

Telecommunications Accounting Seminar

Telecom Regulatory Update: What You Need to Know

September 10, 2020

BKD
CPAs & Advisors

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Agenda

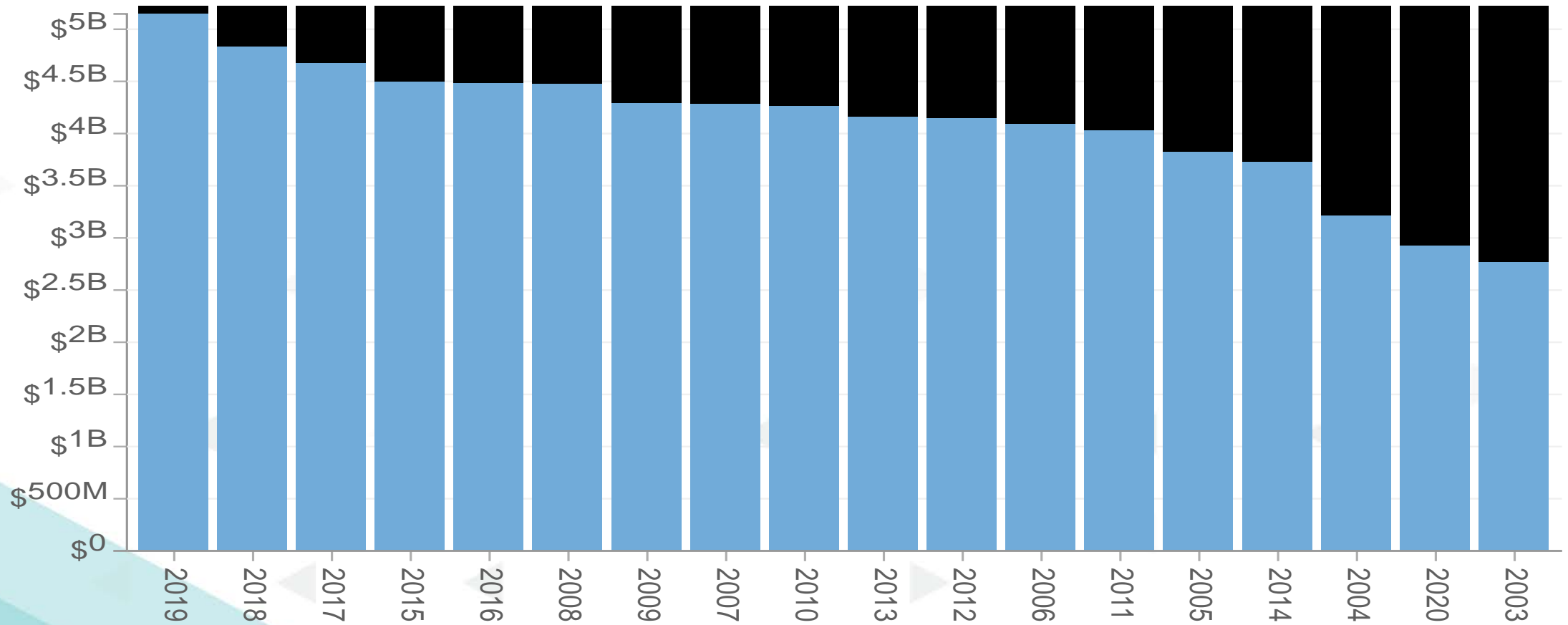
- › Future of USF
- › Rural Digital Opportunity Fund (RDOF)
- ▶ › Business Data Services (BDS) & Non-Ex Ante Pricing
- › Rural 5G Competition
- › STIR/SHAKEN in Your Future
- › Other Important Issues

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Future of USF

Future of USF

USF Trends



Future of USF



Future of USF



A-CAM's Year 11

Additional A-CAM offerings?

The FCC's preference for reverse auctions

Put in fiber now, or wait to be paid for it?

Possible congressional actions

More legacy "reforms"?

Future of USF



- › Providers on model-based (A-CAM I, A-CAM II), & traditional support will all likely face their own “Year 11”
- › The FCC’s preference for reverse auctions continues
 - How they see competitive pressures coming to rural markets
 - Bidding success is all about ETC-level broadband speed latency
 - For now, the offering of standalone voice should remain a requirement
 - Broadband & CBOL replacing traditional voice services
 - Relative success with previous auctions resolving lobbying efforts

Future of USF



› Additional A-CAM offerings

- Move more legacy carriers to model-based support?
- Increased speeds for additional funding to current A-CAM carriers in the future?
- A-CAM Year 11 offering?
 - Short-term until new regime implemented or
 - Long-term option

Future of USF



› Policy options to consider

- Put in fiber now, or wait in hopes continued grants or a new A-CAM III will help pay for it?
- A new COVID-19 decade permanently increases broadband demand for remote work, learning, & health care?

