



FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

OFFICE OF THE
CHAIRWOMAN

May 20, 2022

The Honorable Gary C. Peters
United States Senate
724 Hart Senate Office Building
Washington, D.C. 20515

Dear Senator Peters:

Thank you for your letter regarding the reimbursement requests that the Federal Communications Commission has received through the Secure and Trusted Communications Networks Reimbursement Program. I agree with you that this program is essential because it protects our national security and ensures the stability of networks that rely on universal service support. For that reason, I would like to thank you for your efforts to ensure there is sufficient funding to support the providers participating in the program.

As you note in your letter, Congress provided the Commission with \$1.9 billion in the Consolidated Appropriations Act, 2021 for the Reimbursement Program. The filing window to participate in the Reimbursement Program opened on October 29, 2021 and closed on January 28, 2022. The gross demand for funding, based on an initial review of the cost estimates contained in the applications submitted, was roughly \$5.6 billion. The Secure and Trusted Communications Networks Act requires the Commission to review Reimbursement Program applications and “approve or deny” them by June 15, 2022. This review is underway.

Should demand for the Reimbursement Program exceed available funding when this review is complete, the Secure and Trusted Communications Networks Act requires the Commission to prioritize the available funding according to the prioritization scheme established by Section 4(d) of the Secure and Trusted Communications Networks Act, as amended by the Consolidated Appropriations Act, 2021. Under the law, the first priority is reserved for approved applicants that have 2,000,000 or fewer customers. The second priority is reserved for approved applicants that are accredited public or private non-commercial educational institutions providing their own facilities-based educational broadband service and health care providers and libraries providing advanced communications service. The third priority is reserved for any remaining approved applicants determined to be eligible for reimbursement under the Reimbursement Program, which in practice means applicants with between 2,000,000 and 10,000,000 customers.

In response to the specific questions in your letter, below you’ll find additional information about providers’ Reimbursement Program requests.

1. The number of applicants in each of the three prioritization groups established under Section 4(d) of the Secure and Trusted Communications Networks Act, as amended.

The Commission received applications from 96 applicants in the Reimbursement Program filing window. Ninety-five applicants fall within the first prioritization group; zero fall within the second prioritization group; and one falls within the third prioritization group.

2. The aggregate amount of funding requested by each prioritization group.

The aggregate amount of funding requested by applicants is approximately \$5.3 billion in the first prioritization group; \$0 in the second prioritization group; and \$270 million in the third prioritization group.

3. The aggregate amount of funding requested by category established under the cost catalog for the Reimbursement Program.

When submitting cost estimates, applicants were required to fill out FCC Form 5640. In doing so, they were able to rely on a Catalog of Eligible Expenses developed by the Commission and in some circumstances were able to rely on vendor-provided quotes or invoices, for example, if the expense was not listed in the catalog or the carrier faced special circumstances. Currently, there are five categories of expenses for which applicants requested Reimbursement Program funding. The five categories may include estimated expenses from the cost catalog but, as noted earlier, may also include estimated costs based on vendor quotes or invoices. The five categories and the aggregate amount of funding requested for each category are as follows:

Category	Aggregate Amount of Funding Requested
Services	\$2.9 billion
Distribution layer equipment	\$1.4 billion
Core layer equipment	\$870 million
Access layer equipment	\$230 million
Software	\$124 million

4. An initial analysis of why the reimbursement requests received exceeded the Commission's original estimates.

As explained above, the Secure and Trusted Communications Networks Act requires the Commission to review Reimbursement Program applications and “approve or deny” them by June 15, 2022. This review is underway, and we will have a more complete understanding of why reimbursement requests exceeded the Commission's original estimates once it is complete.

However, our initial review of reimbursement requests suggests that there are three primary reasons that may explain why demand in the Reimbursement Program exceeds the Commission's original estimates.

First, the Commission's preliminary cost estimates were developed in 2020 following a data collection process that sought to identify the presence of Huawei and ZTE equipment in the networks of eligible telecommunications carriers and the expense associated with removing it and installing replacement equipment. In September 2020, the Commission issued a public notice listing 50 companies that participated in the data collection. These providers reported that it could cost \$1.83 billion to swap out Huawei and ZTE gear. Of that, the Commission determined that filers that appeared to initially qualify for reimbursement could require around \$1.61 billion. However, this data collection was initiated before the enactment of the Secure and Trusted Communications Networks Act and did not ask providers to specifically consider the full range of costs that ultimately were reimbursable under the law, such as costs associated with transporting or disposing equipment, permitting costs, and legal and administrative fees.

