




Get Your FCC Groove On!

USF/ICC Transformation Order:
“Modification Order”

MOSS ADAMS LLP

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“MODIFICATION ORDER”

- Adopted 4/23/2014
- Released 6/10/2014
- Multiple Components
 - Report and Order
 - Declaratory Ruling
 - Order
 - Memorandum Opinion and Order
 - 7th Order on Reconsideration
 - Further Notice of Proposed Rulemaking (FNPRM)



“MODIFICATION ORDER”

- Report and Order
 - Connect America Fund Phase II Competitive Bidding Process
 - Provider Eligibility Requirements
 - Transition from Current Mechanisms to Phase II
 - Elimination of Support for Competitive Overlap
 - Rule Amendments



“MODIFICATION ORDER”

- Declaratory Ruling
 - Definition of a Reasonable Request for Broadband
 - RoR Carrier has no obligation to extend broadband where there is an unsubsidized competitor
 - “Modification Order” does not change existing support for RoR carriers or impact existing broadband in extremely high cost areas



“MODIFICATION ORDER”

- Order
 - Delays implementation of support reductions for local rates below the Local Rate Floor
 - Waiver of filing fees for study area waivers below the exchange level
- Memorandum Opinion and Order
 - ACS Application for Review (Denied)
 - NCTA Application for Review (Dismissed)



“MODIFICATION ORDER”

- 7th Order on Reconsideration
 - Reinstates Safety Net Additive for certain carriers for 2010 and 2011 costs
 - Broadband Public Interest Conditions (Speed, Latency, Usage)
 - Elimination of the Quantile Regression Analysis (QRA)



“MODIFICATION ORDER”

- Further Notice of Proposed Rulemaking
 - Public Interest Obligations
 - Flexibility in Meeting Deployment Obligations
 - Eligibility of Areas for CAF Phase II Support
 - ETC Designation
 - Transition to CAF Phase II
 - Rural Broadband Experiments & Model-Based Support



“MODIFICATION ORDER”

- Further Notice of Proposed Rulemaking
 - Phase II Competitive Bidding Process
 - Mobility Fund Phase II
 - Phase Down of Identical Support
 - Reforms for Rate of Return Study Areas
 - Broadband CAF
 - Optional transition to model-based support and price caps
 - Support for middle mile costs
 - Accountability and Oversight

“MODIFICATION ORDER”

- Effective Dates
 - Everything effective 30 days after publication in the Federal Register, except;
 - Rules requiring PRA approval – immediately following publication of OMB approval in Federal Register
 - Waiver of rule sections – upon release of waivers pursuant to FCC rules
 - Elimination of QRA – 1st of the month following publication of a summary of this order in the Federal Register



“MODIFICATION ORDER”

- Comment Dates
 - Comments – 30 days after date of publication in the Federal Register (July 31st?)
 - Reply Comments – 60 days after date of publication in the Federal Register (August 30th?)
 - Moss Adams will be assisting client companies in the preparation and filing of comments

“MODIFICATION ORDER”

- Major Issues Impacting RoR Carriers
 - Local Rate Floor
 - Local Rate Floor of \$20.46 remains in effect and lines with rates below the floor must be report to USAC annually
 - Reductions in HCLS are phased in and capped at \$2.00 per year
 - July 2, 2014 – January 2, 2015: \$14.00
 - January 2, 2015 – July 2, 2016: \$16.00
 - July 2, 2016 – July 2, 2017: Lesser of \$18.00 & Rate Survey
 - » Rate Survey based on 2014 rates, calculated in 2015
 - July 2, 2017 – July 2, 2018: Lesser of \$20.00 & Rate Survey
 - » Rate Survey based on 2014 rates, calculated in 2016
 - Local Rate Floor does not apply to Lifeline rates



“MODIFICATION ORDER”

