

Future of Federal Universal Service

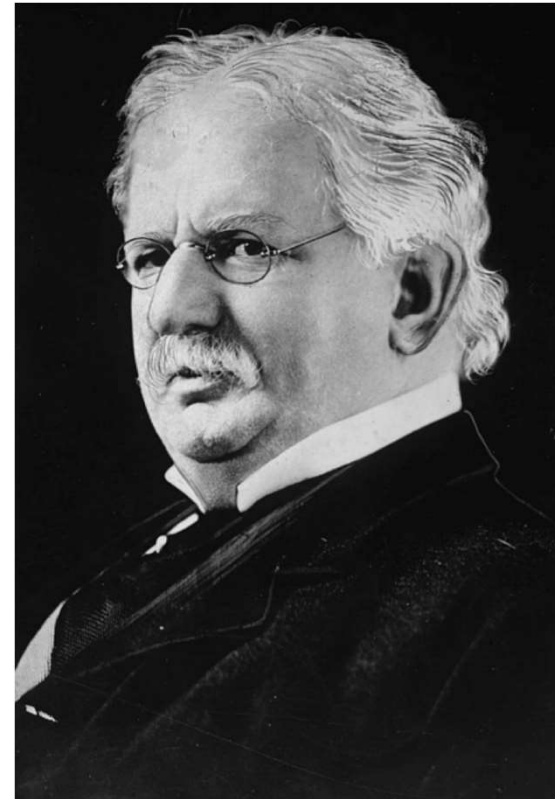
OTA Accounting Conference

Douglas Meredith / JSI

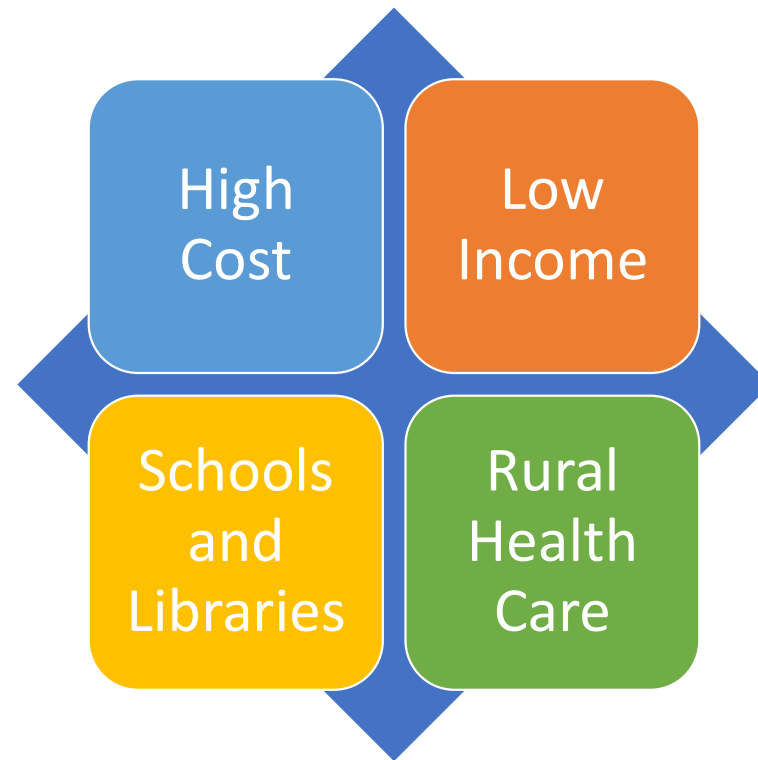
November 17, 2022

Universal Service

- Theodore Vail (1845-1920)
- AT&T President 1885-1889, 1907-1919
- 1907 - Sensing antitrust exposure coined term “one system, one policy, universal service”. This was AT&T’s answer to “dual service”



