

Universal Service Reform: The Connect America Fund

Ken Mason
Vice President, Government and Regulatory Affairs
Frontier Communications
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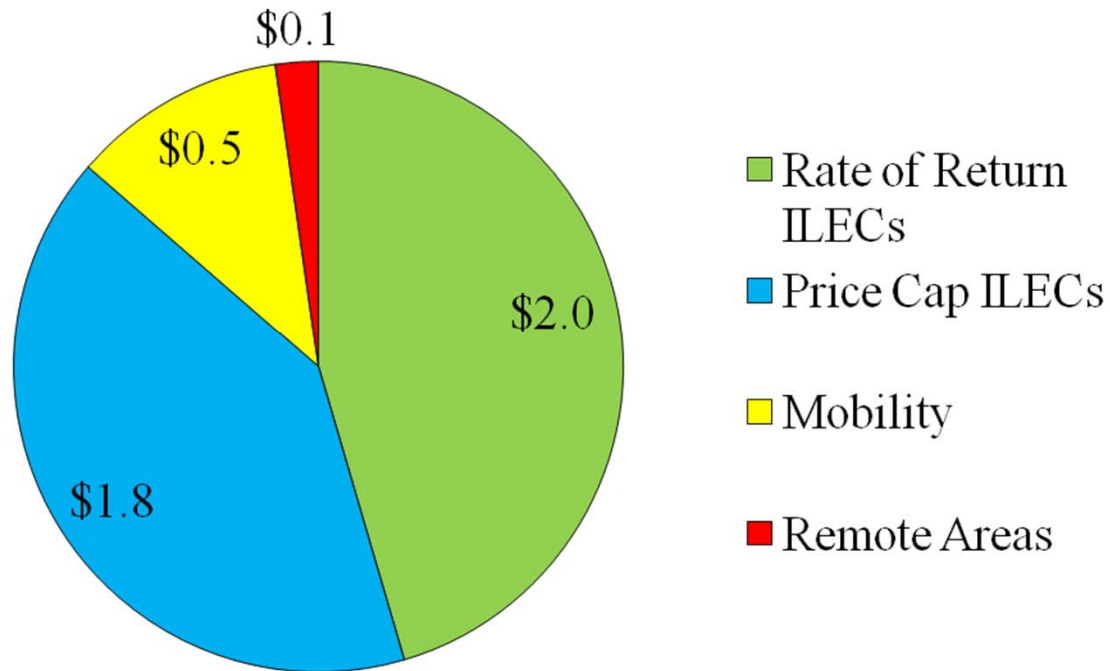
Creating the Connect America Fund

Providing Explicit Support for Broadband

- FCC's goals:
 - Bring meaningful broadband service to unserved areas;
 - Support advanced mobile voice and broadband networks in rural, insular and high-cost areas
 - Continue requirements for voice support
 - Put the high-cost program on a firm budget
- The Connect America Fund (CAF) will be implemented in different phases:
 - CAF Phases I and II (Price Cap)
 - Mobility Fund Phases I and II
 - Remote Areas Fund

Budgeting the CAF

Future CAF Annual Budget (in \$B)



- The \$4.5B annual budget will transition while CAF Phase II, Mobility Phase II and Remote Areas Fund are implemented

Transitioning to the Connect America Fund: Price Cap CAF Phase I

- Transition from USF:
 - Price cap carriers will have their traditional USF high-cost support frozen at 2011 levels
 - Traditional high-cost funding mechanisms consolidated into the “frozen high-cost support”
 - FCC maintained “as-if” distinctions for some funding categories that impact intercarrier compensation and basic rate calculations
 - Federal Rate of Return affiliates of a Price Cap Holding Company will have high-cost support frozen at 2011 levels
- Incremental Support:
 - Up to \$300M additional funding will be made available to price cap carriers for the deployment of broadband in unserved areas
 - Incremental Support is calculated at the wire center level but distributed at the holding company level nationally using an updated version of the high-cost model support calculation
 - Funding amounts per carrier will be announced by the FCC on or before March 31, 2012; carriers can accept all, some, or none of the support
 - Carriers to provide notice to the FCC and states within 90 days of funding announcement of the amount of support it accepts, identifying areas to deploy by wire center and census block