Second, Congress expanded the range of entities eligible to participate in the Reimbursement Program when it enacted the Secure and Trusted Communications Networks Act. The Commission's initial data collection only required responses from Universal Service Fund recipients that were eligible telecommunications carriers as of December 31, 2019, because these were the only entities that would have been subject to the Commission's requirement to remove and replace covered communications equipment and services provided by Huawei or ZTE. Congress subsequently expanded participation in the Reimbursement Program to include all providers of advanced communications with 2,000,000 or fewer customers. Then, in the Consolidated Appropriations Act, 2021, Congress expanded eligibility to include providers with up to 10,000,000 customers. Approximately \$1.5 billion in reimbursement requests submitted to the Reimbursement Program during the filing window were submitted by entities that did not participate in the initial data collection.

Third, ETCs have reported approximately \$2 billion in increased costs since participating in the Commission's initial data collection due to supply chain constraints, inflation, and the need to complete the removal, replacement, and disposal projects within the Secure and Trusted Communications Networks Act's one-year deadline.

5. When the FCC will be able to determine the final amount eligible for reimbursement.

The next program milestone will occur on June 15, 2022, the statutory deadline for approving or denying applications for reimbursement under the Secure and Trusted Communications Networks Act. After applications are approved or denied, the Commission will begin issuing funding allocations based on the cost estimates submitted. Program participants will have one year from the allocation to begin seeking reimbursement from the program by submitting invoices and other documentation substantiating the costs actually incurred. These actual costs may be less than the estimated costs eligible for reimbursement. Program participants then have one year from the first funding disbursement to complete the permanent removal, replacement, and disposal of any covered Huawei and ZTE communications equipment and services.

6. How the Commission will meet the needs of eligible providers seeking funds through the Reimbursement Program if demand outstrips available support.

As explained above, the Secure and Trusted Communications Networks Act requires the Commission to prioritize the available funding should demand for the program exceed available funding. Section 4(d) of the Secure and Trusted Communications Networks Act, as amended by the Consolidated Appropriations Act, 2021, established the prioritization scheme. As noted above, the first priority is reserved for approved applicants that have 2,000,000 or fewer customers. The second priority is reserved for approved applicants that are accredited public or private non-commercial educational institutions providing their own facilities-based educational broadband service and health care providers and libraries providing advanced communications service. The third priority is reserved for any remaining approved applicants determined to be eligible for reimbursement under the Reimbursement Program, which in practice means applicants with between 2,000,000 and 10,000,000 customers.

Section 4(d)(5) of the Act requires that the Commission “make reasonable efforts to ensure that reimbursement funds are distributed equitably among all applicants for reimbursements under the Program.” Consistent with these requirements, absent an additional appropriation, the Commission’s rules will require the Commission to prorate available funding equally across all requests in the first prioritization category mandated by Congress, which includes all applicants that participated in the filing window except for one.

The Commission is taking steps to ensure that available funding is used to meet the needs of eligible providers to the fullest extent possible. During the current application review phase, the Reimbursement Program fund administrator and the Commission are carefully reviewing all cost estimates submitted with applications to ensure that funding allocations are issued only for eligible and reasonable costs. This includes evaluating the information submitted by applicants to support the amount of the cost estimates they have submitted, whether the estimates rely on the Reimbursement Program’s cost catalog or on vendor quotes. After we issue allocations and program recipients begin seeking disbursements, the Reimbursement Program fund administrator and the Commission will carefully review Reimbursement Claim requests to ensure that reimbursement is limited to reasonable expenses that are actually incurred.

7. The status of the Office of Managing Director’s work to audit and ensure adequate internal controls for the Reimbursement Program, as required under the FCC’s Third Report and Order (FCC 21-86).

Efficient management and oversight of the Reimbursement Program is a priority for the Commission. To assist with this effort, the Commission engaged a third-party contractor to review and assess internal controls for the Reimbursement Program and to assess procedures for detecting and preventing waste, fraud, and abuse. In addition, the Commission’s Office of the Managing Director, Wireline Competition Bureau, and the Reimbursement Program fund administrator are working together to develop additional procedures to protect the program. These efforts include the development of a Compliance Plan that includes procedures for audits and field investigations. Reimbursement Program recipients will be subject to regular audits and reviews of reimbursements, including field investigations, to evaluate their compliance with the statutory and regulatory requirements of the program. These audits and investigations will

commence after the Commission issues funding allocations and will help ensure that the Reimbursement Program funding is used only to reimburse substantiated costs actually incurred by program participants.

I look forward to continuing to work with you to achieve the goals of the Reimbursement Program and the important task of securing our nation's networks.

Sincerely,

A handwritten signature in black ink, appearing to read "Jessica Rosenworcel", with a long horizontal flourish extending to the right.

