



U.S. Federal Universal Service Fund – Connect America Fund Developments Summer 2014

Background

In 2010, the Federal Communications Commission (FCC) initiated a systematic effort to reform the telecommunications subsidy program known as the Universal Service Fund (USF). The USF is comprised of four major program areas devoted to: subsidizing telecommunications infrastructure in high-cost areas; subsidizing telecommunications connectivity for low-income households; subsidizing telecommunications connectivity to U.S. schools and libraries; and subsidizing telecommunications connectivity for rural healthcare facilities.

The FCC's USF reform efforts all share a very broad goal of orienting the program to accommodate broadband and Internet advancements that have transformed the communications landscape in the United States over the past two decades.

This policy summary deals with relatively recent developments in the FCC's efforts to reform the USF high-cost fund through a program created in 2011 known as the Connect America Fund (CAF). Connected Nation regularly summarizes such policy developments in policy briefs that can be found on its website: www.connectednation.org.

Legal Challenge to USF High-Cost Fund Reform Order

Almost immediately upon its adoption, the FCC's Order creating the Connect America Fund and shifting support through the USF High-Cost Fund was challenged by several of the existing USF's stakeholders, including small rural telecommunications service providers and many state governments.

These legal challenges, which numbered in the dozens, were combined under a single case which was heard by the 10th U.S. Circuit Court of Appeals. On May 23, 2014, the 10th Circuit issued a ruling rejecting the legal challenges to the FCC's Order, ruling that the FCC has the authority to make sweeping changes to the Universal Service Fund. This 10th Circuit ruling can be found at <http://www.ca10.uscourts.gov/opinions/11/11-9900.pdf>.

USF Connect America Fund Remote Areas Fund

As part of its High-Cost Fund reform order, the FCC set aside funding (at least \$100 million per year) under the Connect America Fund for remote areas. This Remote Areas Fund is intended to provide funding to areas that are so high-cost they may fall outside the normal subsidy parameters of the CAF.

On January 17, 2013, the FCC's Wireline Competition Bureau issued a further request for comments on the design of the Remote Areas Fund. This request for comment sought input on several issues, including eligible areas, subsidy levels, subsidy eligibility, required performance metrics, and accountability and oversight.

On May 7, 2014, FCC Chairman Tom Wheeler responded to inquiries from U.S. Senator Kelly Ayotte (R-NH) on the progress made to implement the Remote Areas Fund. In his



response to Senator Ayotte, the Chairman mentioned that “particular challenges exist for the deployment of next-generation communications services in rural areas.” The Chairman goes on to cite progress made by the FCC on Phase II of the CAF, which will implement a cost-model based system for high-cost broadband subsidies. Chairman Wheeler stated that extremely high-cost areas will be included in CAF Phase II, and that the FCC has adopted rules to encourage more broadband providers to participate in CAF Phase II. These steps are intended to serve as stop-gap measures while the Remote Areas Fund is fully developed at the FCC.

USF Connect America Fund Phase II

Phase II of the Connect America Fund follows an initial round of subsidies known as Phase I, and sets aside \$1.75 billion per year for 10 years to support the deployment of broadband to areas unserved by broadband of speeds at least 3Mbps download/768 Kbps upload.

The FCC has developed a cost model to estimate the costs of upgrading networks to support broadband in the areas that do not have access to fixed broadband today, and is targeted to “price-cap” carriers. Subsidies will flow to eligible areas that do not have an “unsubsidized competitor” currently offering voice and broadband at the threshold speeds of 3Mbps down/768 Kbps up. As part of Phase II of the Connect America Fund, the FCC has identified 69,119 initial locations that may be eligible for subsidy, at a total annual subsidy amount of \$21,407,243.

Most recently, the FCC initiated a challenge process for Phase II of the CAF, during which stakeholders can challenge this list of eligible locations. This challenge process will close on August 14, 2014, and a 45-day reply period will begin shortly thereafter.

Connected Nation released a Policy Brief on the Phase II challenge process which can be found at http://www.connectednation.org/sites/default/files/bb_pp/cn_policy_brief_-_caf_phase_ii_challenge_process.pdf.

USF Connect America Fund Rural Broadband Experiments

On January 30, 2014, the FCC voted to solicit expressions of interest in a Rural Broadband Experiment Program, which is designed to help the FCC shape and adjust the larger Connect America Fund to include an application-based, competitive-bidding framework. Rural broadband experiments would include projects that might provide higher levels of service than the program’s thresholds today, expand service to community anchor institutions, or allow non-incumbent local exchange carriers to access CAF subsidies.

As part of its solicitation, the FCC received a total of 11 expressions of interest from applicants in Alaska, which including submissions from small rural ILECs, telephone cooperatives, a product safety company, an IT service providers, and fixed wireless providers. These Alaska based expressions of interest proposed broadband networks over a variety of platforms including fiber, copper, satellite, DSL, and wireless.



Connected Nation created an Alaska-specific policy brief on these expressions of interest that can be found at

http://www.connectednation.org/sites/default/files/bb_pp/fcc_rbe_summary_alaska.pdf.

As a result of the interest generated by its initial action, on July 11, 2014, the FCC voted to approve a budget of \$100 million and open an application window for the Rural Broadband Experiments Program. Of this \$100 million:

- \$75 million will be awarded to projects that will offer broadband service to residential and small business consumers at speeds of at least 25 Mbps download/5 Mbps upload speed.
- \$15 million will be awarded for projects that will offer broadband service at speeds of at least 10 Mbps download/1 Mbps upload.
- \$10 million will be awarded to projects that will serve “extremely high cost areas” at speeds of at least 10 Mbps download/1 Mbps upload. (The FCC has identified “extremely high cost areas” generally to be those in which a monthly subsidy of at least approximately \$2400 in subsidy per unserved location per year.)

Formal applications will be due 90 days after release of the complete text of the FCC’s action. The Order will specify service standards for applicants and will establish a cap on project size per application.

After applications are received, the FCC will conduct a single-round, nationwide competitive auction to identify applications within each of these buckets to receive subsidies.

In addition to the Rural Broadband Experiments, the FCC also launched another proceeding that will consider rules for a broader, Connect America Fund Phase II competitive bidding process. In allocating those CAF Phase II subsidies, the FCC proposed to offer bidding credits or incentives to applicants for those Phase II projects that include partnerships and funding from state governments and other non-Federal sources.

For more information on Rural Broadband Experiments or for assistance, please contact Connected Nation at policy@connectednation.org.