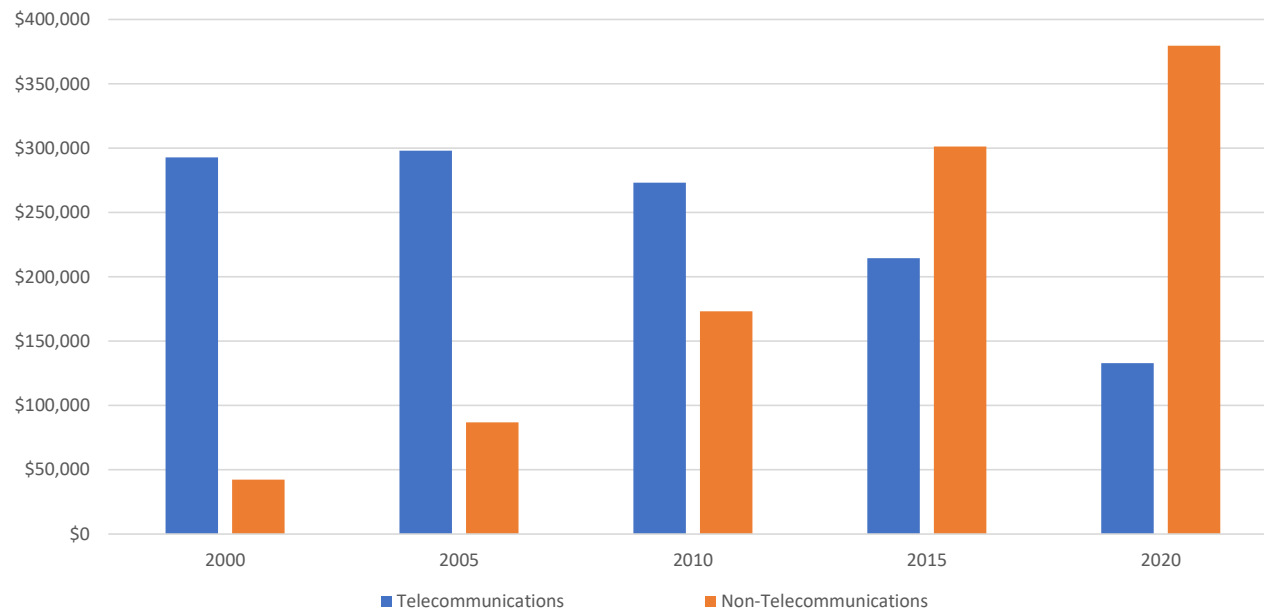
Federal Universal Service Program Groups



