New England Telehealth Consortium (NETC)

Project Update

January 5, 2012

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About NETC

A consortium of regional health care providers throughout Maine, New Hampshire & Vermont

NETC Board Membership

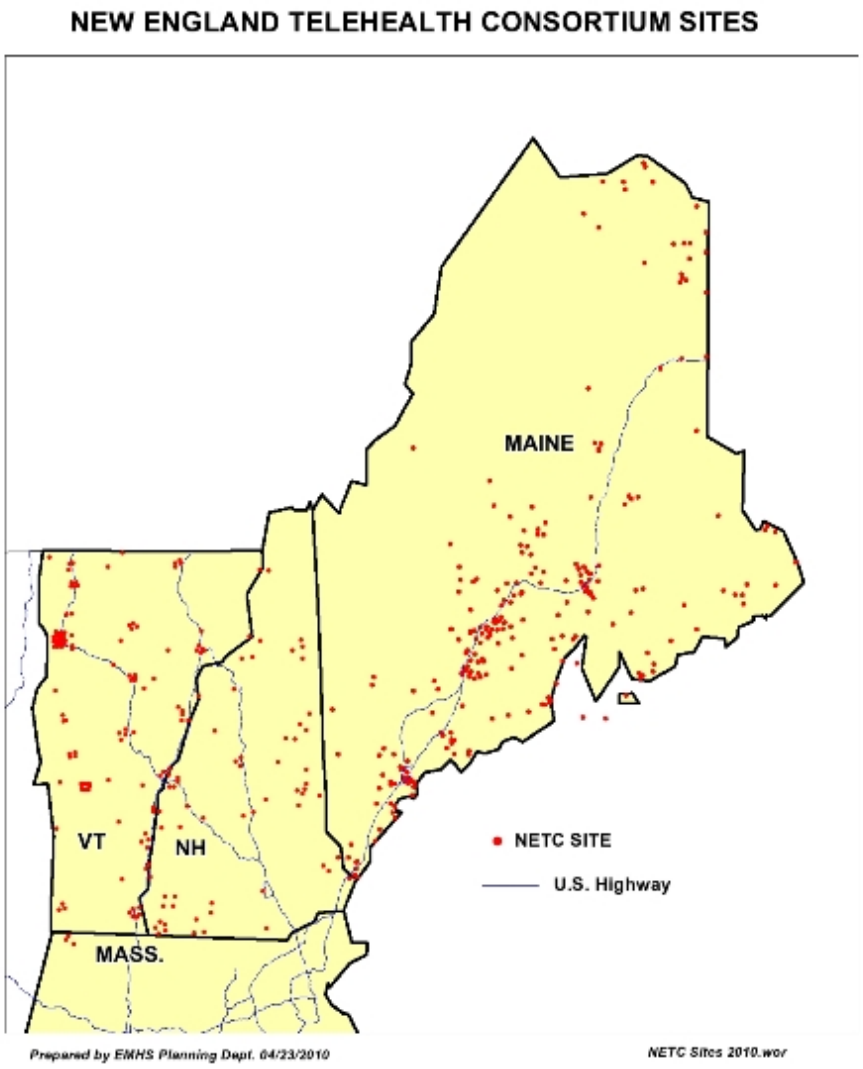
- Dartmouth-Hitchcock Medical Center
- Eastern Maine Health Care System
- LRG Healthcare
- MaineHealth
- Maine Primary Care Association (FQHCs)
- Penquis
- University of New England
- North Country Health Consortium
- Vermont Info Tech Leaders
- Many Critical Access Hospitals

More about NETC

117 organizations

450 sites

- Eligible ≈ 410
- Ineligible ≈ 40
- 67 Hospitals
- 109 Hospital owned facilities/practices
- 6 Universities (Medical Campus)
- 228 FQHCs and RHCs
- 8 Correctional Clinics
- 32 Behavioral Health Clinics



