FCC Reporting Requirements for Eligible Telecommunications Carriers Receiving High Cost Support

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Table of Contents

Executive Summary

The FCC recently adopted new rules and reporting requirements for eligible telecommunications carriers (ETCs) participating in the high-cost program of the recently reformed Universal Service Fund (USF). These reforms are intended to shift the focus of the USF away from a voice centric program to a broadband focused one. Goals include bringing broadband service to unserved and underserved rural communities across the country.

Some aspects of this reform are controversial and at the time of this paper's publishing, had not been fully defined and still subject to the Office of Management and Budget (OMB) approval. Nonetheless, CHR Solutions provides this whitepaper to offer insight into the new rules and guidelines which have been adopted thus far. This paper summarizes the rules for rate of return incumbent local exchange carriers which have been codified in the Federal Register, 47 CFR Section 54.313. This whitepaper offers a summary of these requirements. For compliance purposes, the actual Federal Register should be referenced when complying with these guidelines and requirements.

The annual reporting requirement for high cost recipients has several components, including:

- Five Year Service Improvement Plan
  - Mapping Requirements
- Business Compliance Reporting

In order to receive full support throughout the calendar year, these reports must be filed with the FCC, your state public service commission, and a designated tribal authority (if applicable) by July 1, 2013, and every subsequent July 1st years after. If the report is filed late, the ETC will lose support, based on the following schedule. If filed:

- by October 1 - receive support for the second, third and fourth quarters of the subsequent year only.
- by January 1 of subsequent year – receive support for the third and fourth quarters of the subsequent year only.
- by April 1 of subsequent year- receive support for the fourth quarter of the subsequent year only.

Both the Five Year Service Improvement Plan and the Business Compliance Reporting requirements are summarized in the remainder of this whitepaper.

Five Year Service Improvement Plan

ETCs must file a plan which outlines the company's five year service quality improvement plan. The initial plan must describe with specificity, proposed network improvements or upgrades throughout the service area and estimate the area and population that will be served as a result of the improvements.   CHR Solutions recommends the ETC detail progress towards achieving minimum broadband and voice service requirements, which currently includes the capability to provide broadband service of at least 4 Mbps in the downstream and 1 Mbps in the upstream (4/1) and of sufficient quality to provide voice over IP (VoIP). Rate-of- return carriers must offer 4/1 service upon their customers' "reasonable request," and absent such a request are not required to extend 4/1 broadband service at this time.

CHR Solutions recommends this improvement plan include: 1) baseline map indicating current capabilities, outlining exchanges or census blocks that are 4/1 capable; 2) a five year projected investment schedule necessary to meet and/or maintain the 4/1 capability; 3) a service territory map which correlates with the five year investment schedule to meet and/or maintain 4/1 capability; 4) a written report which summarizes the ETC's improvement plan.

Subsequent updates to the five year improvement plan are required and must outline how USF expenditures were used to achieve the plan's objectives.

Baseline Map

CHR Solutions recommends a baseline map in GIS format that clearly details current broadband capabilities by exchange, wire center, or census block, including which are currently capable of delivering the 4/1 requirement. This data should indicate actually delivery, not advertised, speeds and capabilities, at the time of the map's publishing. The FCC will require network performance monitoring and reporting of these territories to determine actual bandwidth capabilities. These baseline maps will be made publicly available.

Five Year Projected Investment Schedule

The five year projected investment schedule should outline the total investment necessary to achieve the 4/1 broadband requirement (or maintain it if already achieved) for your service territory. An additional factor that should be taken into investment planning consideration is the requirement for all 4/1 capable connections to be of sufficient quality to support a VoIP call.

The investment schedule should outline all costs for 4/1 coverage by wire center, exchange, or census block. CHR Solutions recommends clients use the wire center approach. The costs should be categorized by plant classification and year of expenditure. The investment schedule should correlate with the submitted five year service territory map.

Five Year Service Territory Map

Because progress reports must include maps detailing progress towards meeting plan targets, CHR Solutions recommends the above five year investment schedule be plotted on a GIS based map, outlining the service improvements that will be achieved. These maps are considered confidential and should be filed as confidential information, so that they will not be made publicly available.

Executive Summary

CHR Solutions recommends the five year service improvement plan be summarized in an executive summary which outlines the following:

Outline of Service Territory – Describe the service territory and its subscriber base, including population and other demographics. For example, if the territory described is a farming or ranching community, describe it and outline the current and projected use of broadband services by both consumer and business customers.

Plan Methodology – Explain the methods you intend to use to achieve your plan's objectives, including what internal and external resources you intend to bring to bear to complete the plan. Methodology can also include how your plan will be tracked and monitored to ensure it remains on track.