Jessica Rosenworcel



FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

OFFICE OF THE
CHAIRWOMAN

May 20, 2022

The Honorable John Hickenlooper
United States Senate
374 Russell Senate Office Building
Washington, D.C. 20515

Dear Senator Hickenlooper:

Thank you for your letter regarding the reimbursement requests that the Federal Communications Commission has received through the Secure and Trusted Communications Networks Reimbursement Program. I agree with you that this program is essential because it protects our national security and ensures the stability of networks that rely on universal service support. For that reason, I would like to thank you for your efforts to ensure there is sufficient funding to support the providers participating in the program.

As you note in your letter, Congress provided the Commission with \$1.9 billion in the Consolidated Appropriations Act, 2021 for the Reimbursement Program. The filing window to participate in the Reimbursement Program opened on October 29, 2021 and closed on January 28, 2022. The gross demand for funding, based on an initial review of the cost estimates contained in the applications submitted, was roughly \$5.6 billion. The Secure and Trusted Communications Networks Act requires the Commission to review Reimbursement Program applications and “approve or deny” them by June 15, 2022. This review is underway.

Should demand for the Reimbursement Program exceed available funding when this review is complete, the Secure and Trusted Communications Networks Act requires the Commission to prioritize the available funding according to the prioritization scheme established by Section 4(d) of the Secure and Trusted Communications Networks Act, as amended by the Consolidated Appropriations Act, 2021. Under the law, the first priority is reserved for approved applicants that have 2,000,000 or fewer customers. The second priority is reserved for approved applicants that are accredited public or private non-commercial educational institutions providing their own facilities-based educational broadband service and health care providers and libraries providing advanced communications service. The third priority is reserved for any remaining approved applicants determined to be eligible for reimbursement under the Reimbursement Program, which in practice means applicants with between 2,000,000 and 10,000,000 customers.

In response to the specific questions in your letter, below you’ll find additional information about providers’ Reimbursement Program requests.

1. The number of applicants in each of the three prioritization groups established under Section 4(d) of the Secure and Trusted Communications Networks Act, as amended.

The Commission received applications from 96 applicants in the Reimbursement Program filing window. Ninety-five applicants fall within the first prioritization group; zero fall within the second prioritization group; and one falls within the third prioritization group.

2. The aggregate amount of funding requested by each prioritization group.

The aggregate amount of funding requested by applicants is approximately \$5.3 billion in the first prioritization group; \$0 in the second prioritization group; and \$270 million in the third prioritization group.

3. The aggregate amount of funding requested by category established under the cost catalog for the Reimbursement Program.

When submitting cost estimates, applicants were required to fill out FCC Form 5640. In doing so, they were able to rely on a Catalog of Eligible Expenses developed by the Commission and in some circumstances were able to rely on vendor-provided quotes or invoices, for example, if the expense was not listed in the catalog or the carrier faced special circumstances. Currently, there are five categories of expenses for which applicants requested Reimbursement Program funding. The five categories may include estimated expenses from the cost catalog but, as noted earlier, may also include estimated costs based on vendor quotes or invoices. The five categories and the aggregate amount of funding requested for each category are as follows:

Category	Aggregate Amount of Funding Requested
Services	\$2.9 billion
Distribution layer equipment	\$1.4 billion
Core layer equipment	\$870 million
Access layer equipment	\$230 million
Software	\$124 million

4. An initial analysis of why the reimbursement requests received exceeded the Commission's original estimates.

As explained above, the Secure and Trusted Communications Networks Act requires the Commission to review Reimbursement Program applications and “approve or deny” them by June 15, 2022. This review is underway, and we will have a more complete understanding of why reimbursement requests exceeded the Commission's original estimates once it is complete.

However, our initial review of reimbursement requests suggests that there are three primary reasons that may explain why demand in the Reimbursement Program exceeds the Commission's original estimates.

First, the Commission's preliminary cost estimates were developed in 2020 following a data collection process that sought to identify the presence of Huawei and ZTE equipment in the networks of eligible telecommunications carriers and the expense associated with removing it and installing replacement equipment. In September 2020, the Commission issued a public notice listing 50 companies that participated in the data collection. These providers reported that it could cost \$1.83 billion to swap out Huawei and ZTE gear. Of that, the Commission determined that filers that appeared to initially qualify for reimbursement could require around \$1.61 billion. However, this data collection was initiated before the enactment of the Secure and Trusted Communications Networks Act and did not ask providers to specifically consider the full range of costs that ultimately were reimbursable under the law, such as costs associated with transporting or disposing equipment, permitting costs, and legal and administrative fees.

