



Telergee 2015 Financial Management Conference

May 14, 2015

MOSS ADAMS_{LLP}

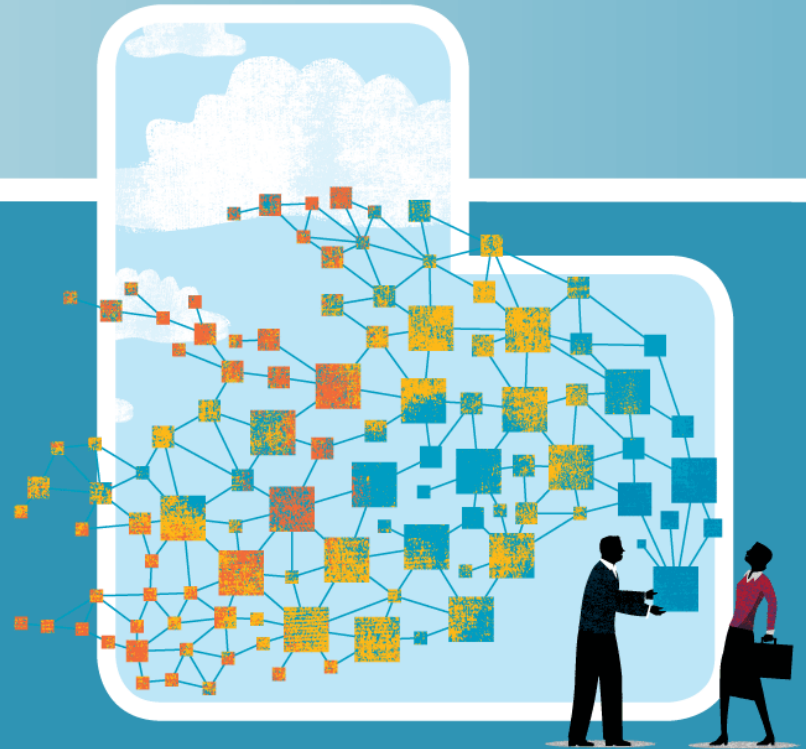
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TELERGEE REGULATORY UPDATE

May 2015

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TOPICS FOR DISCUSSION

- USF Reform
 - Optional Cost Model/Alternative Regulation
 - Consensus Plan
 - Option to remain on Legacy Support
- Alternative Connect America Cost Model (A-CAM)
- CAF Phase II (Price Cap Carriers)
- Network Neutrality Order (Open Internet)

USF REFORM UPDATE

- FCC requested that stakeholder groups come to a consensus agreement w/in 30 days (5/18/15)
 - NTCA/WTA/ITTA/NECA/USTelecom/RBA/Nebraska Carriers
 - Groups have been meeting on a regular basis over the last 3 weeks
- FCC has indicated an intent to implement reform on January 1, 2016
 - No indication as to whether the FCC will seek public comment on any proposal/plan

USF REFORM UPDATE

- Currently looking at 3 options in a single plan
 - Elect Model Support Day 1
 - Budget = Legacy Support + Reductions from “Glide Path” Carriers + Fund Reserves
 - Enough reserves available for a 10 year transition
 - Study area level election
 - Glide Path to Model Support
 - Budget = Legacy Support – Phase Down
 - 5-20 Year Phase Down

USF REFORM UPDATE

- Currently looking at 3 options in a single plan
 - Legacy Support
 - Budget = Current Budget – Model Carriers
 - Will be modified, potentially in multiple ways
 - Data Connection Service
 - Capital Budget Mechanism
 - Operating Expense Limitations

USF REFORM UPDATE

- Model Concerns
 - FCC has not committed to fully funding model based support
 - It appears that funding would be sufficient w/ fund reserves
 - Broadband Obligations are currently unknown
 - % Availability over a period of years (10?) – similar to Price Caps
 - Transition Period for Glide Path
 - 5-20 Year Transition
 - » FCC does not like long term transitions
 - » Same 10 year availability obligation
 - Does it design an appropriate network to serve rural America?
 - What are the impacts of competitive overlap and has it been done correctly?