Technology Plans – Describe the technology (or technologies) you intend to use to achieve/maintain the 4/1 requirement.

Priorities – explain what territories are the priority and why. An example may be an unserved territory having priority over an underserved territory. You should also outline territories that may not be economically feasible to serve with 4/1. For example, extreme cases may include extraordinary costs to bring broadband to a home, where it may be cheaper to purchase the home and physically move the subscriber than to bring broadband to them.

Subsequent Improvement Plan Reports

Beginning July 1, 2014 ETCs must include a progress report for their defined service improvement plan. This progress report shall include:

Progress Report Letter – The rate-of return ETC progress report must include a letter from the ETC certifying that:

- The ETC is taking reasonable steps to provide upon "reasonable requests," 4/1 broadband service with latency suitable for real-time applications, including VoIP, and usage capacity that is reasonably comparable to offerings in urban areas as determined in an annual survey;
- Requests are met within a reasonable amount of time;
- The number, names, and addresses of community anchor institutions newly provided broadband in the prior calendar year.

Updated Maps – Five year service territory maps should be updated to reflect the previous year's progress.

USF Support Outline – A detailed report explaining how much USF support was received and how it was used to improve service quality, coverage, or capacity. This outline should include:

- The total amount of USF received in the previous year.
- A budget report by wire center/exchange outlining actual expenditures for the improvement plan and an explanation of any adjustments to the budget.
    - If previously defined targets were not met in the prior year, an explanation as to why must be included.

Business Compliance Reports

In addition to the five year service improvement plan, all ETCs seeking USF must submit a detailed Business Compliance Report. The compliance report must include: 1) a service outage report; 2) an unfulfilled service request report; 3) a complaints summary; 4) certifications; 5) a pricing report of services offered; 6) a listing and description of all holding companies, operating companies, and or affiliates; 7) tribal engagement (if applicable); 8) network performance and testing; 9) financial reporting; 10) terrestrial backhaul; and 11) voice rate data.

The above reporting requirements are summarized below:

Service Outage Reports

ETCs must outline, in detail, any outage of service in the prior calendar year as defined in 47 CFR 4.5, of at least 30 minutes in duration for each service area in which any facilities it owns, operates, leases, or otherwise utilizes that potentially affect:

- At least ten percent of the end users served in a designated service area; or
- A 911 special facility, as defined in 47 CFR 4.5(e)

This outage report must detail:

1. The date and time of onset of the outage;
2. A brief description of the outage and its resolution;
3. The particular services affected;
4. The geographic areas affected by the outage;
5. Steps taken to prevent a similar situation in the future; and
6. The number of customers affected.

Unfulfilled Service Requests

ETCs must report the number of requests for service from potential customers within the recipient's service areas that were unfilled during the prior calendar year. You must also detail how you attempted to provide service to these potential customers.

Complaints

ETCs must report the number of complaints per 1,000 connections (fixed or mobile) in the prior calendar year. At the time of this whitepaper's publishing, the FCC had no formal definition of a "complaint."

Certifications

There are three separate certification standards that ETCs must meet:

- Certification that ETC is complying with applicable service quality standards and consumer protection rules.
- Certification that ETC is able to function in emergency situations as set forth in §54. 202(a)(2), which includes:
    - Demonstrate ability to remain functional in emergency situations, including demonstration that it has a reasonable amount of back-up power to ensure functionality without an external power source;
    - Is able to reroute traffic around damaged facilities;
    - Is capable of managing traffic spikes resulting from emergency situations.

- Beginning July 1, 2013 ETC must provide a letter certifying that the pricing[1] of the company's voice services is no more than two standard deviations above the applicable national average urban rate for voice service, as specified in the most recent public notice by the Wireline Competition Bureau and Wireless Telecommunications Bureau.

Services Pricing Report

In a format to be specified by the FCC's Wireline Competition Bureau, ETC's must reveal pricing and capacity range (if any) for the broadband offering that meets the relevant speed requirement In annual reporting.[2]

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[1] This guideline is subject to OMB review and approval, which had not taken place at the time of this whitepaper's publishing

[2] This guideline is subject to OMB review and approval, which had not taken place at the time of this whitepaper's publishing.

Operating Companies and Affiliates

ETC's must reveal all holding companies, operating companies, affiliates[3], and any branding (a "dba"' or brand designation), as well as universal service identifiers for each entity by Study Area Codes.[4]

Tribal Engagement

ETCs serving Tribal lands must provide documents or information demonstrating discussions with Tribal governments concerning a minimum of topics outlined in the rule[5]. FCC Public Notice issued July 19, 2012 provided "guidance" on this obligation and dictated ETCs must begin the Tribal engagement process this year to be able to report on meaningful engagement by July 1, 2013.

