April 10, 2015

Ex Parte

Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: Connect America Fund, WC Docket No. 10-90, et al

Dear Ms. Dortch:

On March, 26, 2015, USTelecom met with Wireline Competition Bureau staff to discuss general concepts that should be considered when designing an effective CAF Phase II competitive bidding process. As a follow-up to that discussion, we submit as an attachment to this letter a proposal for a competitive bidding process that we believe would further the Commission's goals of extending high-speed broadband across the country.

Our guiding principle in designing the attached proposal was to develop a simple and straightforward process that would be easy for the Commission to operationalize and appropriate for participants of all sizes and types. In addition, it is also important that the process functions effectively regardless of the number of census blocks or amount of money on offer—facts the Commission will not know until after the deadline for price cap carriers to respond to offers of model-based support. We believe this proposal is flexible enough to accommodate whatever scale or geographic range of areas the Commission may face.

USTelecom proposes that the Commission adopt a nationwide, multi-round competitive bidding structure where bids are placed on user-defined packages of census blocks and an efficiency index is calculated and used to rank and select winners. Among the key elements:

Composite Efficiency Index. The heart of the proposal is the use of a Composite Efficiency Index to rank bids and select provisional winners. This simple mathematical calculation allows rapid and objective rating and ranking of all bids, regardless of package size, support amount requested, or geographic location. Because the index measures bids in relation to Connect America Cost Model-derived costs, it attempts to reflect the cost-efficiency of bids and ensure that the Commission gets the most benefit for its limited budget.

Nationwide Process. All available census blocks and funding will be included in the same competitive process. While USTelecom earlier proposed a county-based competitive bidding solution, results of Mobility Fund and Rural Broadband Experiment competitive processes showed that a nationwide auction can be efficient and effective. Moreover, a

nationwide process is more likely to ensure that the maximal benefits of competition are engaged regardless of the size of the competitive process. In addition, some of the issues intended to be addressed by USTelecom's previous proposal are addressed by using multiple bidding rounds.

Multiple Bidding Rounds. We propose to allow at least six rounds of bidding. The first three or more rounds are termed "preliminary" rounds because no winners are declared. Following the "preliminary" rounds would be a series of "selection" rounds where provisional winners are declared. This multi-round, iterative process enables overlaps between the user-defined packages to be efficiently resolved while promoting competition that drives bid prices down.

User-Defined Package Bidding. Participants will bid on packages of one or more available census blocks. Due to the nature of network building for all terrestrial providers, it is necessary to allow participants to define their own packages of census blocks for bidding. Existing franchise and service territory boundaries can dictate where particular service providers can offer service. Limitations of certain technologies or the range of existing plant can also affect where a provider is willing or able to serve. It would be impossible to pre-define groups of census blocks without disqualifying some, if not all, potential bidders and thus reduce competition. The use of package bidding combined with the multi-round structure ensures a small provider with a package of, for example, five census blocks can compete on equal terms with large providers with packages containing hundreds or thousands of census blocks.

This proposal incorporates several measures to prevent gaming and promote fair dealing, including a robust pre-qualification process. However, there exist additional potential gaming opportunities that we have identified but for which we have not settled on a solution. For example, this proposal does not entirely preclude a participant from placing a bid in a selection round purposely to overlap and exclude a standing bid for a larger geographic area.

We look forward to working with the Commission to address these concerns and develop a CAF Phase II competitive bidding process that is technology-neutral, relatively simple, and results in broad participation and the provision of robust broadband service to rural and high-cost areas.

Sincerely,

Robert Mayer
Vice President, Industry and
State Affairs

cc: Katie King
Heidi Lankau
Alexander Minard

Proposed CAF Phase II Competitive Bidding Process

1. **The Basics**

- **Nationwide Competition**. All Available Census Blocks[1] will be included in a single competitive bidding process, with a single budget, rather than state-by-state or county-by-county processes.

