

Attachment: Second-Mile Fiber Funding Framework

- **Broadband Service Supported by CAF Phase I** – A CAF Phase I support recipient will be required to offer broadband service that provides customers with minimum downstream bandwidth of 4 Mbps and minimum upstream bandwidth of 1 Mbps.¹
- **Locations Eligible for Support** – CAF Phase I funding, including any support for second-mile fiber, only may be spent to deploy broadband to locations that are not served by an unsubsidized fixed broadband competitor.² In addition, a carrier’s current capital improvement plan cannot already include plans to deploy 4 Mbps service to the locations within the next three years, and CAF Phase I incremental support cannot be used to satisfy any merger commitment or similar regulatory obligation.
- **Distribution of CAF Phase I Support**
 - *Fill “775 Bucket” First:* To receive any second-mile fiber funding, a carrier first must deploy 4 Mbps service to all unserved locations where \$775 in support is sufficient to make an economic case for deployment. Specifically, a carrier would be eligible for second-mile fiber funding only after an officer certifies that the company has deployed to or already has plans to deploy to all eligible carrier serving areas where the estimated average cost per unserved location is less than the sum of (a) post-tax CAF Phase I support per location and (b) a matching company investment of \$775 per unserved location.³
 - *Spillover Funding Available for Second-Mile Fiber:* After addressing all eligible locations that can be served with \$775-per-unserved-location support, a carrier, subject to the conditions specified herein, may spend additional funding that is allocated to its service territory on deployment of second-mile fiber facilities.

¹ Upon a showing that the specified support amount is inadequate to enable build out of broadband, a carrier may request a waiver. See Comprehensive Reform Order at ¶ 95 (“[T]o the extent a CAF recipient can demonstrate that support is insufficient to enable 1 Mbps upstream for all locations, temporary waivers of the upstream requirement for some locations will be available.”).

² To determine whether an area is served by an unsubsidized broadband competitor, the Commission, in particular, should employ the approach set forth by CenturyLink, Frontier, Windstream, and the Independent Telephone and Telecommunications Alliance in two recent ex parte letters. See Letter from Melissa Newman, CenturyLink, to Marlene H. Dortch, Secretary, FCC, WC Docket Nos. 10-90, 07-135, 05-337, GN Docket No. 09-51, CC Docket Nos. 96-45, 01-92, 03-109, WT Docket No. 10-208 (March 30, 2012); Letter from Genevieve Morelli, ITTA, Jeffrey S. Lanning, CenturyLink, Kenneth Mason, Frontier, and Eric Einhorn, Windstream, to Marlene H. Dortch, Secretary, FCC, WC Docket Nos. 10-90, 07-135, 05-337, GN Docket No. 09-51, CC Docket Nos. 96-45, 01-92, 03-109, WT Docket No. 10-208 (March 6, 2012).

³ Windstream, conservatively, is assuming that CAF Phase I support will be taxable. If this indeed is the case, Windstream projects that \$775 in CAF Phase I support, after taxes, will equate to approximately \$500 in support per unserved location.

- **Fiber Per Mile Funding**

- For initial implementation of CAF Phase I, WIN projects that augmenting existing networks with second-mile fiber capable of supporting 4 Mbps service, on average, would require federal support sufficient to cover, *post-tax*, \$37,375 of per-mile second-mile fiber cost. This cost accounts for fiber placement, site preparation, and electronics.⁴
- The initial tranche of CAF Phase I second-mile funding would not address any additional operating or capital expenditures incurred due to new or augmented broadband offerings.⁵
- This proposal operates under the assumption that approximately \$0.35 of each \$1 of CAF Phase I support would be consumed by federal and state taxes. Thus, in total, \$57,500 per mile in CAF Phase I support will be required to address \$37,375 per mile in second-mile deployment costs.

- **Private Sector Investment** – Windstream would match the first tranche of CAF Phase I funding with an amount equal to approximately 35 percent of second-mile fiber project costs—which means the initial tranche of CAF Phase I funding in Windstream’s service territory alone would unlock tens of millions of dollars of private sector investment that otherwise would not occur.⁶ Effectively this approach means that Windstream would match second-mile fiber funding at a level comparable to maximum private sector investment made in areas that are economic to serve.

⁴ For the lowest cost tranche of fiber-unserved locations, Windstream, in particular, anticipates this funding, on average, would be divided among the cost components as follows: \$14,410 per mile for fiber placement, \$7,397 per mile for site preparation, and \$15,586 per mile for electronics.

⁵ This proposal should not be construed as support for the misguided notion that broadband network operating expenditures and other capital expenditures (e.g., for maintenance) are minimal and thus need not be supported under future comprehensive funding regimes. In particular, this proposal does not address the cost of maintaining the last-mile copper loop to the customer premise—a significant expense that often cannot be sufficiently offset with revenues from the relatively small number of locations present in a high-cost area.

⁶ If the Internal Revenue Service finds that taxes do not apply to CAF Phase I support, Windstream would be willing to make the same level of matching private sector investment proposed herein—and thus the only change would be that even more unserved and underserved consumers would be addressed in the near term.