Second, Congress expanded the range of entities eligible to participate in the Reimbursement Program when it enacted the Secure and Trusted Communications Networks Act. The Commission's initial data collection only required responses from Universal Service Fund recipients that were eligible telecommunications carriers as of December 31, 2019, because these were the only entities that would have been subject to the Commission's requirement to remove and replace covered communications equipment and services provided by Huawei or ZTE. Congress subsequently expanded participation in the Reimbursement Program to include all providers of advanced communications with 2,000,000 or fewer customers. Then, in the Consolidated Appropriations Act, 2021, Congress expanded eligibility to include providers with up to 10,000,000 customers. Approximately \$1.5 billion in reimbursement requests submitted to the Reimbursement Program during the filing window were submitted by entities that did not participate in the initial data collection.

Third, ETCs have reported approximately \$2 billion in increased costs since participating in the Commission's initial data collection due to supply chain constraints, inflation, and the need to complete the removal, replacement, and disposal projects within the Secure and Trusted Communications Networks Act's one-year deadline.

5. When the FCC will be able to determine the final amount eligible for reimbursement.

The next program milestone will occur on June 15, 2022, the statutory deadline for approving or denying applications for reimbursement under the Secure and Trusted Communications Networks Act. After applications are approved or denied, the Commission will begin issuing funding allocations based on the cost estimates submitted. Program participants will have one year from the allocation to begin seeking reimbursement from the program by submitting invoices and other documentation substantiating the costs actually incurred. These actual costs may be less than the estimated costs eligible for reimbursement. Program participants then have one year from the first funding disbursement to complete the permanent removal, replacement, and disposal of any covered Huawei and ZTE communications equipment and services.

6. How the Commission will meet the needs of eligible providers seeking funds through the Reimbursement Program if demand outstrips available support.

As explained above, the Secure and Trusted Communications Networks Act requires the Commission to prioritize the available funding should demand for the program exceed available funding. Section 4(d) of the Secure and Trusted Communications Networks Act, as amended by the Consolidated Appropriations Act, 2021, established the prioritization scheme. As noted above, the first priority is reserved for approved applicants that have 2,000,000 or fewer customers. The second priority is reserved for approved applicants that are accredited public or private non-commercial educational institutions providing their own facilities-based educational broadband service and health care providers and libraries providing advanced communications service. The third priority is reserved for any remaining approved applicants determined to be eligible for reimbursement under the Reimbursement Program, which in practice means applicants with between 2,000,000 and 10,000,000 customers.

Section 4(d)(5) of the Act requires that the Commission “make reasonable efforts to ensure that reimbursement funds are distributed equitably among all applicants for reimbursements under the Program.” Consistent with these requirements, absent an additional appropriation, the Commission’s rules will require the Commission to prorate available funding equally across all requests in the first prioritization category mandated by Congress, which includes all applicants that participated in the filing window except for one.

The Commission is taking steps to ensure that available funding is used to meet the needs of eligible providers to the fullest extent possible. During the current application review phase, the Reimbursement Program fund administrator and the Commission are carefully reviewing all cost estimates submitted with applications to ensure that funding allocations are issued only for eligible and reasonable costs. This includes evaluating the information submitted by applicants to support the amount of the cost estimates they have submitted, whether the estimates rely on the Reimbursement Program’s cost catalog or on vendor quotes. After we issue allocations and program recipients begin seeking disbursements, the Reimbursement Program fund administrator and the Commission will carefully review Reimbursement Claim requests to ensure that reimbursement is limited to reasonable expenses that are actually incurred.

7. The status of the Office of Managing Director’s work to audit and ensure adequate internal controls for the Reimbursement Program, as required under the FCC’s Third Report and Order (FCC 21-86).

Efficient management and oversight of the Reimbursement Program is a priority for the Commission. To assist with this effort, the Commission engaged a third-party contractor to review and assess internal controls for the Reimbursement Program and to assess procedures for detecting and preventing waste, fraud, and abuse. In addition, the Commission’s Office of the Managing Director, Wireline Competition Bureau, and the Reimbursement Program fund administrator are working together to develop additional procedures to protect the program. These efforts include the development of a Compliance Plan that includes procedures for audits and field investigations. Reimbursement Program recipients will be subject to regular audits and reviews of reimbursements, including field investigations, to evaluate their compliance with the statutory and regulatory requirements of the program. These audits and investigations will

commence after the Commission issues funding allocations and will help ensure that the Reimbursement Program funding is used only to reimburse substantiated costs actually incurred by program participants.

I look forward to continuing to work with you to achieve the goals of the Reimbursement Program and the important task of securing our nation's networks.

Sincerely,

A handwritten signature in black ink, appearing to read "Jessica Rosenworcel", with a long horizontal flourish extending to the right.