› Possible congressional & legislative actions

- H.R.6723: Universal Broadband Act of 2020
<https://www.congress.gov/bill/116th-congress/house-bill/6723/text>
- State level: <https://www.ncsl.org/research/telecommunications-and-information-technology/broadband-2020-legislation.aspx>

Future of USF

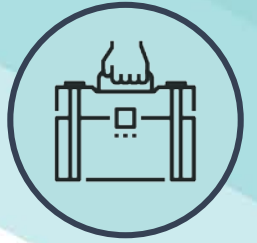


- › More legacy “reforms”?
 - Legacy budget only set for five years
 - Could there be additional reforms before or after five-year budget window?
 - Used to “help” incentivize additional voluntary adoptions of future A-CAM offerings?
 - FCC likely still believes that there are incentives for waste, fraud, & abuse of the legacy rules
 - Succession of changes since 2011 make that far less likely (& less lucrative)
 - Also, audits & PQAs are designed to help mitigate waste, fraud, & abuse
 - › Very few high-profile cases of outright fraud, most audits find simple human error

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RDOF

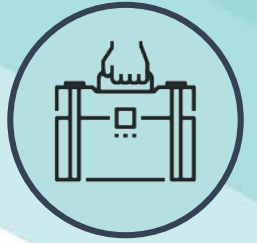
RDOF



› Prohibited communications

- Defined in FCC Public Notice FCC 20-77, released June 11 (¶146)
 - “To help protect competition in the auction, the Commission’s rules prohibit an applicant from communicating certain auction-related information to another applicant from the auction short-form application filing deadline until the post-auction deadline for winning bidders to file long-form applications for support. More specifically, section 1.21002 of the Commission’s rules prohibits an applicant in Auction 904 from cooperating or collaborating with any other applicant with respect to its own, or one another’s, or any other competing applicant’s bids or bidding strategies, and from communicating with any other applicant in any manner the substance of its own, or one another’s, or any other competing applicant’s bids or bidding strategies during the prohibition period. The rule’s exception for communications between applicants that are members of a joint bidding arrangement shall not apply in Auction 904”
- How to navigate this in practice

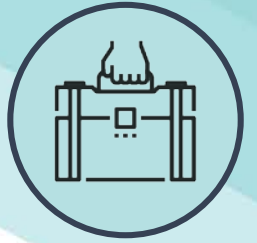
RDOF



› Fund overview

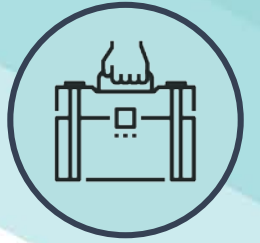
- CAF II auction \$1.48B over 10-year distribution period
- RDOF \$20.4B over 10-year distribution period
 - Phase I: \$16B
 - Phase II: \$4.4B
 - Price cap study areas where support declined & other areas
 - Excluded areas where carriers have speed = or > 10/1 Mbps

RDOF – Phase I Timeline



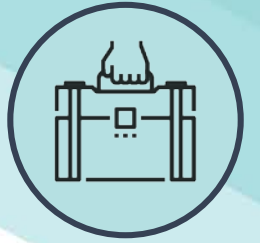
- › Short Form – Closed July 15, 2020
- › Online Auction Bidding Tutorial – October 15, 2020
- › Final List of Eligible Areas – October 15, 2020
- › Mock Auction – TBD, possibly October 26, 2020
- › Auction – October 29, 2020
- › Public Notice Announcing Winning Bidders – TBD (December 2020?)
- › Long Forms for Highest Bidders
 - Open TBD December 2020?
 - Closes TBD April 2021?
- › Obtain ETC Designation – TBD June 2021?