A-CAM BACKGROUND

- December 22, 2014 A-CAM Public Notice
 - FCC releases Version 1.0 of the A-CAM for review
 - Based on June 2013 National Broadband Map
 - 4/1 Mbps Broadband standard
 - Qualifying Competitors
 - Cable Modem
 - Fixed Wireless
 - GeoResults service area boundaries
 - Not filed Study Area Boundary Maps

A-CAM BACKGROUND

- March 6, 2015 A-CAM Public Notice
 - FCC releases Version 1.0.1 of the A-CAM for review, including illustrative results
 - No changes in underlying data sources
 - 10/1 Mbps Broadband standard
 - \$1.625B budget for Rate of Return support
 - Future updates
 - More recent National Broadband Map
 - Study Area Boundary Map data

A-CAM BACKGROUND

- April 10, 2015 A-CAM Public Notice
 - FCC publishes map of study area boundaries and central office locations for RoR ILEC review
 - Study area boundaries based on 2013 filing w/ FCC
 - Central office locations based on a variety of sources
 - Some confusion over the definition of a central office
 - Updates were due by May 11, 2015
 - Map of study area boundaries can be downloaded at <http://www.fcc.gov/maps/acam-ror-sa-map>.
 - CO locations file can be requested by registered A-CAM users from A-CAM support desk at no charge

A-CAM BACKGROUND

- May 5, 2015 A-CAM Public Notice
 - Revisions to A-CAM Study Area Map
 - Updates to a limited number of Central Office locations based on better information
 - Impacts approximately 65 study areas
 - Corrections to impacted Central Offices shall be submitted by May 15, 2015
 - This is not a blanket extension for all carriers or even all Central Offices of impacted carriers
 - Same process for submitting corrections

ILLUSTRATIVE RESULTS FROM V1.0.1

- 7 Alternatives based on FCC assumptions and options presented by interested parties

Report Reference Number	Mechanism to meet budget	Competitive Areas Excluded	Benchmark Cost/Rate	Extremely High-Cost Threshold (EHCT)
1.1	EHCT	Yes	\$52.50	\$ 563.38
1.2	EHCT	No	\$52.50	\$ 461.19
1.3	Limit support per location to \$230	Yes	\$52.50	\$ 230 Funding Cap per location
1.4	None	No	\$60.00	NA
1.5	None	Yes	\$60.00	NA
1.6	None	Yes	\$52.50	NA
1.7	None	No	\$52.50	NA

ILLUSTRATIVE RESULTS FROM V1.0.1

- Summary results from alternative model runs

Report Reference Number	Total Rate of Return Locations	Total Number of Rate of Return Locations in Census Blocks Receiving Model-Based Funding	Total Number of Locations in Supported Census Blocks Lacking 10/1	Total Number of Rate of Return Locations in Census Blocks Above Extremely High Cost Threshold (If Applicable)	Total Rate of Return Carrier Model-Based Support	# of SACs w/ACAM Support > 2014 Support	# of SACs w/ACAM Support < 2014 Support
1.1	6,410,112	1,742,918	986,337	66,253	\$ 1,624,998,788	621	471
1.2	6,410,112	2,066,398	1,132,104	95,533	\$ 1,624,997,764	648	444
1.3	6,410,112	1,805,812	1,035,943	-	\$ 1,622,635,716	621	471
1.4	6,410,112	2,440,861	-	-	\$ 2,078,817,060	622	470
1.5	6,410,112	1,552,857	909,845	-	\$ 2,234,512,857	659	433
1.6	6,410,112	1,805,812	1,035,943	-	\$ 2,385,131,894	703	389
1.7	6,410,112	2,161,931	1,205,378	-	\$ 2,584,741,723	756	336

ILLUSTRATIVE RESULTS FROM V1.0.1

- Summary results by state for alternatives 1.1 – 1.3 (average)
 - 20 States receive additional support
 - Top 10: MN - \$69M/ND - \$51M/IA - \$45M/NE - \$32M/SD - \$27M/AK - \$21M/MT - \$19M/MO - \$19M//MI - \$17M/UT - \$9M)
 - 26 States receive less support
 - Bottom 10: SC - (\$45M)/KS – (\$32M)/TX – (\$31M)/IN – (\$31M)/CA – (\$22M)/LA – (\$22M)/GA – (\$21M)/NC – (\$18M)/NM – (\$18M)/AZ – (\$16M)