Revenues



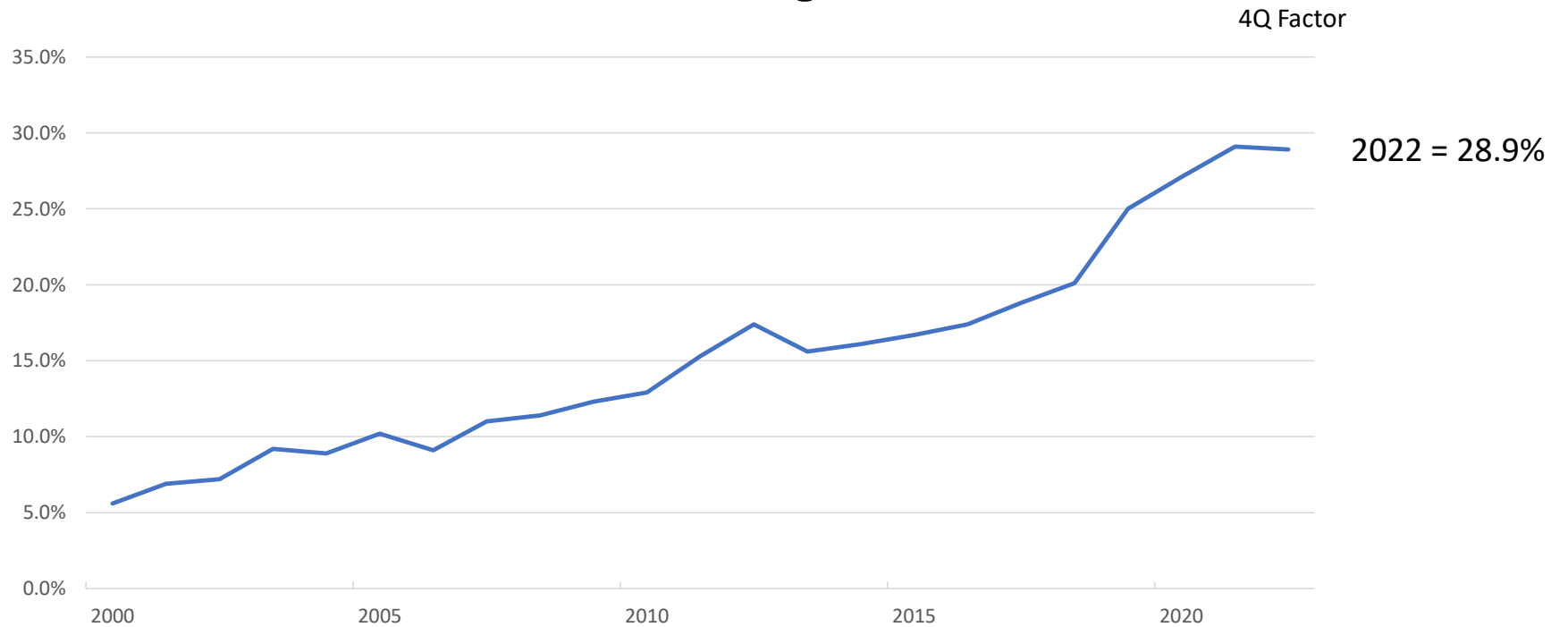
Telecom and Non-Telecom 2000-2020



Assessment Factor



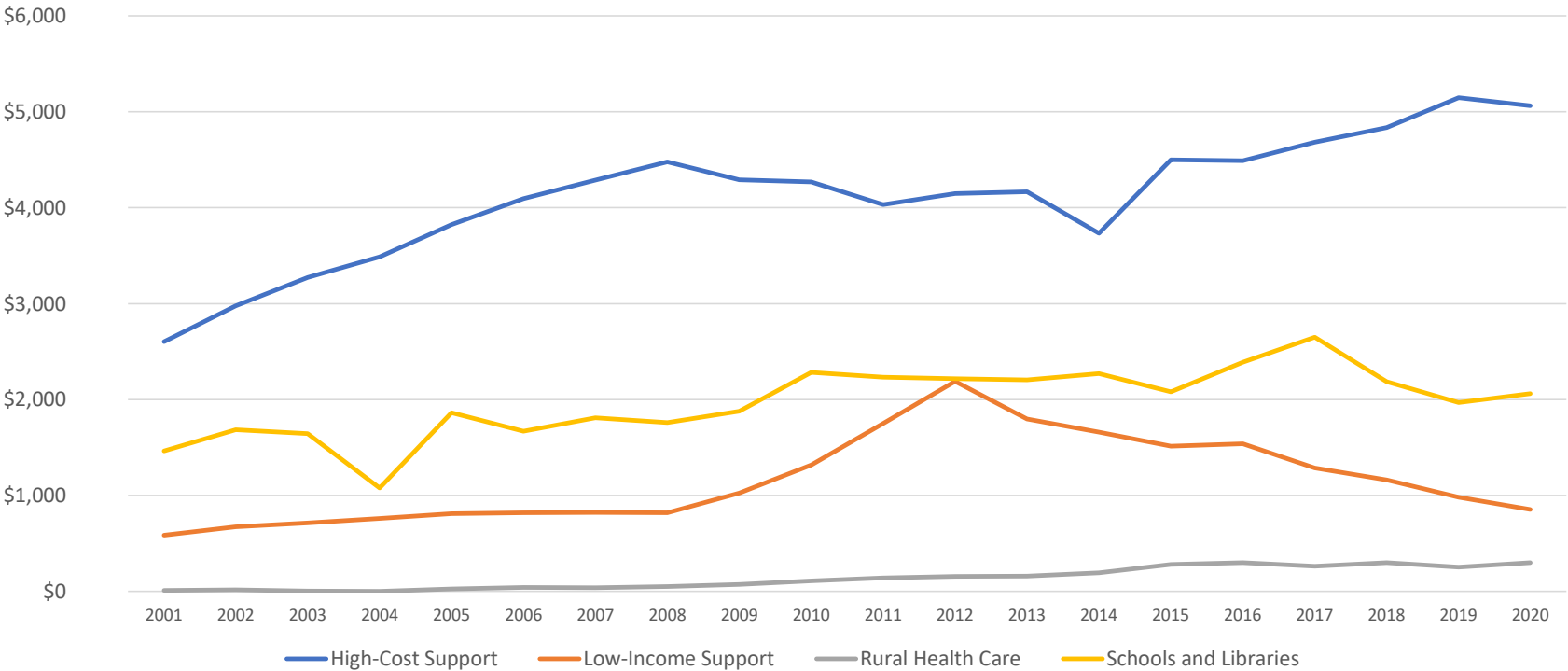
Assessment Factor with Declining Revenue Base



Distributions by Program Groups (\$million)