- **Two, Serial Stages**. A Composite Efficiency Index[2] will be created for all bids. The first stage will rank bids and associated funding to provide service at 10/1 Mbps by Year Six, escalating to 60 percent of locations at 25/3 Mbps by Year Ten. If funding remains after the first stage, a second stage will rank bids for the remaining census blocks and associated funding to provide service at 4/1 Mbps by Year Six, escalating to 60 percent of locations at 10/1 Mbps by Year Ten.

- **Multiple Rounds within Each Stage**. Each stage will allow at least six rounds—at least three "preliminary" rounds and at least three "selection" rounds.

- **Package Bidding**. Bidding will be at the census block level, with bidders able to define their own package bids of one or any number of Available Census Blocks.

- **Clear and Simple Ranking/Selection Process.** Bids will be ranked and selected according to their Composite Efficiency Index.

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[1] An "Available Census Block" is defined as a census block deemed eligible by the Commission to receive support in the CAF Phase II competitive bidding process. A "census block" in this context is defined as a portion of the census block that is within the service area of a single incumbent local exchange carrier (ILEC), consistent with the definition used in the Connect America Cost Model (CAM) and CAF Phase II model-based offers of support.

[2] The "Composite Efficiency Index" is defined as the ratio of the requested support per user-defined package bid to the CAM-derived support for the census blocks contained in the bid. For census blocks that are above the "extremely high-cost" threshold set by the CAM, the CAM-derived support for the purposes of this calculation shall be equal to the difference between the "extremely high-cost" threshold and the "high-cost" threshold set by the CAM.

2. **Bidding Stages**

a. **Stage One.** In Stage One, participants will bid to receive funding to provide 10/1 Mbps broadband to all Funded Locations[3] by the end of Year Six and 25/3 Mbps broadband to 60 percent of Funded Locations by the end of Year Ten. This scaling framework is designed to address the Commission's intention that recipients "meet an evolving broadband speed standard over the ten-year term,"[4] while providing recipients with needed certainty as to the obligations they are undertaking in exchange for CAF Phase II support.

By the end of Year Six, support recipients must offer 10/1 Mbps broadband to at least one location in each Available Census Block in the bid package. This safeguard is designed to ensure that participants will not bid to receive support in Available Census Blocks in which they have no intention of providing the required service. However, location count compliance will be determined on a package-wide basis, consistent with the Commission decision for CAF Phase II model-based offers of support.

Support recipients will be required to offer service meeting the same latency, usage allowance, and comparable rate requirements as are applicable in the offer of model-based support to price cap carriers. Support recipients also will be required to fulfill the statutory obligation to provide voice telephony using any technology to all locations within the bid package.

b. **Stage Two.** If any funding remains available at the conclusion of Stage One, it will be made available to provide a basic level of service to any Available Census Block that remains unclaimed. In Stage Two, participants will bid to provide 4/1 Mbps broadband to all Funded Locations by the end of Year Six, and 10/1 Mbps to 60 percent of Funded Locations by the end of Year Ten. The other Stage One service requirements (latency, etc.) will apply to Stage Two.

3. **Participation**

a. All participants in a Stage must meet qualification criteria, including a technical and financial review and submission of a deposit, before the bidding begins.

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[3] The number of "Funded Locations" in a package is equal to the CAM-identified number of eligible locations in the census blocks contained in the package.

[4] *Connect America Fund, ETC Annual Reports and Certifications, Petition of USTelecom for Forbearance Pursuant to 47 U.S.C. § 160(c) from Obsolete ILEC Regulatory Obligations that Inhibit Deployment of Next-Generation Networks*, WC Docket Nos. 10-90, 14-58, 14-192, Report and Order, ¶ 29 (rel. Dec. 18, 2014).

b. Each participant in a Stage must submit a bid in the first round of the Stage in order to participate in the Stage. In later rounds of the Stage, the participant is permitted to submit additional bids and modify its existing bids as provided in Paragraph 4.e. below.

c. If a participant withdraws a bid during any round, all of the participant's bids in the Stage are eliminated regardless of ranking, and the participant cannot reenter the Stage. The participant also will be subject to a default payment and possibly additional penalties, pursuant to 47 C.F.R. § 1.21004(b) and (c).