Jessica Rosenworcel



FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

OFFICE OF THE
CHAIRWOMAN

May 20, 2022

The Honorable Roger Wicker
United States Senate
555 Dirksen Senate Office Building
Washington, D.C. 20515

Dear Senator Wicker:

Thank you for your letter regarding the reimbursement requests that the Federal Communications Commission has received through the Secure and Trusted Communications Networks Reimbursement Program. I agree with you that this program is essential because it protects our national security and ensures the stability of networks that rely on universal service support. For that reason, I would like to thank you for your efforts to ensure there is sufficient funding to support the providers participating in the program.

As you note in your letter, Congress provided the Commission with \$1.9 billion in the Consolidated Appropriations Act, 2021 for the Reimbursement Program. The filing window to participate in the Reimbursement Program opened on October 29, 2021 and closed on January 28, 2022. The gross demand for funding, based on an initial review of the cost estimates contained in the applications submitted, was roughly \$5.6 billion. The Secure and Trusted Communications Networks Act requires the Commission to review Reimbursement Program applications and “approve or deny” them by June 15, 2022. This review is underway.

Should demand for the Reimbursement Program exceed available funding when this review is complete, the Secure and Trusted Communications Networks Act requires the Commission to prioritize the available funding according to the prioritization scheme established by Section 4(d) of the Secure and Trusted Communications Networks Act, as amended by the Consolidated Appropriations Act, 2021. Under the law, the first priority is reserved for approved applicants that have 2,000,000 or fewer customers. The second priority is reserved for approved applicants that are accredited public or private non-commercial educational institutions providing their own facilities-based educational broadband service and health care providers and libraries providing advanced communications service. The third priority is reserved for any remaining approved applicants determined to be eligible for reimbursement under the Reimbursement Program, which in practice means applicants with between 2,000,000 and 10,000,000 customers.

In response to the specific questions in your letter, below you’ll find additional information about providers’ Reimbursement Program requests.

1. The number of applicants in each of the three prioritization groups established under Section 4(d) of the Secure and Trusted Communications Networks Act, as amended.

The Commission received applications from 96 applicants in the Reimbursement Program filing window. Ninety-five applicants fall within the first prioritization group; zero fall within the second prioritization group; and one falls within the third prioritization group.

2. The aggregate amount of funding requested by each prioritization group.

The aggregate amount of funding requested by applicants is approximately \$5.3 billion in the first prioritization group; \$0 in the second prioritization group; and \$270 million in the third prioritization group.

3. The aggregate amount of funding requested by category established under the cost catalog for the Reimbursement Program.

When submitting cost estimates, applicants were required to fill out FCC Form 5640. In doing so, they were able to rely on a Catalog of Eligible Expenses developed by the Commission and in some circumstances were able to rely on vendor-provided quotes or invoices, for example, if the expense was not listed in the catalog or the carrier faced special circumstances. Currently, there are five categories of expenses for which applicants requested Reimbursement Program funding. The five categories may include estimated expenses from the cost catalog but, as noted earlier, may also include estimated costs based on vendor quotes or invoices. The five categories and the aggregate amount of funding requested for each category are as follows:

Category	Aggregate Amount of Funding Requested
Services	\$2.9 billion
Distribution layer equipment	\$1.4 billion
Core layer equipment	\$870 million
Access layer equipment	\$230 million
Software	\$124 million

4. An initial analysis of why the reimbursement requests received exceeded the Commission's original estimates.

As explained above, the Secure and Trusted Communications Networks Act requires the Commission to review Reimbursement Program applications and “approve or deny” them by June 15, 2022. This review is underway, and we will have a more complete understanding of why reimbursement requests exceeded the Commission's original estimates once it is complete.

However, our initial review of reimbursement requests suggests that there are three primary reasons that may explain why demand in the Reimbursement Program exceeds the Commission's original estimates.

First, the Commission's preliminary cost estimates were developed in 2020 following a data collection process that sought to identify the presence of Huawei and ZTE equipment in the networks of eligible telecommunications carriers and the expense associated with removing it and installing replacement equipment. In September 2020, the Commission issued a public notice listing 50 companies that participated in the data collection. These providers reported that it could cost \$1.83 billion to swap out Huawei and ZTE gear. Of that, the Commission determined that filers that appeared to initially qualify for reimbursement could require around \$1.61 billion. However, this data collection was initiated before the enactment of the Secure and Trusted Communications Networks Act and did not ask providers to specifically consider the full range of costs that ultimately were reimbursable under the law, such as costs associated with transporting or disposing equipment, permitting costs, and legal and administrative fees.

