



# PUBLIC NOTICE

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## WIRELINE COMPETITION BUREAU ISSUES PROGRESS REPORT ON THE CONNECT AMERICA FUND (CAF) PHASE II MODEL

1. On November 18, 2011, the Commission released the *USF/ICC Transformation Order and FNPRM*, which comprehensively reforms and modernizes the universal service and intercarrier compensation systems.<sup>1</sup> Recognizing, among other facts, that over 80 percent of the approximately 18 million Americans unserved by broadband live in price cap territories, the Commission provided for up to \$1.8 billion to be spent each year, over a period of five years, to make broadband available to as many unserved locations as possible, as well as sustain voice and broadband in high-cost areas that would not be served absent support. As such, the Commission adopted a framework for providing ongoing support to areas served by price cap carriers, including areas where broadband service is not currently provided, known as the Connect America Fund (CAF) Phase II. Specifically, the Commission will provide ongoing support to these areas through “a combination of a forward-looking cost model and competitive bidding.”<sup>2</sup> The Commission directed the Wireline Competition Bureau (the Bureau) to undertake a public process to determine the specific design and operation of the cost model” and “to report to the Commission on the status of the model development process no later than June 1, 2012.”<sup>3</sup> Through this Report, the Bureau fulfills the Commission’s directive.

2. Phase II of the CAF will provide “a framework for extending broadband to millions of unserved locations over a five-year period, including households, businesses, and community anchor institutions, while sustaining existing voice and broadband services.”<sup>4</sup> Using a forward-looking cost model, the Commission will estimate the support necessary to serve areas where costs are above a specified benchmark, but below a second “extremely high-cost” benchmark.<sup>5</sup> The Commission will offer each price cap carrier a model-derived support amount in exchange for a commitment to serve all locations in its service territory in a state that, based on the model, fall within the high-cost range (above the specified cost benchmark but below the “extremely high-cost” benchmark) and are not served by a competing, unsubsidized provider.<sup>6</sup>

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<sup>1</sup> See *Connect America Fund*, et al., WC Docket No. 10-90, et al., Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663 (2011) (*USF/ICC Transformation Order and FNPRM*).

<sup>2</sup> *Id.*, 26 FCC Rcd at 17673, para. 23.

<sup>3</sup> *Id.*, 26 FCC Rcd at 17673-74, 17737, paras. 24, 192.

<sup>4</sup> *Id.*, 26 FCC Rcd at 17725, para. 156.

<sup>5</sup> *Id.* Price cap and rate-of-return areas with costs above the second benchmark should be eligible to receive support from the Remote Areas Fund. See *id.*, 26 FCC Rcd at 17728, 18093-94, paras. 167, 1229.

<sup>6</sup> *Id.*, 26 FCC Rcd at 17725, para. 156.

3. The Commission delegated to the Bureau the task of developing a specific engineering cost model and associated inputs, consistent with the parameters set forth in the *USF/ICC Transformation Order*.<sup>7</sup> Specifically, “the model should be of wireline technology and at a census block or smaller level.”<sup>8</sup> In addition, the Commission directed the Bureau to ensure that “the model design maximizes the number of locations that will receive robust, scalable broadband within the budgeted amounts.”<sup>9</sup> Moreover, the Bureau’s “ultimate choice of a greenfield or brownfield model, the modeled architecture, and the costs and inputs of that model should ensure that the public interest obligations are achieved as cost-effectively as possible.”<sup>10</sup> And the Bureau must “consider the unique circumstances of [Alaska, Hawaii, Puerto Rico, the U.S. Virgin Islands and Northern Marianas Islands] when adopting a cost model” and must “consider whether the model ultimately adopted adequately accounts for the costs faced by carriers serving these areas.”<sup>11</sup>

4. On December 15, 2011, the Bureau released the *Request for Models PN*, inviting interested parties to submit proposed forward-looking cost models.<sup>12</sup> In response, parties submitted two models into the record. One model, submitted by the ABC Coalition, estimates the cost of providing service to the entire nation.<sup>13</sup> The second model, submitted by ACS, estimates the cost of serving Alaska only.<sup>14</sup>

5. On February 15, 2012, the Bureau released the *Access to Models PN*.<sup>15</sup> The *Access to Models PN* provided notice that two models had been filed and provided instructions so that interested parties could access the models and all underlying data, formulae, computations, and associated software, subject to protective orders, to evaluate their suitability for use in determining support levels for CAF

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<sup>7</sup> *Id.*, 26 FCC Rcd at 17735, para. 187.

<sup>8</sup> *Id.*; *see also id.* at 17736, para. 189.

<sup>9</sup> 26 FCC Rcd at 17735, para. 187. Specifically, the model should direct funds to support 4 Mbps/1 Mbps broadband service to all supported locations, subject only to the waiver process for upstream speed, and should ensure that the most locations possible receive a 6 Mbps/1.5 Mbps or faster service at the end of the five-year term, consistent with the CAF Phase II budget. *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*; 26 FCC Rcd at 17737-38, para. 193.

<sup>12</sup> Request for Connect America Fund Cost Models, WC Docket Nos. 10-90, 05-337, Public Notice, 26 FCC Rcd 16836 (Wireline Comp. Bur. 2011) (*Request for Models PN*).

