

Build-Out Obligation Methodology for Rate-of-Return Carriers Electing Model-Based Support



The voice of mid-size communications companies

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RATIONALE FOR THE METHODOLOGY

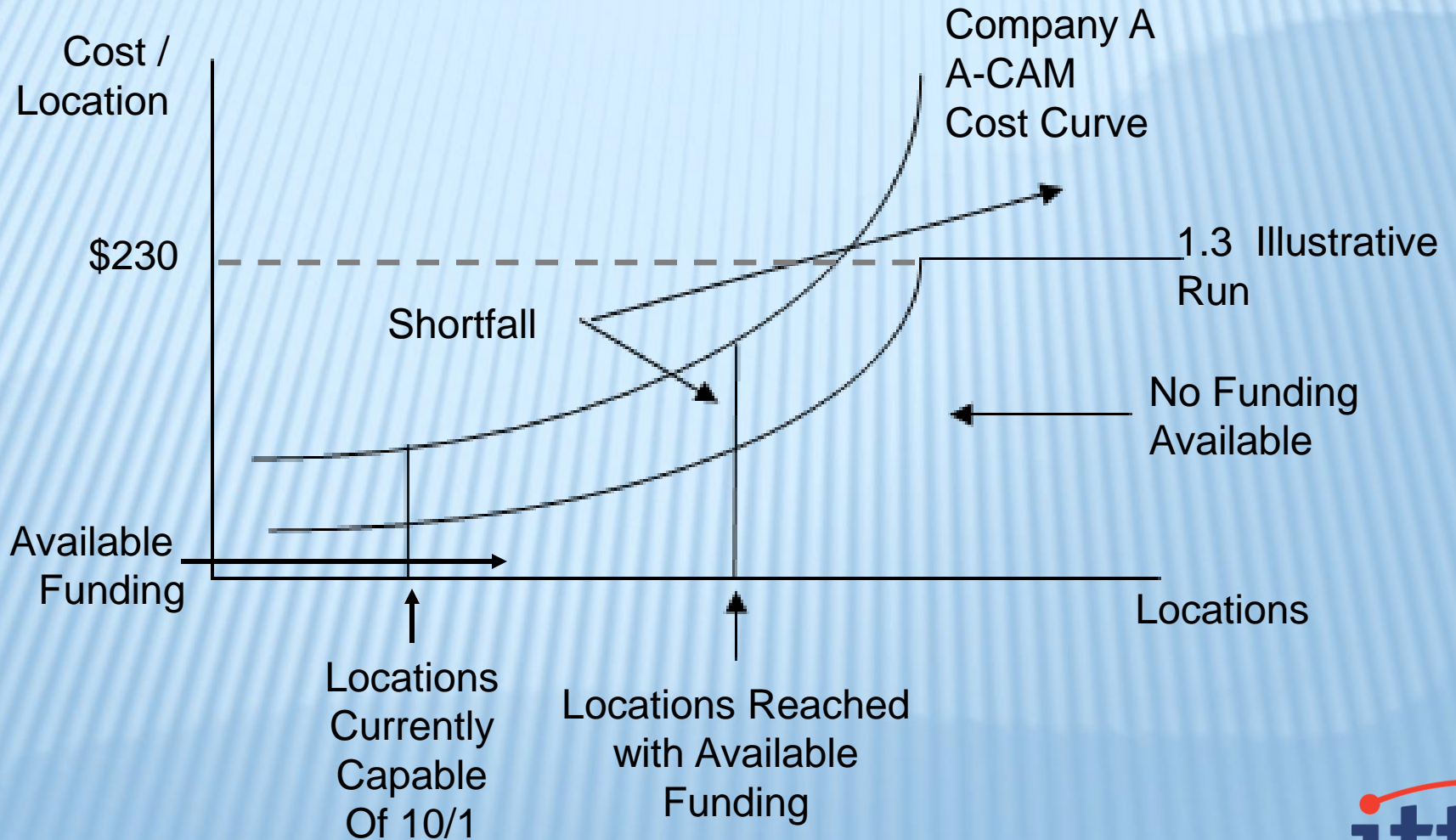
- **Funding is directed to unserved areas.**
- **Limited funding will likely result in build-out obligations of less than 100%.**
- **Diversity requires carrier specific build-out obligations.**
 - **Location costs vary greatly based on density and other factors.**
 - **Current broadband deployment varies by company.**
 - **The proportion of locations where support is limited to \$230 varies by carrier.**
- **A-CAM provides data necessary to determine build-out obligations. A company's build-out obligation is based on its available funding, costs and current locations reached.**

DIFFERENCES NECESSITATE DIFFERENT POLICIES

Policy Difference	Price Cap Areas	Rate-of-Return Areas*
Cost Differences	Larger numbers of PC locations are relatively low cost.	More RoR areas are higher cost and thus require a unique build-out approach.
Existing Build-out Levels	Most high-cost areas are unserved.	Many high-cost areas are already served.
Different Outcomes for Highest-Cost Areas	Locations above PC extremely high cost threshold subject to RAF.	Locations above \$230 subject to reasonable request.
Deciding Factors for Electing Model Support	If refused, model support will be auctioned.	Model support entirely optional.