Second, Congress expanded the range of entities eligible to participate in the Reimbursement Program when it enacted the Secure and Trusted Communications Networks Act. The Commission's initial data collection only required responses from Universal Service Fund recipients that were eligible telecommunications carriers as of December 31, 2019, because these were the only entities that would have been subject to the Commission's requirement to remove and replace covered communications equipment and services provided by Huawei or ZTE. Congress subsequently expanded participation in the Reimbursement Program to include all providers of advanced communications with 2,000,000 or fewer customers. Then, in the Consolidated Appropriations Act, 2021, Congress expanded eligibility to include providers with up to 10,000,000 customers. Approximately \$1.5 billion in reimbursement requests submitted to the Reimbursement Program during the filing window were submitted by entities that did not participate in the initial data collection.

Third, ETCs have reported approximately \$2 billion in increased costs since participating in the Commission's initial data collection due to supply chain constraints, inflation, and the need to complete the removal, replacement, and disposal projects within the Secure and Trusted Communications Networks Act's one-year deadline.

5. When the FCC will be able to determine the final amount eligible for reimbursement.

The next program milestone will occur on June 15, 2022, the statutory deadline for approving or denying applications for reimbursement under the Secure and Trusted Communications Networks Act. After applications are approved or denied, the Commission will begin issuing funding allocations based on the cost estimates submitted. Program participants will have one year from the allocation to begin seeking reimbursement from the program by submitting invoices and other documentation substantiating the costs actually incurred. These actual costs may be less than the estimated costs eligible for reimbursement. Program participants then have one year from the first funding disbursement to complete the permanent removal, replacement, and disposal of any covered Huawei and ZTE communications equipment and services.

6. How the Commission will meet the needs of eligible providers seeking funds through the Reimbursement Program if demand outstrips available support.

As explained above, the Secure and Trusted Communications Networks Act requires the Commission to prioritize the available funding should demand for the program exceed available funding. Section 4(d) of the Secure and Trusted Communications Networks Act, as amended by the Consolidated Appropriations Act, 2021, established the prioritization scheme. As noted above, the first priority is reserved for approved applicants that have 2,000,000 or fewer customers. The second priority is reserved for approved applicants that are accredited public or private non-commercial educational institutions providing their own facilities-based educational broadband service and health care providers and libraries providing advanced communications service. The third priority is reserved for any remaining approved applicants determined to be eligible for reimbursement under the Reimbursement Program, which in practice means applicants with between 2,000,000 and 10,000,000 customers.

Section 4(d)(5) of the Act requires that the Commission “make reasonable efforts to ensure that reimbursement funds are distributed equitably among all applicants for reimbursements under the Program.” Consistent with these requirements, absent an additional appropriation, the Commission’s rules will require the Commission to prorate available funding equally across all requests in the first prioritization category mandated by Congress, which includes all applicants that participated in the filing window except for one.

The Commission is taking steps to ensure that available funding is used to meet the needs of eligible providers to the fullest extent possible. During the current application review phase, the Reimbursement Program fund administrator and the Commission are carefully reviewing all cost estimates submitted with applications to ensure that funding allocations are issued only for eligible and reasonable costs. This includes evaluating the information submitted by applicants to support the amount of the cost estimates they have submitted, whether the estimates rely on the Reimbursement Program’s cost catalog or on vendor quotes. After we issue allocations and program recipients begin seeking disbursements, the Reimbursement Program fund administrator and the Commission will carefully review Reimbursement Claim requests to ensure that reimbursement is limited to reasonable expenses that are actually incurred.

7. The status of the Office of Managing Director’s work to audit and ensure adequate internal controls for the Reimbursement Program, as required under the FCC’s Third Report and Order (FCC 21-86).

Efficient management and oversight of the Reimbursement Program is a priority for the Commission. To assist with this effort, the Commission engaged a third-party contractor to review and assess internal controls for the Reimbursement Program and to assess procedures for detecting and preventing waste, fraud, and abuse. In addition, the Commission’s Office of the Managing Director, Wireline Competition Bureau, and the Reimbursement Program fund administrator are working together to develop additional procedures to protect the program. These efforts include the development of a Compliance Plan that includes procedures for audits and field investigations. Reimbursement Program recipients will be subject to regular audits and reviews of reimbursements, including field investigations, to evaluate their compliance with the statutory and regulatory requirements of the program. These audits and investigations will

commence after the Commission issues funding allocations and will help ensure that the Reimbursement Program funding is used only to reimburse substantiated costs actually incurred by program participants.

I look forward to continuing to work with you to achieve the goals of the Reimbursement Program and the important task of securing our nation's networks.

Sincerely,

A handwritten signature in black ink, appearing to read "Jessica Rosenworcel", with a long horizontal flourish extending to the right.

