



# Telergee Executive & Financial Conference

## Portland, Maine

May 12, 2016

Kenneth C. Johnson  
ken@hermanwhiteaker.com  
Principal  
Herman & Whiteaker, LLC



# What's Going on in DC?

- Presidential Election
- FCC @ Work for You
- A-CAM and CAF BLS
  - Broadcast Auction
  - Cable Merger
- Broadband Privacy

# Melania vs. Bubba



Those old channels you never watched are now worth billions (or are they?).



# Charter > Time Warner > Bright House



# CPNI vs. Making a Buck

All secrecy and no privacy...



Yes, there are two paths you can go by, but in the long run...




A-CAM vs. CAF-BLS (Legacy)  
...not just for accountants anymore



# Further Questions?

Kenneth C. Johnson  
ken@hermanwhiteaker.com  
Principal  
Herman & Whiteaker, LLC





# Rate-of-Return Reform Order Summary

TELERGEE EXECUTIVE & FINANCIAL  
CONFERENCE

MAY 12, 2016

**MOSS-ADAMS**<sub>LLP</sub>

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A photograph of a forest path with two roads diverging in a wood. The path is made of dirt and gravel, and the trees are tall and thin, creating a dense canopy. The text is overlaid on the image in white.

“Two roads diverged in a wood,  
and I - I took the one less traveled by,  
and that has made all the difference.”

Robert Frost



Questions?

# Thank You!

*Chad Duval, Partner, National Practice Leader*

[Chad.duval@mossadams.com](mailto:Chad.duval@mossadams.com)

*209-955-6124*

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# Rate-of-Return Reform Order

- In case Ken did not talk long enough, or you did not ask enough questions...
- And, so that you have a written summary of some of the stuff we talked about

# Effective Dates & Timing

- Effective 30 days following publication in the Federal Register (“FR”)
  - Published April 25, 2016 / Effective May 25, 2016
- Rules and requirements involving the PRA effective upon announcement of OMB approval in the FR
- FCC does not anticipate full implementation of CAF BLS prior to October 1, 2016
- A-CAM implementation will involve multiple steps & likely fully implemented January 1, 2017

# Voluntary Path to the Model

- Election of model based support is optional
  - The A-CAM will not put any company out of business
  - We now know the alternative to A-CAM
- Term of Support
  - 10 Years of fixed annual support
  - Rulemaking in Year 8 to determine how support will be determined after the initial 10 Year period



# Voluntary Path to the Model

- **Broadband Speed Obligations**
  - Apply for 10 year term of support, regardless of subsequent changes in speed standards
- **Usage and Latency Standards**
- **Deployment Obligations**
  - Starting in Year 4 (40%)
  - Year 10 (100%) – 10% per year

# Voluntary Path to the Model

- Multi-step election process
- Carriers w/ 90%+ Broadband availability not eligible
- CBs w/ ILEC fiber/cable not eligible
- Competitive Challenge process
- Phase in of support reductions
- May not participate in NECA CL Pool

# RoR Support Mechanism

- Support for Broadband-Only Loop Costs
  - Connect America Fund Broadband Loop Support (“CAF BLS”)
    - Supports voice, voice/broadband, and broadband-only services
  - Consumer Broadband-Only Loop
    - Line provided to a customer for use with fixed Broadband Internet access
  - Consumer Broadband Loop Revenue
    - Benchmark Rate = \$42.00
    - Tariffed or Detariffed Service
    - Same charge allowed, for A-CAM electing carriers

# RoR Support Mechanism

- Support for Broadband-Only Loop Costs
  - Calculation of CAF BLS
    - CAF BLS Revenue Requirement less End User Revenues
  - Attribution of CAF BLS
    - Voice and historic costs receive preference
  - Support Capped
    - Reductions in support split between per line and pro rata
  - Deployment Obligations
    - Based on current broadband availability
  - Annual Reporting Requirements

# RoR Support Mechanism

- Elimination of Support for Qualifying Competition
  - Applies only to CAF BLS (not HCLS)
  - Qualifying Competitor Requirements
  - Competitive Challenge Process
  - Disaggregation of support in competitive areas
  - Phase in of support reductions

# RoR Support Mechanism

- Operating Expense Limitation
  - Regression based analysis
  - Applies to both HCLS and CAF BLS
  - Applies to all expenses except depreciation and taxes
- Capital Investment Allowance
  - Capital Budget Mechanism for new loop investments
  - Applies to both HCLS and CAF BLS
  - Based on existing loop plant depreciation
  - Annual Allowed Loop Plant Investment

# RoR Support Mechanism

- Rate of Return Support Budget
  - \$2B per year
    - CAF ICC
    - HCLS
    - CAF BLS
    - A-CAM (+ up to \$200M)

# Rate of Return Represcription

- Represcribed Rate of Return at 9.75%
  - 6 year transition from 11.25%
    - 0.25% Annual Reduction
    - Tariff Year Application
  - Applies in all situations where prescribed Rate of Return is used
    - Common Line Rates
    - Consumer Broadband-Only Loop Rates
    - Special Access Rates
    - HCLS, CAF BLS and A-CAM (specifically excludes CAF ICC)



# FNPRM

- Review of Permitted Expenses
  - October 19, 2015 Public Notice
  - Costs that may not be recovered through High Cost Support & Interstate Revenue Recovery
    - Entertainment/KitchenArtwork/Special Purpose Vehicles/Childcare/Etc.
  - Other Questions
    - “Comparatively high compensation for executives”
    - Board Member Compensation
    - Limited costs for buildings purchased or rented
    - Excess capacity leased from affiliates
    - Pricing for affiliate and non-affiliate transactions

# FNPRM

- Issues Related to Cost Allocation & Affiliate Transactions
  - Revisit existing allocation rules and provide greater clarity
- Compliance Issues
  - Certify prohibited costs excluded from High Cost Support
  - Ensuring compliance with revised rules in tariff filings
  - NECA role in enforcing rules & impact on pool participation

# FNPRM

- Reducing Support in Competitive Areas
  - Additional options for the disaggregation of support
  - How non-supported costs are to be recovered
- Tribal Support
- Improving the Operation of RoR
  - Further incentives to deploy broadband under current budget
  - NECA's ongoing role
- Streamlining Annual Reporting Requirements

# Thank You!

*Chad Duval, Partner, National Practice Leader*

[Chad.duval@mossadams.com](mailto:Chad.duval@mossadams.com)

*209-955-6124*