RDOF – Planning Considerations



- › Consequences if you do or don't
 - Am I ready to extend service to any & all comers, as an ETC?
 - Am I immediately responsible when the incumbent gives up ETC?
 - How shall I interpret the FCC's rules regarding areas already funded by state or federal broadband grant programs?
 - A bidder might be designated as an ETC in my CLEC area
 - My bidding may help connect the dots of my long-term plans

RDOF – All Things Considered



- › Post award of RDOF Phase I funds
 - The RDOF Phase I schedule as of today
 - RDOF Phase II further ahead
 - A reminder of ETC reporting requirements
 - Also, keep in mind performance testing

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BDS & Non-Ex Ante Pricing

BDS & Non-Ex Ante Pricing



› Cost study requirements & changes

- 2019 adopting companies (BDS I)
 - 2019 was final cost study, filed July 31, 2020 (or before)
 - 37 ROR carriers – 88 study areas
- 2020 adopting companies (BDS II)
 - 2020 will be final cost study, filed July 31, 2020 (or before)
 - 99 ROR carriers – 139 study areas
- Some states may still require cost studies, extending the timelines above

BDS & Non-Ex Ante Pricing



› Future of pricing

- Market-based pricing

- Provides significant pricing flexibility
- But how do you figure out what the market is in your area?

- Some pricing options

- Still use NECA rates, but with likely lower rate band than prior to BDS
- “Target pricing” or dictated by end user customer or IXC
- Competitor’s pricing, if any, & if publicly available
- Whatever you want it to be & can get someone to pay

BDS & Non-Ex Ante Pricing



› NECA pooling & reporting

- NECA tariff options

- Many BDS adopting companies elected to remain in NECA's SWA tariff

- ARC rates tariffed, NECA will also take care of the CAF ICC data filings with USAC & FCC

- Many BDS adopting companies elected to remain in NECA's common line tariff

- SLC, line port charges & FUSC
- SLC rates tariffed

- NECA reporting (EC or AS) tied to elections made above

BDS & Non-Ex Ante Pricing



› Another window

- Nothing scheduled now
- No discussion even on FCC's official communications
 - So why are we discussing this?
 - A-CAM I carriers two windows to voluntarily adopt
 - A-CAM II carriers one window to voluntarily adopt
 - In fairness, a second window for A-CAM II might be offered
 - Also FCC seems keen on voluntary adoption

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Rural 5G Competition

Rural 5G Competition



- › The FCC notice of proposed rulemaking February 4, 2020, Docket 20-32
 - “Establishing a 5G Fund for Rural America”
 - Universal Service Funding so Americans can “enjoy the same benefits from our increasingly digital economy as their urban counterparts”
 - \$9B proposed over 10 years
 - \$1B of this specifically for precision agriculture applications
- › Bottom line
 - Aimed primarily at wireless providers
 - But, rural 5G antennas will likely require fiber connectivity

Rural 5G Competition



- › Many open issues in the notice of proposed rulemaking
 - When to do this?
 - Are 5G standards & frequencies final?
 - When can rural areas expect to see significant deployments?
 - Where to do this?
 - Eligible areas may be based on post-FCC Form 477 “Digital Opportunity Data Collection” that will have better mobile coverage mapping
 - Or, may be based on congressional input
- › Expect it to remain in the comments phase during 2020

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STIR/SHAKEN in Your Future

STIR/SHAKEN in Your Future



- › Background: Robocalls, spoofed caller ID, telemarketers
- › TRACED Act, signed December 2019 (S. 151 – 116th Congress)
 - Telephone **R**obocall **A**buse **C**riminal **E**nforcement and **D**eterrence Act
 - Rural provisions recognized a lack of needed IP-based connections & tools
 - TDM providers exempted, but, must adopt from available alternatives to show progress through a “robocall mitigation program” to stop unlawful calls from originating on their networks
- › Enter the preferred implementation protocol for the longer term
 - **S**ecure **T**elephone **I**ntity **R**evisited (STIR) & **S**ignature-based **H**andling of **A**sserted information using **t**o**K**ENs (SHAKEN)

STIR/SHAKEN in Your Future



- › FCC Report & Order & NPRM Released March 31, 2020 (FCC 20-42)
 - Began adopting certain robocall enforcement rules & mechanisms
 - Established a consortium dedicated to identifying & tracing illegal robocalls (the Traceback Consortium)
 - Adopted a new rule requiring all originating & terminating voice service providers to implement the STIR/SHAKEN caller ID authentication framework in the IP portions of their networks by June 30, 2020, & June 30, 2021, for rural carriers