Jessica Rosenworcel



FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

OFFICE OF THE
CHAIRWOMAN

May 20, 2022

The Honorable John Thune
United States Senate
511 Dirksen Senate Office Building
Washington, D.C. 20515

Dear Senator Thune:

Thank you for your letter regarding the reimbursement requests that the Federal Communications Commission has received through the Secure and Trusted Communications Networks Reimbursement Program. I agree with you that this program is essential because it protects our national security and ensures the stability of networks that rely on universal service support. For that reason, I would like to thank you for your efforts to ensure there is sufficient funding to support the providers participating in the program.

As you note in your letter, Congress provided the Commission with \$1.9 billion in the Consolidated Appropriations Act, 2021 for the Reimbursement Program. The filing window to participate in the Reimbursement Program opened on October 29, 2021 and closed on January 28, 2022. The gross demand for funding, based on an initial review of the cost estimates contained in the applications submitted, was roughly \$5.6 billion. The Secure and Trusted Communications Networks Act requires the Commission to review Reimbursement Program applications and “approve or deny” them by June 15, 2022. This review is underway.

Should demand for the Reimbursement Program exceed available funding when this review is complete, the Secure and Trusted Communications Networks Act requires the Commission to prioritize the available funding according to the prioritization scheme established by Section 4(d) of the Secure and Trusted Communications Networks Act, as amended by the Consolidated Appropriations Act, 2021. Under the law, the first priority is reserved for approved applicants that have 2,000,000 or fewer customers. The second priority is reserved for approved applicants that are accredited public or private non-commercial educational institutions providing their own facilities-based educational broadband service and health care providers and libraries providing advanced communications service. The third priority is reserved for any remaining approved applicants determined to be eligible for reimbursement under the Reimbursement Program, which in practice means applicants with between 2,000,000 and 10,000,000 customers.

In response to the specific questions in your letter, below you’ll find additional information about providers’ Reimbursement Program requests.

1. The number of applicants in each of the three prioritization groups established under Section 4(d) of the Secure and Trusted Communications Networks Act, as amended.

The Commission received applications from 96 applicants in the Reimbursement Program filing window. Ninety-five applicants fall within the first prioritization group; zero fall within the second prioritization group; and one falls within the third prioritization group.

2. The aggregate amount of funding requested by each prioritization group.

The aggregate amount of funding requested by applicants is approximately \$5.3 billion in the first prioritization group; \$0 in the second prioritization group; and \$270 million in the third prioritization group.

3. The aggregate amount of funding requested by category established under the cost catalog for the Reimbursement Program.

When submitting cost estimates, applicants were required to fill out FCC Form 5640. In doing so, they were able to rely on a Catalog of Eligible Expenses developed by the Commission and in some circumstances were able to rely on vendor-provided quotes or invoices, for example, if the expense was not listed in the catalog or the carrier faced special circumstances. Currently, there are five categories of expenses for which applicants requested Reimbursement Program funding. The five categories may include estimated expenses from the cost catalog but, as noted earlier, may also include estimated costs based on vendor quotes or invoices. The five categories and the aggregate amount of funding requested for each category are as follows:

Category	Aggregate Amount of Funding Requested
Services	\$2.9 billion
Distribution layer equipment	\$1.4 billion
Core layer equipment	\$870 million
Access layer equipment	\$230 million
Software	\$124 million

4. An initial analysis of why the reimbursement requests received exceeded the Commission's original estimates.

As explained above, the Secure and Trusted Communications Networks Act requires the Commission to review Reimbursement Program applications and “approve or deny” them by June 15, 2022. This review is underway, and we will have a more complete understanding of why reimbursement requests exceeded the Commission's original estimates once it is complete.

However, our initial review of reimbursement requests suggests that there are three primary reasons that may explain why demand in the Reimbursement Program exceeds the Commission's original estimates.

First, the Commission's preliminary cost estimates were developed in 2020 following a data collection process that sought to identify the presence of Huawei and ZTE equipment in the networks of eligible telecommunications carriers and the expense associated with removing it and installing replacement equipment. In September 2020, the Commission issued a public notice listing 50 companies that participated in the data collection. These providers reported that it could cost \$1.83 billion to swap out Huawei and ZTE gear. Of that, the Commission determined that filers that appeared to initially qualify for reimbursement could require around \$1.61 billion. However, this data collection was initiated before the enactment of the Secure and Trusted Communications Networks Act and did not ask providers to specifically consider the full range of costs that ultimately were reimbursable under the law, such as costs associated with transporting or disposing equipment, permitting costs, and legal and administrative fees.

