



February 16, 2017

Ex Parte

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 12th Street, SW  
Washington, D.C. 20554

Re: Connect America Fund, WC Docket No. 10-90

Dear Ms. Dortch:

On Wednesday, February 15, 2017, Alan Buzacott (Verizon), Malena Barzilai (Windstream), Mike Saperstein (Frontier), Mary Henze (AT&T) and I met with Claude Aiken, Legal Advisor to Commissioner Clyburn. We discussed formulation and use of bidding weights in a potential CAF II auction as detailed on the attached filing.

Please do not hesitate to contact the undersigned if you have questions or concerns.

Sincerely,

A handwritten signature in blue ink that reads "Jonathan Banks".

Jonathan Banks  
Senior Vice President, Law & Policy

c: Claude Aiken

Attachment



February 9, 2017

Ex Parte

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 12th Street, SW  
Washington, D.C. 20554

Re: Connect America Fund, WC Docket No. 10-90

Dear Ms. Dortch:

The Commission is currently assessing various proposals for assigning weights to the performance tiers that it adopted for the Connect America Fund competitive bidding process. Some proposals would assign very large bidding credits to the gigabit performance tier. This type of proposal, if adopted, risks reducing by three-quarters the number of homes and businesses that obtain broadband under this program. That would be an unfortunate result for rural America.

The Commission has proposed to adjust auction bids by assigning weights to different service tiers to “alter the initial cost-effectiveness score” for each bid.<sup>1</sup> (para 210). Used in this way, bidding weights change the relative ranking of bids and thus the selection of winning bids. By altering the “cost effectiveness score,” the weightings enable a bid that costs the fund more per location to be selected as a winner over a bid that would have cost less per location. Using least cost estimates for networks to meet the specifications of each of the Commission’s performance tiers submitted earlier in this proceeding, we have estimated the relative effect that bidding weights could have on the number of locations served.<sup>2</sup> Assigning bidding weights that would skew auction winners to 1 Gbps networks risks reducing the number of rural locations that would benefit from new broadband connections from roughly 1.5 million to under 400,000, leaving more than 1 million rural homes and businesses without broadband.<sup>3</sup> The attached tables illustrate the trade-offs between higher speeds and locations served. The tables show that bidding weights that favor higher-cost networks reduce the number of Americans that obtain broadband. In other words,

---

<sup>1</sup> *Connect America Fund*, Report and Order and Further Notice of Proposed Rulemaking, 31 FCC Rcd 5949 at para. 210 (2016).

<sup>2</sup> Letter from Geoffrey G. Why, on behalf of Southern Tier Wireless, to Marlene H. Dortch, Docket Nos. 10-90, 14-58 and 14-259 (Sep. 21, 2016).

<sup>3</sup> Although some of these locations may later be connected through a Remote Areas Fund program, delay, uncertainty, and funding limitations illustrate the importance of covering as many unserved Americans as possible with this auction.

Ms. Marlene H. Dortch  
February 9, 2017  
Page 2

weighting schemes that disproportionately favor extremely high speeds do so at the cost of providing much-needed service to other Americans.

It is important to understand that supporting terrestrial broadband to more locations at any speed means that fiber is extended into more of rural America. A wider distribution of fiber throughout rural areas is more equitable. It will produce broader benefits – higher than minimum fixed broadband speeds for more customers and an expanded fiber infrastructure to support 4G and 5G wireless services and future technologies.

USTelecom, like others in the record,<sup>4</sup> has proposed a weighting methodology that would avoid unnecessarily leaving many Americans behind.<sup>5</sup> Sample bidding weights are provided in the attached table. By ensuring reasonable weighting of the speeds that customers actually demand, the Commission can deliver life-changing broadband service to as many Americans as possible, which is ultimately the fundamental goal of the high-cost universal service program.

Please do not hesitate to contact the undersigned if you have questions or concerns.

Sincerely,

A handwritten signature in blue ink that reads "Jonathan Banks". The signature is fluid and cursive, with the first name "Jonathan" and the last name "Banks" clearly legible.

Jonathan Banks  
Senior Vice President, Law & Policy

Attachment

---

<sup>4</sup> See Letter from Stephen E. Coran, Counsel for the Wireless Internet Service Providers Association, to Marlene H. Dortch, Docket Nos. 10-90, 14-58, and 14-259 (Jan. 31, 2017).

<sup>5</sup> See Reply Comments of USTelecom, Docket Nos. 10-90, 14-58, and 14-259 at 2-3 (Aug. 5, 2016).

**CAF II Auction Funding Analysis\***

	Total Annual Funding	Total Locations	Total 10-year Funding	10-year Funding per location
CAM Result	\$974,070,721	1,492,414	\$9,740,707,215	\$ 6,527
Framework Order	\$215,000,000	1,492,414	\$2,150,000,000	\$ 1,441

Total Annual funding will be ~= \$215,000,000  
 Funding to total reserve = 22%  
 Max support/Location = \$146.10

\* Pre-NY adjustment

### Trade-off of Speed Tier and Locations

FCC Speed Tier	STW Least Cost Technology	STW Rural Cost / Premise Estimates	Cost Ratio to Tier 2	Hypothetical Distribution of Winning Bids						
				50%	100%	33%	25%	100%	50%	100%
1: 10MB	Satellite	\$ 900	75%	50%		33%	25%			
2: 25MB	Fixed Wireless	\$ 1,200	100%	50%	100%	33%	25%			
3: 100MB	Co-axial Cable	\$ 4,000	333%			33%	25%	100%	50%	
4: 1GB	Fiber	\$ 5,000	417%				25%		50%	100%
Average Cost				\$ 1,050	\$ 1,200	\$ 2,033	\$ 2,775	\$ 4,000	\$ 4,500	\$ 5,000
Cost ratio vs 100% Tier 2				0.88	1.00	1.69	2.31	3.33	3.75	4.17

Locations served	1,705,616	1,492,414	880,769	645,368	447,724	397,977	358,179
Decrease in Locations served vs 100% speed tier 2	(213,202)		611,645	847,046	1,044,690	1,094,437	1,134,235
% reduction in Locations	-14%	0%	41%	57%	70%	73%	76%

### Speed Tier Weight Proposals

FCC Speed Tier	USTA Coalition	FCC Wgts	Rural coalition Wgts
1: 10MB	25	60	70
2: 25MB	15	40	60
3: 100MB	5	20	45
4: 1GB	0	0	0