area boundaries. *See* Petition of ETS Telephone Company, Inc. for waiver of the definition of the "Study Area" boundary rules codified in part 36 of the Commission's rules, CC Docket No. 96-45 (filed Sept. 17, 2014); Sandwich Isles Communications, Inc. Petition for Waiver of the Definition of "Study Area" Contained in Part 36, Appendix-Glossary of the Commission's Rules, CC Docket No. 96-45 (filed Nov. 29, 2012).

[8] These illustrative results are produced using solution set "SSACAM20150302ACAM_1_0_1" and are available at http://www.fcc.gov/wcb/ACAM_101_ILL_Rpt_FINAL_030415.zip. Additional information about A-CAM is available at http://www.fcc.gov/encyclopedia/rate-return-resources.

support for price cap carriers: it uses a funding benchmark of $52.50,[9] with census blocks that are shown as served by cable or fixed wireless on the National Broadband Map excluded from support calculations.[10] Report 1.2 uses the same funding benchmark as Report 1.1, but does not exclude from support calculations any census blocks above that benchmark that are shown as served on the National Broadband Map. It is presented so that the public can see the maximum amount of model-based support associated with each study area, if it ultimately were determined through some form of a challenge process that none of the high-cost census blocks were served by a qualifying competitor. Reports 1.1 and 1.2 both use $1.625 billion as the amount of support calculated through the model, based on the assumption that rate-of-return carriers collectively are receiving approximately $375 million in Connect America Fund intercarrier compensation (CAF ICC) recovery mechanism support.

A third scenario utilizes a different approach to keep total calculated support within the total budget for rate-of-return carriers: a per-location funding cap. Specifically, Report 1.3 uses the same funding benchmark as the prior two scenarios, but instead imposes a cap of $230 per location on support provided for eligible census blocks. In other words, support for census blocks where the average cost is between $52.50 and $282.50 is calculated in the same fashion as Reports 1.1 and 1.2, while support in census blocks where the average cost exceeds $282.50 is capped at $230 per location. Under this scenario, all census blocks with average costs above the funding benchmark would receive support, rather than an approach that does not provide any support to extremely high-cost census blocks, and recipients could determine what technology is the most cost-effective way to meet the Commission's requirements in particular high-cost areas within the study area.

Parties to the proceeding have suggested other mechanisms to keep total support within the budget, such as presuming that areas with an average cost per location less than $60 are competitively served by cable operators and therefore ineligible for support and reducing support per location evenly across all locations in order to meet the budget target.[11] We present four additional scenarios to allow interested stakeholders to examine these proposals in more depth. None of these scenarios utilizes an extremely high-cost threshold, and therefore each calculates total support that exceeds the rate-of-return budget. They are presented so that parties may consider alternative

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[9] The funding benchmark identifies those census blocks where the cost of service is likely to be higher than can be supported through reasonable end-user rates alone. The Bureau established a funding benchmark of $52.50 for the CAM by estimating the average revenue per user (ARPU) that could be reasonably expected from voice and broadband services and adjusting the ARPU to take into account that not all locations passed will necessarily subscribe to one or both services. The Bureau adopted an ARPU of $75 and a subscription rate of 70 percent ($75 x .7 = $52.50). *See Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order, 29 FCC Rcd 3964, 4035-40, paras. 170-79 (Wireline Comp. Bur. 2014) (*CAM Inputs Order*).

[10] For purposes of determining the offer of support for price cap carriers, the CAM uses the 3 Mbps/768 kbps coverage map to exclude areas served by qualifying competitors. *See December 2014 Connect America Order*, 29 FCC Rcd at15672-74, paras. 76-79 (2014). The extremely high-cost threshold for the CAM – which is set based on the price cap carrier budget for model-based support – will be adjusted once the Bureau completes the Phase II challenge process to finalize which blocks will be treated as served and which blocks will be treated as unserved for purposes of the offer of model-based support to price cap carriers.

[11] *See* Letter from Thomas J. Moorman, Counsel to the Nebraska Companies, to Marlene H. Dortch, Secretary, FCC, WC Docket No. 10-90, (filed Feb. 2, 2015) (attaching: "A Blueprint for Reforming Rate-of-Return USF" and "Nebraska Companies' Proposed Rate-of-Return USF Framework, Options and Transitions"); *see also* Letter from Mark Walker, Legal Counsel, FCC, to Marlene Dortch, Secretary, FCC, WC Docket No. 10-90, (filed Feb. 26, 2015) (submitting into the record an unredacted version of the "A Blueprint for Reforming Rate-of-Return USF").

measures to maintain overall support within the budget, such as a dollar amount reduction in support per location, a percentage reduction in support per location, or a cap on support per location.

The fourth scenario utilizes a higher funding benchmark than $52.50, and averages costs across census block groups, rather than census blocks. Specifically, Report 1.4 calculates support using a $60 funding benchmark, excluding from support calculations those census block groups with an average cost below $60. This scenario does not exclude from support calculations any census block groups above that benchmark that are shown as served on the National Broadband Map. A fifth scenario also utilizes a higher funding benchmark than $52.50, but does not average costs across census block groups and excludes census blocks that are competitively served. Specifically, Report 1.5 calculates support using a $60 funding benchmark, excluding census blocks that are shown as served by cable or fixed wireless on the National Broadband Map.

Finally, two additional scenarios that do not contain any budget constraint on support calculations are presented. In Report 1.6, we show support calculations utilizing a $52.50 funding benchmark, with census blocks that are shown on the National Broadband Map as served by cable or fixed wireless excluded from support calculations. In Report 1.7, we show support calculations utilizing a $52.50 funding benchmark, with no exclusion of any areas shown as competitively served on the National Broadband Map.

Specific to each report, for each study area, Column F shows the number of residential and small business locations in the census blocks for which support is calculated. Column G shows how many of those locations are not currently served with 10 /1 Mbps. Column H shows the number of locations that fall above the extremely high-cost threshold, if applicable; Column I shows what percentage that number is of the total number of rate-of-return locations for that study area (including those locations with average costs below the applicable benchmark). Column K shows high-cost support, excluding CAF ICC support, received in 2014 as reported in the 2014 Monitoring Report. Finally, the upper right corner of each report summarizes the number of the rate-of-return study areas in the country that would receive more support if they elected model-based support, and the number of study areas for which legacy support is greater than model-based support.

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