

Allband Is Dedicated To Providing Ubiquitous Services In A Previously Unserved Area In Michigan

On 12-3-2003, Allband incorporated and was granted a license by the Michigan Public Service Commission to provide service on 12-2-2004.

Allband obtained RUS funding and began constructing an all fiber, passive optical, telecommunications network that would allow Allband to provide voice and broadband services.

- RUS required a 21 year loan to construct a network to serve customers that were previously without service.
- For this “greenfield” build-out:
 - Plant had to be placed all the way to the subscribers’ premises and therefore fiber to the home was the most efficient technology.
 - The plant investment is relatively new and the subscriber density is low resulting in high costs/line.

Allband’s local exchange consumer rate level is \$19.90 per month for residence and business, well above the Commission’s floor.

Allband - Bureau Waiver Order

1. Allband filed a Waiver on 3-3-2012 of the:
 - \$250/month/line support cap [54.302]
 - Regression Caps [36.621(a)(5)]
2. Bureau Waiver Order on 7-25-2012:
 - Granted a 3 year waiver of the \$250/month/line cap - ending on 7-1-2015; the waiver allowed support based on the lesser of actual support or 1-1-2012 to 6-30-2012 annualized (par 15).
 - Rejected a waiver of regression caps as moot – Allband not capped per Order (par 17).
3. Bureau expects Allband to try to come into compliance with the \$250/month/line cap by cost cutting measures and/or revenue generation (par 14).
4. Order indicates that if another waiver is necessary, it should be filed no later than 6 months prior to 7-1-2015 (par 16).

Allband Application For Review

The Bureau noted in its Order that (a) the management is mindful of its expenses and limited financial resources, (b) salaries and wages are modest (c) expenses are reasonable and (d) because of its low population density, Allband is in no position to increase revenues from customers (par 12).

In the Application, Allband showed that there is no way to (a) reduce expenses and/or (b) increase revenues through penetration to meet the \$250 cap even if all non-fixed expenses were eliminated and 100% penetration achieved by 7-1-2015 or in the longer term:

1. Even if support for all non-fixed expenses (maintenance, customer, corporate) is eliminated – an unrealistic assumption, \$431 in support for fixed costs would still be required – this is still well above the \$250 cap.
2. Depreciation will reduce costs, but not sufficient to meet the \$250 cap – in fact, by 2026, when the RUS loan is paid, support is still required.
3. 100% penetration (an unrealistic assumption) with no additional investments or expenses above the 2012 level, will not allow Allband to meet the \$250 cap.

“All reasonable steps” and even unrealistic steps to reduce costs and increase revenues, will not allow Allband to meet the \$250 cap by 7-1-2015 when the waiver expires.

Allband Application For Review - \$250 Monthly Per-Line cap

Unless the Application is granted, a new waiver filed in 2014 (costing at least \$50,000) will be required. Expenditure of these resources by Allband is inefficient and unnecessary when it is clear that no action Allband can take will allow it to meet the \$250 cap.

Allband requests that a 15 year waiver be granted - ending in 2026 when the RUS loan will be repaid. During this time, Allband will provide the Bureau with financial information regarding its operations.

Additional clarification requested:

The Order caps Allband's support at the 2012 level. This support is based on 2010 costs. With no knowledge of the NBP, Allband continued to place investment to serve its customers with RUS funding in 2011 and early 2012. As a consequence, its support increased over the capped January to June 2012 levels by:

- \$21K or \$10/line/month in 2012;
- \$133K or \$63/line/month in 2013, and;
- An estimated \$227K or \$105/line/month in 2014.

This support is lost to Allband based on the Waiver Order. Allband cannot absorb the majority of these losses and by 2014 will be unable to pay its bills and the interest on its RUS loan, placing voice service and all other Allband services in jeopardy.

At odds with the Order capping Allband's support at the 2012 level, the Commission's 3-19-2013 Response to the 10th Circuit stated that *"...the agency has exempted Allband from the reforms in the Order for three years..."*

Allband's requested clarification is in accord with the Commission's 10th Circuit filing that Allband's support is not capped at the 2012 level and Allband is truly exempt from the NBP Order's \$250 cap.

Allband Application For Review – Regression Caps

The Waiver Order dismissed Allband's request for waiver of the regression caps as moot because the Bureau indicated they had no effect on Allband's support levels.

However, the current regression caps do impact Allband:

- 2013 effect - \$33.7K or \$16/line/month
- 2014 estimated effect – \$246.2K or \$114/line/month

Allband may be able to absorb the 2013 impacts. However, as discussed in the Allband waiver and Application, the 2014 regression impacts cannot be recovered from customers or any other revenue source, nor can they be absorbed by the company.

As a consequence, Allband will, by 2014 be unable to pay the full amount of its RUS loan obligation, and voice service along with all services provided by Allband will be in jeopardy.

Allband requests that the Commission grant a waiver of the regression caps for 15 years - ending in 2026 when the RUS loan will be repaid.

Bureau Waiver Impacts on Allband

Line	Description	Support Year		
		2012	2013	2014 Estimated
\$250 Per Line Per Month Support Cap				
1	Uncapped HCLF Support	\$936,876	\$1,020,883	\$1,124,829
2	Uncapped ICLS support	\$392,523	\$419,983	\$409,848
3	Sum of uncapped support (L1 + L2)	\$1,329,399	\$1,440,866	\$1,534,677
4	Support Per FCC Waiver (January –June 2012 Support Annualized) - HCLF and ICLS	\$1,307,902	\$1,307,902	\$1,307,902
5	Impact-uncapped to waiver support (L4 - L3)	(\$21,497)	(\$132,964)	(\$226,775)
6	Impact per Customer per Month (L5/12 mo/lines*)	\$10	\$63	\$105
HCLF Regression Cap				
7	Regression capped HCLF Support	\$936,876	\$987,147	\$878,610
8	HCLF Regression Impact above FCC Waiver Cap (L7 – L1)	\$0	(\$33,736)	(\$246,219)
9	Impact per Customer per Month (L8/12mo/lines*)	\$0	\$16	\$114

*Footnote: 2012 lines: 171, Est. 2013 lines: 175 , Est. 2014 lines: 180