NETC Timeline

Accelerating progress

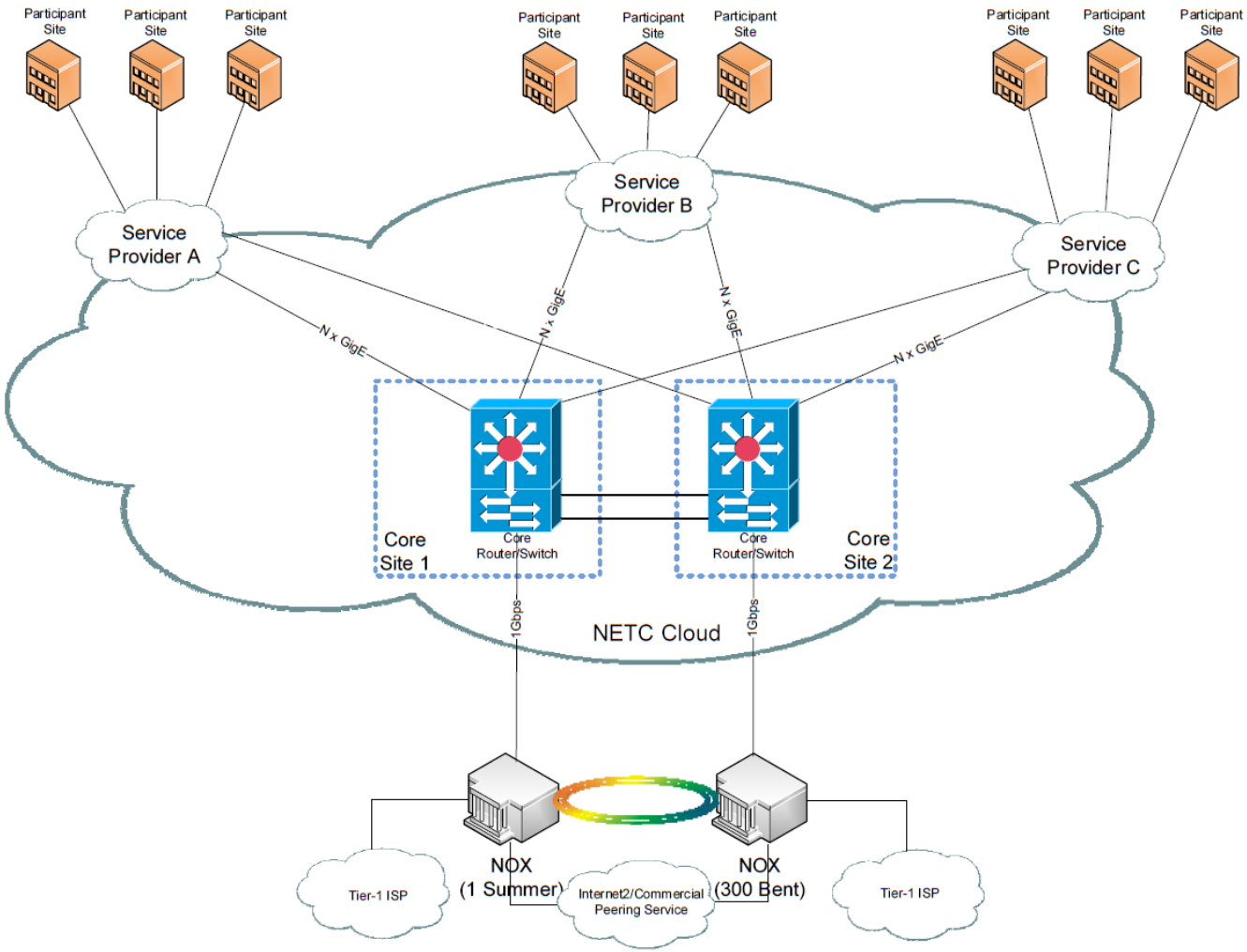
- May 2007 –Proposal
- November 2007 – Award
- December 2008 – Original Design RFP posted
- September 2009 – Second Design RFP posted (rebid)
- November 2009 – USAC issues appeal decision on site eligibility issues
- June 2010 – Network Design Completed
- September 2010 – RFPs for WAN services, equipment and NOC/management completed
- January 2011 – USAC authorizes RFP posting
- Spring 2011 – bid evaluation; vendor selections
- Summer 2011 – contract negotiations

The NETC Opportunity

Largest of Pilot Program awards ($24.6 million)

- Poised to deliver health broadband at unprecedented savings during a time of unprecedented need
  - Economic hardship
  - Regulatory pressure (meaningful use)
  - Technological convergence and opportunity

NETC Network Design



NETC Design Benefits

- NETC-controlled core
  - NETC owns/controls Network Operation Center (NOC)
    - Owns core routers and network equipment (5-7 year life)
    - Provides NOC services (using third-party vendor)
  - Enables NETC to independently monitor whether edge services vendors delivering quality of service
- Services at the edge
  - Can be provided by one or more vendors
  - Leverages existing infrastructure
  - Drives down pricing through economies of scale and competition

Highly Competitive Bidding

- NOC/Management
  - 6 total bids
  - 2 fully compliant
- WAN Services & Equipment
  - WAN Services - 12 compliant bids
  - Commodity Internet – 6 compliant bids
  - Equipment – 7 compliant bids
  - Wireless (e.g., Satellite) – 1 compliant bid

Dramatic Savings

- Savings off current market
  - $160 million over ten years – total network
  - (USAC MRC for an *urban* T-1 in Maine = $586; *urban* 45 Mbps = $5082)
  - Bids with upfront NRCs offered dramatically lower costs over 48 and 120 month periods
- Selected Edge Vendor Savings
  - Lowest priced bidder overall
  - $47 million savings over ten years compared to list price for comparable service (5-year service commitment)
  - 10-year cost per bandwidth is lower than 5-year list price cost
  - Negotiated NRC lower than 5-year list price cost