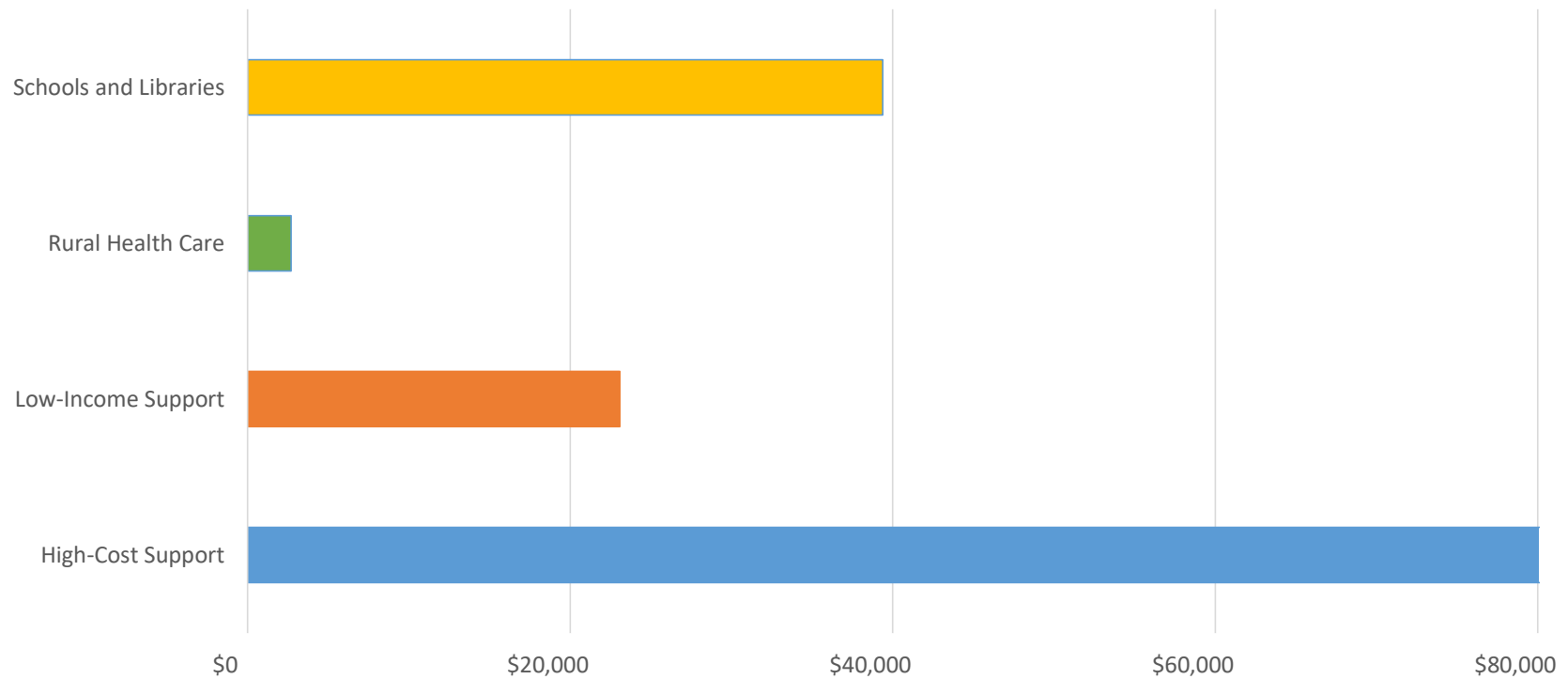
2001 - 2020



Cumulative by Program Groups (\$millions)



2001 - 2020



High-Cost Support

- Congress appropriated \$65B in broadband funding
 - Grant programs administered by National Telecommunications and Information Administration (NTIA)
 - Low-Income program administered by Federal Communications Commission (FCC)
- Congress asked the FCC for a report on universal service

FCC Notice of Inquiry

Key questions on future of universal service

“What role will the High-Cost program have in the future given the evolving level of universal service?”

“Should the Commission coordinate with the BEAD Program to ensure that newly constructed networks have ongoing support? ... At what point would support be necessary, if at all?”

“We seek comment on ways to allocate funding in the future, including reverse auctions. Are there other incentive-based, competitive methods for allocating funding that would be effective and efficient? Are there other distribution methodologies that the Commission should consider?”

FCC Report to Congress

Reported conclusions on universal service

“We adopt the goals of universal deployment, affordability, adoption, availability, and equitable access to broadband throughout the United States.”

“Universal service goals for broadband should evolve over time as technology advances.”

“We agree with the majority of commenters who caution that the Infrastructure Act will not achieve all of the universal service goals for broadband, and as such, the Commission should not abandon its universal service programs.”

“We recommend that the Commission initiate a proceeding to consider the future support needs of networks serving high-cost and other hard to serve areas. The Commission should consider if, when, and under what circumstances continuing support is necessary to develop, sustain, and improve broadband operations and how best to determine which carriers may need such support and in what amounts.”