- Major Issues Impacting RoR Carriers
 - Definition of Reasonable Request for Broadband
 - Incremental cost of deploying broadband should not exceed revenues from upgraded line
 - Broadband service revenue
 - Federal Universal Service Funding (ICLS & HCLS)
 - State Universal Service Funding
 - Incremental cost may not cause total High Cost Support to exceed \$250/line/month
 - Existing high cost support may not exceed \$250/line/month
 - No obligation to extend/upgrade broadband to census blocks with an unsubsidized competitor

“MODIFICATION ORDER”

- Major Issues Impacting RoR Carriers
 - Safety Net Additive (SNA)
 - Reinstated for carriers that would have qualified based on increase in TPIS (14% or more) in 2010 or 2011
 - No reinstatement for carriers that would have qualified based on line loss
 - Support is retroactive to 2012, with 2012 support paid in 2014
 - No additional support for costs incurred in 2012 or beyond
 - SNA will cease to exist following 2017
 - 5 years of payments: 2013 – 2017 for 2011 qualification

“MODIFICATION ORDER”

- Major Issues Impacting RoR Carriers
 - Quantile Regression Analysis (QRA)
 - Eliminated effective the 1st of the month following publication in the Federal Register
 - Redistributed support also eliminated
 - No impacts on other limitations on High Cost Support
 - \$250/line/month Cap
 - Corporate Operations Expense Limitation
 - Indexed Cap on Total HCLS
 - FCC to further “consider other options to increase incentives for efficient investment of universal service funds” in FNPRM



“MODIFICATION ORDER”

- Other Issues of Note Impacting RoR Carriers
 - Competitive Overlap
 - FCC to utilize study area boundary data collection, FCC Form 477 data and the National Broadband Map to determine areas with 100% overlap
 - Rule Amendments
 - Annual Reports to be filed with Office of the Secretary in newly opened WC Docket No. 14-58 (previously 10-90)
 - HCLS and SNA rules to be moved from Part 36 to Part 54
 - Consolidates all universal service rules
 - No filing fees in Part 54 for waiver requests



“MODIFICATION ORDER”

- Further Notice of Proposed Rulemaking (FNPRM)
 - Public Interest Obligations
 - Increase download speed to 10 Mbps?
 - Transition over multiple years
 - Only required upon reasonable request
 - Increase upload speed to 2 Mbps?
 - ETCs must offer a minimum of 1 service offering that meets public interest obligations



“MODIFICATION ORDER”

- Further Notice of Proposed Rulemaking (FNPRM)
 - Rural Broadband Experiments
 - Performance criteria for a Rural Broadband Experiment to be removed from a price cap territory
 - Mobility Fund Phase II
 - Support shifted to 4G LTE and away from 3G
 - Focus on areas not served by AT&T or Verizon 4G LTE
 - Reallocate Mobility Funding to Remote Areas Fund
 - Phase Down of Identical Support
 - If support is > 1% of wireless revenue, maintain existing support until Mobility Fund Phase II support is announced
 - Eliminate support <1% of wireless revenue on 12/31/14

“MODIFICATION ORDER”

- Further Notice of Proposed Rulemaking (FNPRM)
 - Rate of Return Carrier Reform
 - Proportional reduction in HCLS support for all recipients
 - Eliminate annual adjustment of NACPL to maintain cap on support
 - Instead reduce reimbursement percentages (65%/75%) for all carriers
 - » Spreads impacts among all eligible carriers
 - » Maintains support for lower cost companies
 - Potentially implemented on 1/1/2015

“MODIFICATION ORDER”

- Further Notice of Proposed Rulemaking (FNPRM)
 - Rate of Return Carrier Reform
 - New investments not eligible for HCLS and ICLS in areas served by an unsubsidized competitor
 - Supported by audit of asset records (CPRs)
 - Safe Harbor – publish intent to invest in a specified area on company website for 90 days for competitor notification
 - New investments transferred to new Connect America Fund
 - Existing investments recovered through HCLS and ICLS for remaining life
 - Requests comment on rate of return prescription

“MODIFICATION ORDER”