* These statements are based on our assessment of the approach the Commission may adopt including FCC Illustrative Scenario 1.3.

SIMPLIFIED OVERVIEW OF THE METHODOLOGY



CALCULATION OF BUILD-OUT OBLIGATION

- Determine CAF reserves available for each company.
- Sort each company's census blocks in order of increasing A-CAM costs.
- Count eligible locations with costs above \$52.50.
- Beginning with the lowest cost census block, sum the capital cost and the locations for each block until all available funding has been used.

$$\begin{aligned} \text{Support Used in Census Block}_i &= \text{Capital Expenditure Cost}_i \\ &= 0.433 \times \text{Number of Locations}_i \times (\text{Cost per Location}_i - \$52.50) \end{aligned}$$

- Multiply the resulting eligible locations by 95%.
 - Companies don't deploy by census block therefore they may not deploy to the lowest cost census block first.
 - Legitimate cost differences exist between model and actual costs.

CALCULATION FOR ILLUSTRATIVE STUDY AREA D

CB	Telco Served	Cable Served	Fixed Wireless Served	Total Active Subscribers	Cost Per Active Sub	Unserviced Locations over 52.50	CapEx Cost of Build-out to Unserviced Locations	Cummulative CapEx Cost of Build-out to Unserviced Locations	Cummulative Count of Eligible Locations
						0	\$ -	\$ -	0
1234567891234	Served	Served	Unserviced	18	\$ 50	0	\$ -	\$ -	0
1234567891255	Unserviced	Unserviced	Unserviced	2	\$ 55	2	\$ 2.17	\$ 2.17	2
1234567891276	Served	Unserviced	Unserviced	8	\$ 55	0	\$ -	\$ 2.17	2
1234567891297	Unserviced	Served	Unserviced	2	\$ 55	0	\$ -	\$ 2.17	2
1234567891318	Served	Unserviced	Unserviced	5	\$ 55	0	\$ -	\$ 2.17	2
1234567891339	Served	Served	Unserviced	6	\$ 55	0	\$ -	\$ 2.17	2
1234567891360	Served	Served	Unserviced	1	\$ 55	0	\$ -	\$ 2.17	2
1234567891381	Served	Served	Unserviced	7	\$ 55	0	\$ -	\$ 2.17	2
1234567891402	Served	Unserviced	Unserviced	16	\$ 60	0	\$ -	\$ 2.17	2
1234567891423	Unserviced	Unserviced	Unserviced	5	\$ 60	5	\$ 16.24	\$ 18.40	7
1234567891444	Unserviced	Unserviced	Unserviced	22	\$ 60	22	\$ 71.45	\$ 89.85	29
1234567891465	Served	Served	Unserviced	7	\$ 60	0	\$ -	\$ 89.85	29
			
1234567891466	Unserviced	Unserviced	Unserviced	1	\$ 85	1	\$ 14.07	\$ 1,909.53	222

$$222 \times 0.95 = 211$$

ILLUSTRATIVE COMPANY RESULTS

Study Area	Total Locations	Locations in Census Blocks Receiving Model-Based Funding	Locations in Census Blocks Lacking 10/1	Current Build-out of Eligible Locations	Current Build-out of Total Locations	Annual Share of CAF Reserve	Add'l Locations to Build-out with CAF Reserve x 95%	Final Locations Capable of 10/1	Final Build-out of Eligible Locations	Final Build-out of Total Locations
A	430	365	365	0%	15%	\$ 116,982	163	163	45%	53%
B	6,543	4,758	4,624	3%	29%	\$ 567,840	2,656	2,790	59%	70%
C	38,566	16,316	15,095	7%	61%	\$ 5,050,141	7,439	8,660	53%	80%
D	1,585	656	292	55%	82%	\$ 55,126	211	575	88%	95%

CONCLUSION

- Differences between rate-of-return and price-cap areas and policies require a different approach.
- The proposed methodology matches the obligation to the factors that impact rate-of-return deployment:
 - The cost to serve various locations;
 - The available CAF funding; and
 - The current level of 10/1 deployment.