<sup>13</sup> Letter from Jonathan Banks, USTelecom, to Marlene H. Dortch, FCC, WC Docket Nos. 10-90, 05-337 (filed Feb. 13, 2012) (attaching updated documentation of CQBAT model) (CQBAT letter). This submission updated the ABC Coalition’s prior proposal for a forward-looking model, which had been submitted prior to the release of the *USF/ICC Transformation Order*. Letter from Robert W. Quinn, Jr., AT&T, Steve Davis, CenturyLink, Michael T. Skrivan, FairPoint, Kathleen Q. Abernathy, Frontier, Kathleen Grillo, Verizon, and Michael D. Rhoda, Windstream, to Marlene H. Dortch, Secretary, FCC, WC Docket No. 10-90, et al., Attach. 1 at 13 (filed July 29, 2011) (ABC Plan). The ABC Coalition model was submitted pursuant to a protective order adopted by the Bureau. *See Connect America Fund, High-Cost Universal Service Support*, WC Docket Nos. 10-90, 05-337, Second Supplemental Protective Order, 27 FCC Rcd 1503 (Wireline Comp. Bur. 2012).

<sup>14</sup> Comments of Alaska Communications Systems Group, Inc., WC Docket Nos. 10-90, 05-337 (filed Feb. 1, 2012); *See Connect America Fund*, et al., WC Docket No. 10-90, et al., Second Protective Order, 27 FCC Rcd 1494, 1494 & n.2. (Wireline Comp. Bur. 2012).

<sup>15</sup> Wireline Competition Bureau Announces Access to Connect America Fund Cost Models Filed in the Record, WC Docket Nos. 10-90, 05-337, Public Notice, 27 FCC Rcd 1659 (Wireline Comp. Bur. 2012) (*Access to Models PN*).

Phase II in price cap areas. Since that time, over 15 parties have signed the paperwork required by the protective orders to access the models.

6. During this time, the Bureau has been working in parallel on two related aspects of model development: 1) identifying the policy issues that the Bureau will need to decide in order to adopt a forward-looking cost model; and 2) exploring options for ensuring the Bureau has the data rights and services required to evaluate fully the implications of alternative policy choices to be made in the model development process, and to administer the model ultimately adopted to disburse support throughout the five-year period of CAF Phase II.

7. With respect to the policy issues, the Bureau has been developing model design and input questions that will be put out for comment to build the foundation for adopting a model that would be used to establish support levels for CAF Phase II. As part of this process, the Bureau has reviewed, and will continue to review, both of the submitted models to examine the assumptions and input datasets underlying those models and to evaluate how those decisions – and alternative decisions to the extent the Bureau can change the assumptions and inputs – impact policy outcomes. Those models allow for the calculation of costs for different technologies at the census block level or smaller, and they generally allow the Bureau and the public to analyze alternative input datasets. However, the Bureau and the public are not able to make changes to assumptions not controlled via model inputs,<sup>16</sup> and the Bureau and the public do not yet have access to data that would verify some of the model inputs.<sup>17</sup>

8. As the next step in this process, the Bureau will soon release a public notice seeking comment on several significant threshold model design decisions. In addition, the public notice will solicit comment on data sources relating to geography and carrier plant.

9. In addition, on June 1, 2012, the Bureau released the *Boundary Data PN*.<sup>18</sup> In the *Boundary Data PN*, the Bureau proposes data specifications for collecting study area exchange boundaries for purposes of implementing various reforms adopted as part of the *USF/ICC Transformation Order* and seeks comment on that proposal.<sup>19</sup> One of these purposes would be to obtain price cap carriers' study area exchange boundaries for use in the CAF Phase II model.<sup>20</sup>

10. In addition, the Bureau has been exploring options for obtaining rights to data and for obtaining services to modify model code as necessary to evaluate the impact of various policy decisions in response to public comment prior to adoption of the final model. The model that the Bureau ultimately adopts will serve as a means to distribute support throughout the five-year period for CAF Phase II. Accordingly, the Bureau is working, in coordination with the Office of General Counsel and the Office of Managing Director, to determine what data rights and services will be required – and how best to obtain them – to carry out the directives of the Commission regarding CAF Phase II.

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<sup>16</sup> For example, the public and Bureau cannot change assumptions controlled by the ABC model source code, such as the length of copper loop in the DSL model.

<sup>17</sup> We note the Commission required that “[a]ll underlying data should be verifiable, engineering assumptions reasonable, and outputs plausible.” See 26 FCC Rcd at 17735, para. 185; see Letter from Karen Brinkmann, Counsel to Alaska Communications Systems Group, Inc., to Marlene H. Dortch, Secretary, FCC, WC Docket Nos. 10-90, et al. (filed May. 11, 2012).

<sup>18</sup> Comment Sought on Data Specifications for Collecting Study Area Boundaries, WC Docket Nos. 10-90, 05-337, Public Notice, DA 12-868 (Wireline Comp. Bur. rel. June 1, 2012) (*Boundary Data PN*).

<sup>19</sup> *Id.*, para. 3.

<sup>20</sup> *Id.*

11. The Bureau will continue to work on these issues. In addition, the Bureau will provide further opportunities for public input on model development.

12. People with Disabilities: To request materials in accessible formats for people with disabilities (braille, large print, electronic files, audio format), send an e-mail to [fcc504@fcc.gov](mailto:fcc504@fcc.gov) or call the Consumer & Governmental Affairs Bureau at 202-418-0530 (voice), 202-418-0432 (tty).

13. For further information, please contact Katie King, Telecommunications Access Policy Division, Wireline Competition Division at (202) 418-7491 or TTY (202) 418-0484.

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