As of the publishing of this whitepaper, there are ongoing petitions for reconsideration regarding these guidelines.

At a minimum, tribal engagement discussions should include the following and be conducted by company principals (not sales and marketing staff):

- A needs assessment and deployment planning with a focus on Tribal community anchor institutions;
- Feasibility and sustainability planning;
- Marketing services in a culturally sensitive manner;
- Rights of way processes, land use permitting, facilities siting, environmental and cultural preservation review processes; and
- Compliance with Tribal business and licensing requirements

These discussions should be documented and retained. All efforts to communicate with tribal leadership should be documented as well.

Network Performance Tests

ETCs must provide the results of network performance tests[6] pursuant to the methodology and in the format determined by the Wireline Competition Bureau, Wireless Telecommunications Bureau, and Office of Engineering and Technology; and

[3] "Affiliate" defined in section 3(2) of Communications Act of 1934, as amended.
[4] This guideline is subject to OMB review and approval, which had not taken place at the time of this whitepaper's publishing.
[5] This guideline is subject to OMB review and approval, which had not taken place at the time of this whitepaper's publishing
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The information and data required by §54.313(a) (1) through (a) (7) must be separately broken out for both voice and broadband service.[7]

Financial Reporting

Financial reporting for privately held rate of return carriers only[8] requires full and complete annual report of the company's financial condition and operations as of the end of the preceding fiscal year, accompanied by an independent audit statement. Income statements must itemize revenue, including non-regulated revenue, by its sources.

ETCs that file annual financial reports with RUS may file a copy of the RUS report in lieu of annual report.

Terrestrial Backhaul

Carriers that lack terrestrial backhaul capability and rely on satellite backhaul exclusively in their study area must certify[9] annually that no terrestrial backhaul options exist. Additional requirements include:

- Certify broadband is offered at actual speeds of at least 1 Mbps downstream/256 kbps upstream within area served satellite middle-mile facilities.
- Additional certifications required when terrestrial backhaul facilities are constructed, or existing facilities improve to meet speed, latency, and capacity requirements then in effect for broadband supported by the Connect America Fund.

Additional Voice Rate Data Requirements

Section §54.313(h) requires additional reporting requirements:

- (h)(1) requires ILECs to report residential local service rates and certain state fees to the extent the sum of the rates and fees are below the rate floor.
- Lines and rates must be reported in effect as of June 1.
- (h)(2)[10] Updates of rates and state fees may be filed on January 2 of each year. Reductions in rates that result in sum of rates and fees below the rate floor must file an update. Updated line and rates in effect as of December 1 must be reported.

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[7] Ibid
[8] Ibid
[9] Ibid
[10] (h)(2) guideline is subject to OMB review and approval, which had not taken place at the time of this whitepaper's publishing

Begin Your Planning Process

CHR Solutions urges all clients to begin this process immediately. There are severe penalties for not complying which may impact your ability to serve customers with affordable and comparable broadband services.

Even if your company already meets the 4/1 standard, continued acceptance of USF funding will require you to submit these reports and plans. You should build your plan around maintaining the 4/1 standard, as well as updating to higher capabilities. There are indications that the 4/1 standard may be raised to 6/1.5 or greater at some point in the future.

This process can help facilitate a thorough strategic review of your broadband strategy, which CHR Solutions encourages. A comprehensive migration from narrowband TDM to broadband IP requires a comprehensive plan. Key factors to consider during this planning process include:

- Anticipate future usage - Longer hold times, reduction in oversubscription at peak usage times.
- We're moving into an unstable investment recovery environment, yet significant investment is required to achieve the IP transition. Base your plan on sound engineering, with financial prudence, yet be flexible and prepared for changes to the plan
- While a financial pro forma is not required, CHR recommends a strategic internal review of financial implications before a plan is provided to the FCC using updated assumptions.

Planning Strategies

Here are a few strategies to begin your planning process:

Ascertain and Document Your Current Situation – Identify your current capabilities to understand where you currently offer broadband services that meet the 4/1 requirement. Determine your current mapping capabilities and identify the resources necessary to develop GIS based mapping of your broadband service territory.

Identify High Cost Areas – Take a comprehensive inventory of all of your high cost areas and ensure they can be easily plotted on your GIS map.

Identify Financially Feasible Territories – Take a comprehensive inventory of all of your territories that are currently financially feasible to achieve the 4/1 requirement.

Conclusion

These new requirements create an immediate call to action. Time is of the essence and we encourage clients to begin the process as soon as possible. CHR Solutions can work with you to create a comprehensive action plan to successfully meet these requirements and provide you complete support to ensure ongoing compliance.