4. **Bid Submissions**

a. A bid submission may contain one or any number of Available Census Blocks.

b. Participants may submit bids for multiple packages, where each package may contain the same or overlapping census blocks in different combinations. For example, a participant may make a bid for a package containing census blocks 1-9, as well as bids for packages containing census blocks 1-3 and/or 1-6.

c. A bid must identify all Available Census Blocks contained in the package, and the total annual support amount requested to meet the obligations for the package.

d. The total annual support amount for a package of Available Census Blocks must be less than the Reserve Price[5] for the package or the bid will be dismissed.

e. A bid can be modified in later rounds by adding or removing census blocks or changing the support requested, but only to the extent that the Composite Efficiency Index of the bid remains the same or is reduced.

f. All bids are binding and can only be modified as outlined in Paragraph 4.e above.

5. **Ranking and Selection Methodology Within A Stage**

a. Rounds are run one week apart (deadline for next round is one week after release of bidding information from previous round) to allow for analysis and adjustment between rounds.

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[5] The "reserve price" is the sum of the annual CAM-derived amount of support in each census block in the user-defined package. Where the cost per location in a census block is above the CAM's "extremely high-cost" threshold, the amount of support per location for the purposes of this calculation shall equal the difference between the "extremely high-cost" threshold and the "high-cost" threshold set by the CAM.

b. After the deadline for bid submissions in a round, the Composite Efficiency Index is calculated for every bid. All bids with a Composite Efficiency Index of more than 1.0 are dismissed from the round.

c. All bids are then compared for census block overlaps. If two or more bids submitted by unaffiliated bidders contain at least one of the same Available Census Blocks, the bid with the lowest Composite Efficiency Index survives and the other(s) are dismissed from the round. If two or more bids submitted by the same or an affiliated bidder contain at least one of the same Available Census Blocks (aka intra-company overlaps), none of the bids is dismissed from a preliminary round.

d. All bids that survive the overlap analysis and all other non-overlap bids are then ranked in each round based on the Composite Efficiency Index from lowest to highest.

e. In the preliminary rounds, all ranked bids move forward to the next round as standing bids, and all census blocks contained in those bids remain available for other bidders.

f. After each preliminary round, index ranking and census block information of all standing bids are made available to participants only.

g. In subsequent rounds, standing bids can be modified as described in Paragraph 4.e above, and are subject to being underbid and re-overlapped in the rounds up to and including the first selection round.

h. Bids that are dismissed during the preliminary rounds may be modified and resubmitted in later rounds.

i. In the first selection round, intra-company overlaps are analyzed in a slightly different manner: the bid that covers the largest number of Funded Locations survives to be ranked and the other bids are dismissed. The bids are then ranked according to Composite Efficiency Index as for all previous rounds.

j. In the first selection round, provisional winners are selected from the ranked bids beginning with the lowest Composite Efficiency Index until the available funds or the ranked bids are exhausted, whichever comes first. After each selection round, index ranking and census block information of all provisional winning bids are made available to participants only.

k. If and when the next-in-line bidder seeks funding in excess of the amount of funding remaining, the competitive bidding process shall conclude. The next-in-line bidder shall be given one week to amend its bid to seek an amount less than or equal to the amount of funding remaining, at a Composite Efficiency Index less than or equal to the original bid. The remaining bids with higher Composite Efficiency Indices shall be placed on a waiting list and will be selected, in order, if additional funding becomes available due to a default by a provisional winner or other circumstances.

l. If funds are still available after the first selection round, a second selection round is conducted, in which bidders may submit new bids for remaining Available Census Blocks.

m. If funds are available after the second selection round of Stage One, the Commission will conduct a Stage Two round including the same processes.