MRC = Monthly Recurring Charge
NRC = Non-Recurring Charge

Current Challenges

- Delay
  - Increases risk of site loss
  - Shrinks invoicing window (January 2016)
- Impasse with USAC on pre-paid lease approach
  - WAN services vendor contract and payment of substantial up-front NRCs
  - Possible resolution:
    - Selected vendor agrees to 10-years liquidated damages in event of contract breach
    - NETC maintains minimum participation levels for sustainability period
    - Selected vendor agrees to liberal site-substitution process
  - Areas for continued discussion: length of <u>sustainability period</u>; cost amortization schedule

RFP Requirements for WAN Services

- Edge-core connectivity (as a service)
  - Postalized NRC
  - Front-loaded in first 24 months
  - Considered performance bond

WAN Services
Vendor Proposal

- Edge-core connectivity
  - Eligible Sites
    - Postalized NRC to be billed after site goes live
    - 24-month payment holiday for MRCs
    - Sites pay 100% of MRCs starting in month 25
  - Ineligible Sites
    - NRC spread over 48-months
    - Sites pay higher MRC in months 1-48
    - Ineligible & eligible MRC same starting in month 49
  - Offered 10-year performance bond @ 2-3% of bonded amount

Pre-payment Period

- NETC committed to long-term sustainability
  - Amortization schedule for pre-payment determines potential liability in out-years (after 48 months);
  - Period less than 10-years is more practical; reflects market-reality and equipment life; permitted under the rules.
- Ineligible sites willing to pay NRC over 48 months in exchange for low 10-year rates
  - 100% “skin in the game”
  - 48-month cost lower than current market

Applicable Rules

Pilot Rules

- "Generally, selected participants provided sufficient evidence that their proposed networks will be self sustaining *by the completion of the Pilot Program*. For example, Heartland . . . identifies three possible scenarios for network sustainability *for Year Three and beyond* . . ."
  - *Pilot Selection Order*, at para. 54, 22 FCC Rcd. at 20389 (emphasis added).
- "Although a sustainability period of 10 years is generally appropriate, the period of sustainability should be commensurate with the investments made with Pilot Program funds."
  - FAQ 24

NETC Considerations

- Pilot orders say little about a specific sustainability period; however this language suggests anything beyond funding period is acceptable.
- Appropriate sustainability period for NETC is 4-7 years
  - non-subsidized sites content with 48-months service period
  - equipment life = 5-7 years

Applicable Rules

Scenario 9 – Prepaid Lease

- "The participant must exercise due diligence in contracting for the dedicated network, and although pricing is established by competitive bidding, participants should be able to demonstrate to USAC, an auditor, or the FCC, that there was no misuse of universal service funds, *especially in a competitive bidding situation with only one bid*. [emphasis added]
- "Prepaid leases should have specific service quality provisions, and provisions to require the return of unearned lease payments by the vendor if the vendor is in breach of the lease.
- "If the cost of the lease includes significant one-time charges (for construction of fiber, such as last mile connections), then the participant should consider a combination of owning the fiber (or an IRU on the fiber), and a prepaid lease for services."

NETC Considerations

- "Guidance Document Only"
- Unprecedented number of competitive bids
- Behavior of unsubsidized ineligibles conclusively demonstrates USF funds not being misused
  - 100% skin in the game
  - 48-month cost well-below current market
- Liquidated damages for 120-months
- Fiber IRUs prohibitively expensive given number of sites
- Fiber-ring IRU not an option given geography and cost

Applicable Rules

Pilot Rules

- "If funding is disbursed to any service provider and the approved network project is abandoned or left incomplete, we permit USAC to pursue recovery of funds from the selected participant's financially and legally responsible organization, eligible health care providers, or service provider, as appropriate."
  - Pilot Selection Order at ¶ 98, 22 FCC Rcd. at 20411, fn. 317.
- No double dipping from primary RHC support mechanism.
  - Pilot Selection Order at ¶ 123, 22 FCC Rcd. at 20422.

NETC Considerations

- NETC will maintain the network for the duration of the sustainability period.
- NETC will not obtain support from the RHC support mechanism for the same service during the duration of the sustainability period.
  - NETC is concerned, however, that the network be permitted to grow using RHC support for new participants or increased bandwidth for existing participants.

Conclusion

- NETC is poised to deliver unprecedented value to New England during difficult economic times.
- NETC recognizes that disagreements with USAC increase administrative costs and cause delay; seeks accommodation.
- However, this remains a pilot program; lack of rule clarity requires flexibility; resolve close-calls in favor of network deployment.