- Further Notice of Proposed Rulemaking (FNPRM)
 - Rate of Return Carrier Reform
 - Standalone Broadband Support
 - Proposed Principles
 - » Remain within existing budget
 - » Distribute support equitably and efficiently
 - » Based on forward-looking costs (not embedded)
 - » Ensure no double recovery by removing broadband Internet Access costs from the regulated rate base
 - NTCA Proposal
 - » Concerns of double recovery of costs due to timing differences
 - » Concern with proposed broadband-only rate of \$26.00
 - » Does not address areas served by unsubsidized competitors



“MODIFICATION ORDER”

- Further Notice of Proposed Rulemaking (FNPRM)
 - Rate of Return Carrier Reform
 - Voluntary Transition to Incentive Regulation
 - Transition to model based support
 - » Phase I – Freeze existing HCLS and ICLS
 - » Phase II – Rate of Return Cost Model
 - Costing and Pricing of Special Access Services
 - » Converted to Price Caps either under own tariff or NECA Pool
 - Allows carriers to deregulated Broadband Internet Access
 - Continue rate of return transition of switched access to bill and keep



“MODIFICATION ORDER”

- Further Notice of Proposed Rulemaking (FNPRM)
 - Rate of Return Carrier Reform
 - Middle Mile Support
 - Proposal to support middle mile costs on Tribal Lands up to \$10M in one time support
 - Used as a model for rate of return carriers

“MODIFICATION ORDER”

- Further Notice of Proposed Rulemaking (FNPRM)
 - Rate of Return Carrier Reform
 - Accountability and Oversight
 - Reasonable comparability certification for broadband rates
 - » Only one rate plan need to meet the benchmark
 - Reductions in support for late filings and non-compliance with service obligations
 - » Minimum support reduction for any late filing = 7 days support
 - » One time grace period of 3 days
 - Applied at the holding company level
 - Reversed upon 2nd late filing
 - » Proportional loss of support for non-compliance with service obligations
 - Submit a plan for compliance prior to loss of funding

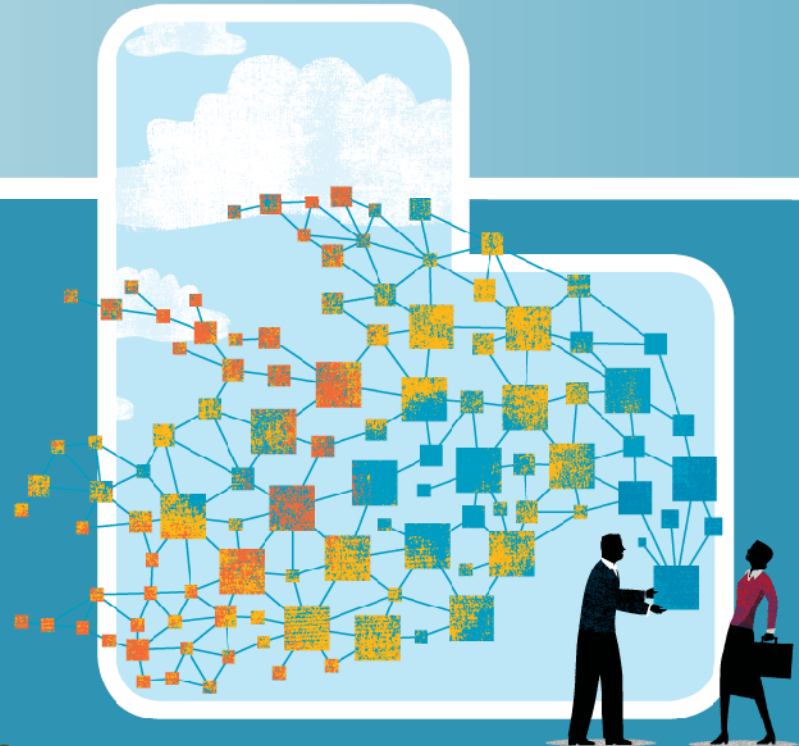
QUESTIONS?

Thank you!

Chad Duval, Principal
Moss Adams LLP

Chad.duval@mossadams.com

209-955-6124



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