Second, Congress expanded the range of entities eligible to participate in the Reimbursement Program when it enacted the Secure and Trusted Communications Networks Act. The Commission's initial data collection only required responses from Universal Service Fund recipients that were eligible telecommunications carriers as of December 31, 2019, because these were the only entities that would have been subject to the Commission's requirement to remove and replace covered communications equipment and services provided by Huawei or ZTE. Congress subsequently expanded participation in the Reimbursement Program to include all providers of advanced communications with 2,000,000 or fewer customers. Then, in the Consolidated Appropriations Act, 2021, Congress expanded eligibility to include providers with up to 10,000,000 customers. Approximately \$1.5 billion in reimbursement requests submitted to the Reimbursement Program during the filing window were submitted by entities that did not participate in the initial data collection.

Third, ETCs have reported approximately \$2 billion in increased costs since participating in the Commission's initial data collection due to supply chain constraints, inflation, and the need to complete the removal, replacement, and disposal projects within the Secure and Trusted Communications Networks Act's one-year deadline.

5. When the FCC will be able to determine the final amount eligible for reimbursement.

The next program milestone will occur on June 15, 2022, the statutory deadline for approving or denying applications for reimbursement under the Secure and Trusted Communications Networks Act. After applications are approved or denied, the Commission will begin issuing funding allocations based on the cost estimates submitted. Program participants will have one year from the allocation to begin seeking reimbursement from the program by submitting invoices and other documentation substantiating the costs actually incurred. These actual costs may be less than the estimated costs eligible for reimbursement. Program participants then have one year from the first funding disbursement to complete the permanent removal, replacement, and disposal of any covered Huawei and ZTE communications equipment and services.

6. How the Commission will meet the needs of eligible providers seeking funds through the Reimbursement Program if demand outstrips available support.

As explained above, the Secure and Trusted Communications Networks Act requires the Commission to prioritize the available funding should demand for the program exceed available funding. Section 4(d) of the Secure and Trusted Communications Networks Act, as amended by the Consolidated Appropriations Act, 2021, established the prioritization scheme. As noted above, the first priority is reserved for approved applicants that have 2,000,000 or fewer customers. The second priority is reserved for approved applicants that are accredited public or private non-commercial educational institutions providing their own facilities-based educational broadband service and health care providers and libraries providing advanced communications service. The third priority is reserved for any remaining approved applicants determined to be eligible for reimbursement under the Reimbursement Program, which in practice means applicants with between 2,000,000 and 10,000,000 customers.

Section 4(d)(5) of the Act requires that the Commission “make reasonable efforts to ensure that reimbursement funds are distributed equitably among all applicants for reimbursements under the Program.” Consistent with these requirements, absent an additional appropriation, the Commission’s rules will require the Commission to prorate available funding equally across all requests in the first prioritization category mandated by Congress, which includes all applicants that participated in the filing window except for one.

The Commission is taking steps to ensure that available funding is used to meet the needs of eligible providers to the fullest extent possible. During the current application review phase, the Reimbursement Program fund administrator and the Commission are carefully reviewing all cost estimates submitted with applications to ensure that funding allocations are issued only for eligible and reasonable costs. This includes evaluating the information submitted by applicants to support the amount of the cost estimates they have submitted, whether the estimates rely on the Reimbursement Program’s cost catalog or on vendor quotes. After we issue allocations and program recipients begin seeking disbursements, the Reimbursement Program fund administrator and the Commission will carefully review Reimbursement Claim requests to ensure that reimbursement is limited to reasonable expenses that are actually incurred.

7. The status of the Office of Managing Director’s work to audit and ensure adequate internal controls for the Reimbursement Program, as required under the FCC’s Third Report and Order (FCC 21-86).

Efficient management and oversight of the Reimbursement Program is a priority for the Commission. To assist with this effort, the Commission engaged a third-party contractor to review and assess internal controls for the Reimbursement Program and to assess procedures for detecting and preventing waste, fraud, and abuse. In addition, the Commission’s Office of the Managing Director, Wireline Competition Bureau, and the Reimbursement Program fund administrator are working together to develop additional procedures to protect the program. These efforts include the development of a Compliance Plan that includes procedures for audits and field investigations. Reimbursement Program recipients will be subject to regular audits and reviews of reimbursements, including field investigations, to evaluate their compliance with the statutory and regulatory requirements of the program. These audits and investigations will

commence after the Commission issues funding allocations and will help ensure that the Reimbursement Program funding is used only to reimburse substantiated costs actually incurred by program participants.

I look forward to continuing to work with you to achieve the goals of the Reimbursement Program and the important task of securing our nation's networks.

Sincerely,

A handwritten signature in black ink, appearing to read "Jessica Rosenworcel", with a long horizontal flourish extending to the right.

Jessica Rosenworcel