CAF PHASE II

- CAF Phase II Support for Price Cap Carriers
 - Support calculated in Connect America Cost Model (Version 4.2)
 - Model has been finalized and elections are due August 27, 2015
 - Statewide election of support for 6 years
 - Must commit to providing broadband standard to 95% of locations in the state within support period
 - If support is accepted, no competitor will receive support
 - If support is rejected, reverse auction will determine supported provider
 - Auction at the census block or census block group level
 - No support available in census blocks w/ a qualifying competitor

OPEN INTERNET ORDER

Highlights

- Establishes rules for ISP conduct
 - Rules apply equally to fixed and mobile broadband providers.
- Reclassifies retail broadband Internet access as a Title II telecommunications service
 - “Light-touch” regulatory treatment -- applies fewer sections of Title II than apply to mobile voice.
 - Forbearance from utility-style regulations.

OPEN INTERNET ORDER

- Bright line rules for broadband providers
 - No blocking
 - May not block access to legal content, applications, services or non-harmful devices
 - No throttling
 - May not impair or degrade lawful Internet traffic on the basis of content, applications, services, or non-harmful devices
 - No paid prioritization
 - May not favor some lawful Internet traffic over other lawful traffic for consideration of any kind
 - No prioritizing content and services of affiliates

OPEN INTERNET ORDER

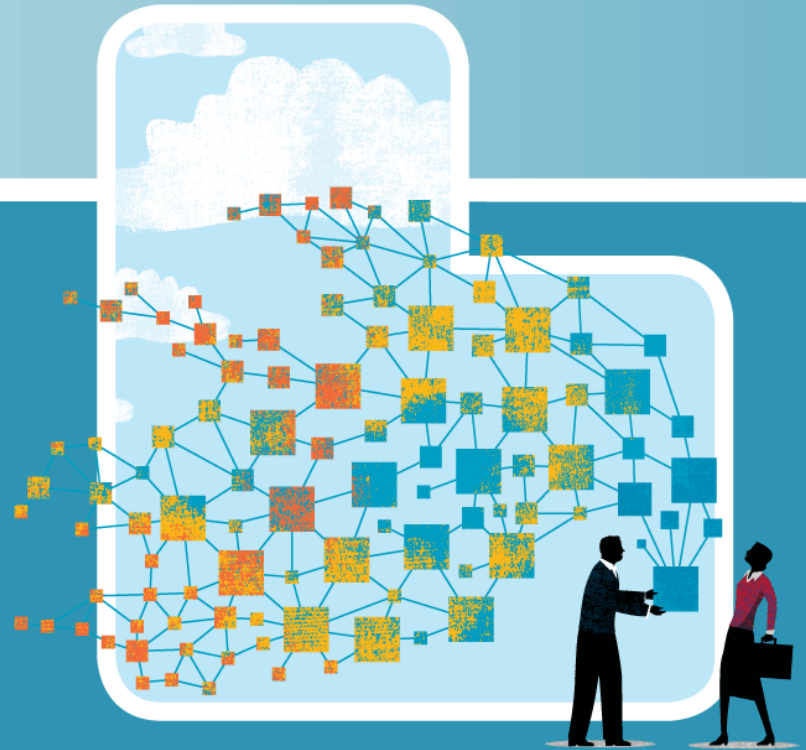
- Title II - “light-touch” approach
 - Provisions that will apply:
 - Secs. 201 & 202 – No unjust or unreasonable practices or discrimination.
 - Sec. 208 – Consumer complaints and related enforcement.
 - Sec. 222 – CPNI.
 - Sec. 224 – Fair access to poles and conduits.
 - Secs. 225 & 255 – Protection for people with disabilities.
 - Sec. 254 (partial) – Bolster USF support for broadband in the future.

OPEN INTERNET ORDER

- Title II - “light –touch” approach
 - Provisions subject to forbearance:
 - No rate regulation, tariffs, or last-mile unbundling.
 - No USF contribution requirement for broadband providers. Still being considered in a separate proceeding.
 - Broadband remains exempt from state and local taxation.

QUESTIONS?

Thank you!



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