High-Cost Support

- Congressional principles for universal service
 - Sustainability
 - Predictability
 - Affordability
- Support exists for continued federal universal service funding
 - Concern about stacking grant funds on top of current funded areas
- Consensus that ongoing operational expenses may require federal universal service support
 - Provider must demonstrate need

Contribution Reform

- Two paths
 - Reform the current contribution methodology
 - Add BIAS revenue to assessment base
 - Add revenues from entities who benefit from universal broadband service—including edge providers—to assessment base
 - Change to a Congressional appropriation
- Court challenge may disrupt decades of successful funding
 - Dec 5th oral arguments in U.S. Court of Appeals, 5th Circuit

Digital Equity

- Adoption, affordability, and accessibility are becoming more important in broadband policy
 - ACP program
 - Lifeline program
 - Low-cost offering for BEAD grants
- These are demand-side efforts designed to encourage productive use of broadband services for employment, education, healthcare, civic, and social activities

Broadband Data Collection and Competitive Assessment

New data collection and policy exposure

Broadband Data Collection

- FCC has announced a new Broadband Data Collection (BDC) effort
- Examine data at the location level—avoiding the Census Block errors present in FCC Form 477 data
- Data input window will open this summer
- Data is due to FCC by September 1, 2022
- After verification FCC will release maps that will determine distribution of BEAD grant funds among states

Competitive Overlap Policy

- The FCC DATA maps will identify unserved (<25/3 Mbps) and underserved (<100/20 Mbps) locations in the nation
- NTIA will use FCC map to allocate BEAD support to states
- Maps will also provide FCC the tool to examine its policy of not providing legacy universal service support to areas where competitive options exist
- FCC Competitive Overlap Policy may partly determine how legacy support is reformed
 - If the DATA maps show unexpectedly high numbers of unserved areas, pressure to divert legacy support in competitive areas to unserved areas becomes a policy decision

National Policy Outlook

Feels Like Federal Broadband Policy Is Looking to Pivot

- National broadband availability map is becoming pockmarked as funding programs proliferate
 - Pockets of unserved locations become more the norm
 - Increased costs to provide broadband to unserved locations
- National policy also looks to affordability and adoption as ways to promote the productive use of broadband for education, employment, healthcare, civic, and social activities

Low-Cost Offerings

- Congress directs BEAD grant program recipients to have an approved low-cost broadband offering
- FCC examines broadband universal service support for grant program recipients in order to keep broadband service affordable
- Congress appropriated \$billions to address digital equity which includes affordability and adoption
- JSI encourages providers to participate in digital equity efforts to remain your communities' communications solutions provider

Low-Income Offerings

- FCC administers two low-income programs intended to keep broadband service affordable
 - Universal Service Lifeline – Monthly credit of \$9.25 for qualifying households (Eligible Tribal household credit is \$34.25)
 - Affordable Connectivity Program (ACP) – Monthly credit of \$30 for qualifying households (Eligible Tribal household credit is \$75)
- JSI encourages broadband providers to participate in ACP in support of digital equity while advocating for additional broadband universal service support

USF Reform Prospects

A-CAM I, A-CAM I revised, and A-CAM II sunset in 2026 or 2028 unless extended

Reform Objectives

- Rural industry proposed extensions and modifications of existing programs
 - The basic offer is to provide higher-speed broadband to more locations in exchange for support over an extended timeframe
- FCC response
 - FCC is reviewing an A-CAM extension plan proposed for model and legacy carriers and modifications to legacy CAF-BLS
 - FCC seeks a firm commitment to serve 100 percent of locations with 100/20 Mbps broadband, or identify each location that will not be served so other programs can deliver 100/20 Mbps
 - FCC wants to ensure funding proposal is not a blank check

2023 Prospects

- Rural industry seeks reforms prior to state BEAD programs to better facilitate USF and BEAD support
- Expect to see FCC action in 2023 with
 - A-CAM Extension
 - Adjustments for locations reported in FCC's BDC maps
 - Higher broadband speed commitments
 - Higher support limits
 - Legacy support
 - Adjustments for competitive overlap review
 - Higher broadband speed commitments
 - Higher support limits
 - Exploration of operating expense support after extensions and modifications
 - Tribal area accommodations

Summary

- Federal universal service policy has good long-term prospects
- 100 percent availability is a major federal policy that will drive support
- There is a federal policy pivot from availability to affordability and adoption
- Providers will have requirements for higher broadband speed/service
- FCC coordination with new maps will affect model and legacy support
- Providers can expect demonstrable operating expense recovery after current federal infrastructure programs are complete
- FCC does not prefer legacy support programs and prefers incentive models

Thank you

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