STIR/SHAKEN in Your Future



- › STIR/SHAKEN rules enable carriers to verify that the caller ID information transmitted with a call matches the caller's phone number
 - For end-to-end IP voice traffic
 - A problem when if upstream tandem connections use TDM out-of-band signaling
 - A problem where calls sent to you originate or pass through TDM trunks
 - For your originating calls, sent with numbers not resident in your switch
- › The FCC is currently working through four NPRMs to determine reasonable limitations on carriers' liability on "stopped" calls

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Other Important Issues

Other Important Issues



- › Digital Opportunity Data Collection (DODC) & FCC Form 477
- › HUBB & Prep for Performance Testing
- › Lifeline
- › CBOL & VoIP
- › Legacy Cost Study Requirements

DODC to Replace FCC Form 477



- › Digital opportunity data collection, second report & order & NPRM, July 17, 2020
 - Providers will submit polygon shapefiles or a list of addresses/locations, June & December
 - Fixed wireless broadband internet access service shall submit propagation maps & model details that reflect the speeds & latency of its service or a list of addresses or locations, that document the areas
 - (1) Where the provider has actually built out its broadband network infrastructure, such that the provider is able to provide service, &
 - (2) Where the provider is capable of performing a standard broadband installation. Each provider's submission shall include the details of how it generated its polygon shapefiles, propagation maps & model details, or list of addresses or locations
 - Fixed wireless service providers that submit coverage maps shall provide detailed information with their propagation maps & model details
- › Expect the comments cycle to last a very long time

HUBB & Prep for Performance Testing



- › Calendar 2020 fiber placement & the HUBB
 - Know what you need for those CAFBLS or A-CAM milestone counts
 - Now as before, identify every possible location
 - Addresses between served locations
- › Positioning for 2021 practice testing & 2022 performance
 - Identify those most easily served today, & assign customer ID
 - Think in terms of performance & latency tests later

HUBB & Prep for Performance Testing



- › Performance measures testing
 - Performance subscriber upload template
 - Subscriber ID (SIN) – unique identifier to designate active subscribers for locations previously reported in the HUBB – **REQUIRED** field
 - HUBB location ID – **REQUIRED** field
 - **Do not** use customers' personally identifiable information (PII)
 - **Speed tier will be based on the program fund's "Obligated Speed Tier" regardless of speed tier uploaded into the HUBB**
 - Low latency testing template
 - Speed testing template

HUBB & Prep for Performance Testing



- › Performance measures testing
 - Performance subscriber upload template
 - You'll provide

SAC	Latitude	Longitude	Address	State	Speed Tier	# of Units	Carrier Location ID	HUBB Location ID	Subscriber ID
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HUBB & Prep for Performance Testing



- › Performance measures testing
 - Low latency testing template
 - You'll provide

HUBB Location ID	Subscriber ID	IP Target	Start Test	Latency	Packets sent	Packets received	Test Status	Comment
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HUBB & Prep for Performance Testing



- › Performance measures testing
 - Speed testing template
 - You'll provide

hubb_location_id	subscriber_id	speed_type	ip_target	start_test	end_test	bytes	test_status	comment
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Other Important Issues – CBOL & VoIP



- › CBOL becoming much more prevalent for legacy companies
 - Legacy cost & average schedule issue
 - For many carriers CAF-BLS on CBOL support greater than voice support
 - Many run financial impact analysis prior to offering CBOL
 - Could we see some shifts from V/D DSL to CBOL with VoIP?
- › CBOL not that great for model-based companies (A-CAM I, II &/or Alaska Plan)
 - Why no additional support, just “lost” voice revenues

Other Important Issues – Legacy Costs



› Legacy cost study requirements

- Basic studies
 - Not required annually, unless material change occurs
- Continuing property records (CPRs)
- Cost allocation manuals (CAMs)
- Disallowed expenses
 - Older issue, but difficulties implementing are causing disallowed expenses to continue to be included in settlements &/or USF

Other Important Issues - Lifeline



- › FCC DA 20-891 pandemic update for Lifeline, at least to November 30
 - Recertification on hold for anniversary dates from April 14, 2020, to February 28, 2021
 - Reverification activity is on hold
 - Delay involuntary de-enrollments of existing subscribers
 - Delay de-enrollments due to nonusage
 - No new Lifeline program Integrity reviews will be announced
 - More flexibility in demonstration of income eligibility
 - USAC will continue to temporarily accept driver's licenses or state identification cards that have expired on or after March 1, 2020, when needed to complete a Lifeline application
- › Senators ask the FCC to increase rural health care program capacity
 - 15 senators asked for more pandemic telehealth funding in an August 20, 2020 letter

Questions?

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