CAF Phase I Limitations and Obligations

- CAF Phase I support cannot be used:
 - To fund areas that the carrier's capital improvement plan had targeted for broadband deployment within the next three years
 - To satisfy broadband commitments related to transaction approvals or other regulatory obligations
- Frozen high-cost support must be used in a manner consistent with achieving universal availability of voice and broadband.
 - If Phase I support is extended beyond 2012, carriers will be required to use increasing amounts of frozen support for broadband expansion
- Recipients of incremental CAF Phase I support must deploy broadband to at least one unserved location for each \$775 in support it receives.
 - Deployment of at least 4/1 Mbps must occur in areas that the National Broadband Map shows as unserved at 768/200 Kbps
 - Petition for Reconsideration filed on how Map will be used in order to account for inaccuracies and encourage deployment in partially served areas
 - Two thirds of locations must be built within 2 years and 100% within 3 years
 - Frontier and Windstream have requested reconsideration of the \$775/location figure

CAF Phase II: Overview

- Price cap CAF Phase II tentatively scheduled to begin in 2013
- \$1.8B distributed based upon a forward-looking cost model that estimates the costs of deploying broadband capable networks in high-cost areas
 - Support for capex and opex will be targeted at the census block level or more granular
 - ABC Plan proponents have proposed a model; the FCC is currently considering the model structure
- All funding targeted to areas not served by an unsubsidized wireline competitor
- Annual support, as determined by the cost model, will be offered to each price cap carrier on a state-by-state basis for a period of five years in exchange for a commitment to offer voice service throughout its service area and broadband service to supported locations
 - Price cap carriers have the option to decline this support on a state-by-state basis
 - Support will be awarded through a competitive bid auction for all areas where a price cap LEC declines the Phase II support
- Certain very high cost areas will be served by the Remote Areas Fund

CAF Phase II Transitions and Obligations

- CAF II support phased-in:
 - Year one: Carrier receives 50% of CAF Phase I and 50% of CAF Phase II
 - Year two: Carrier receives 100% of CAF Phase II
 - There is also a phase-out for frozen legacy high-cost support for price cap ILECs that decline Phase II in an area
- Obligations for Phase II support:
 - By the end of the 3rd year, carriers must offer at least 4/1 Mbps broadband service to at least 85% of the high cost locations targeted for support
 - By the end of the 5th year, carriers must offer at least 4/1 Mbps broadband service to 100% of the high costs locations and 6/1.5 Mbps to a percentage of the locations to be determined
 - Carriers can seek waivers for the 1 Mbps upstream requirement to the extent a carrier can demonstrate that the support is insufficient
- After five years the high-cost support may be put out for competitive bid
 - Auction would be technology neutral; fixed and mobile services could compete provided they can meet the FCC's broadband standards
 - Process is not yet determined

CAF – Voice Price Floors

- CAF support related to legacy High-cost loop (rural) and High-cost model (non-rural) will be reduced dollar-for-dollar where the basic monthly residential rate is below the following price floor:
 - Under \$10 as of July 1, 2012
 - Under \$14 as of July 1, 2013
 - Under the nationwide average, currently \$15.62, as of July 1, 2014
- This provision applies to both Price Cap and Rate of Return Companies
- This price floor includes all state mandated fees but does not include the Subscriber Line Charge

Further Notice of Proposed Rulemaking: CAF

- Comment cycle closed February 17
- Comment sought on:
 - How to measure broadband service obligations/service commitments on CAF Phase II recipients
 - How to ensure that CAF recipients are accountable to produce results
 - The establishment of a long-term mobility fund
 - Design of a competitive bidding process to be used where an ILEC does not accept the right-of-first refusal or when the ILEC's right expires after 5 years
 - The design of the Remote Areas Fund
- The FCC seeking comment on the CAF Phase II forward-looking model in a separate notice
- Numerous areas are also subject to Petitions for Reconsideration

State Roles: USF

- FCC ETC Certification:
 - States maintain an ongoing role in annual ETC certifications.
 - States now must certify all high-cost support was used in the preceding year and will be used in the coming calendar year consistent with purposes for which the support is intended.
 - Beginning April 1, 2012, the FCC rules now require all ETCs that receive support to annually file specific information with the FCC, USAC and the states.
 - Annual certifications by the state must be filed by October 1 of each year in order for carriers to receive full support in the succeeding year.
- States should take an active role in monitoring the FCC's development of the cost model for Phase II CAF funding and that broadband build out requirements and timelines are achievable.

Timeline of Key Dates

- November 18, 2011: Order Released
- December 29, 2011: Order became effective
- February 17, 2012: Comment cycle closes on CAF FNPRM issues
- March 31, 2012: Deadline for FCC to announce Phase I support
 - 90 Days following: Price cap carriers announce their Phase I plans
- April 1, 2012: ETC filing deadline
- October 1, 2012: States must file annual certifications with the FCC
- January 1, 2013: CAF Phase II?