Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
ETC Annual Reports and Certifications	)	WC Docket No. 14-58
	)	
Rural Broadband Experiments	)	WC Docket No. 14-259
	)	

COMMENTS OF VERIZON[1]

In the *Competitive Bidding Order*,[2] the Commission made substantial strides towards finalizing the Connect America Fund auction rules, which will play a significant role in expanding the deployment of broadband in rural areas. Most important, in a step that Verizon supports, the Commission established a technology-neutral framework that allows bidders to use any wired or wireless broadband technology that meets the specified performance standards.

In the next stage of this proceeding, the Commission should adopt competitive bidding procedures that maximize broadband deployment within the limited auction budget. In particular, the Commission should (1) establish bidding weights to maximize the number of locations that obtain broadband service at the baseline or above-baseline performance tiers, rather than deplete the limited funds with large subsidies for the costliest performance tier; and

---

[1] The Verizon companies participating in this filing are the regulated, wholly owned subsidiaries of Verizon Communications Inc.

[2] *Connect America Fund*, WC Docket No. 10-90, Report and Order and Further Notice of Proposed Rulemaking, 31 FCC Rcd 5949 (2016) ("*Competitive Bidding Order*").

(2) design the auction rules to maximize the number of newly-served locations in the territory of price cap LECs that declined the CAF II offer ("declined territories"), rather than deplete the limited funds with large subsidies for the costliest areas. This approach is both fiscally responsible and consistent with the Commission's universal service obligations.

I. The Commission Should Set the Weights to Maximize Deployment at the Baseline Performance Tier or Better

In the *Competitive Bidding Order*, the Commission established four performance tiers – "minimum" (10 Mbps downstream/1 Mbps upstream); "baseline" (25/3 Mbps); "above baseline" (100/20 Mbps); and "gigabit" (1 Gbps/ 500 Mbps) – and decided that bids from all four tiers would compete in a single auction.[3] In order to compare bids from different performance tiers, the Commission decided to assign "weights" to each service tier and also to assign weights to "low latency" and "high latency" options within each performance tier.[4]

In adopting these tiers, the Commission explained that it "want[s] to maximize the number of locations served within our finite budget," while at the same time recognizing the value in higher speeds, higher usage allowances, and lower latency.[5] To meet that objective, the Commission should set the weights to support broadband deployment at the baseline performance tier or better (with low latency) to as many eligible locations as possible.

The number of locations that will be eligible for the auction is currently unknown because the Commission has yet to release the preliminary list of eligible locations. However, based on data that the Commission published for the CAF Phase II offers, as many as 750,000 locations could be eligible. Of the 750,000 eligible locations, about 450,000 locations are "high

---

[3] *Competitive Bidding Order*, ¶¶ 15-17.

[4] *Id*. ¶¶ 17, 206-216.

[5] *Id*. ¶ 16.

cost" locations in the territories of price cap LECs that declined the CAF II offers[6] and about 300,000 locations are "extremely high cost" locations scattered across all price cap LEC territories.[7]

Some of the Commission's decisions in the *Competitive Bidding Order* will make it challenging for the auction to achieve broad coverage of the 750,000 eligible locations. First, the auction budget is well below the broadband cost model's estimate of the subsidy required for the eligible locations. According to the Commission's broadband cost model, subsidies of well over $600 million per year are required to provide broadband to the approximately 750,000 eligible locations.[8] But the *Competitive Bidding Order* set the auction budget at only $215 million per year.[9]

Second, the decision to rank bids based on the ratio of the bid to the reserve price, rather than on dollars per location,[10] will reduce the number of locations that can be served with the limited available budget. Under the "ratio of bid to reserve" approach, a higher per-location bid

---

[6] Price cap LECs that declined the CAF II offers had approximately 445,000 locations subject to the offer of model-based support.

[7] *See* https://transition.fcc.gov/wcb/CAM43_EHCT_CBs.zip (Excel file lists approximately 151,000 extremely high cost census blocks, with a total of 286,721 extremely high cost locations).

[8] For the high cost locations in declined territories, the CAF Phase II offers made available $175 million in support. For the extremely high cost locations, the required support would be at least $502 million (286,721 locations multiplied by a minimum of $146.10 per month in support per location at the extremely high cost threshold).

[9] *Competitive Bidding Order* ¶ 79.

[10] *Id*. ¶ 85.

can be selected over a lower per-location bid.[11] Each time a higher per-location bid is selected over a lower per-location bid, fewer locations will be served with the auction budget.[12]

In light of these previous decisions by the Commission, it now should set the weights with care so as to maximize the number of homes and businesses that obtain at least the baseline level of broadband from the auction. In particular, the Commission should not set a large weight for any performance tier, including the gigabit tier. A large weight would permit a substantially higher bid to win over a lower bid, and thus deplete the available budget more rapidly. For every location in the gigabit tier that is awarded support because of a large weight, several other eligible locations would be left without any broadband service whatsoever. These customers would have been well served by services offering the "baseline" speeds and capabilities, which are sufficiently robust to support most consumers' online activities.

In order to maximize the number of locations served, while still recognizing the additional capabilities offered by the higher tiers, the Commission should set the weight for the baseline tier in the range of 10 percent; the weight for the above-baseline tier 10 percent above the weight for the baseline tier; and the weight for the gigabit tier 5 percent above the weight for the above-baseline tier.

---

[11] For example, assume that Bidder A bids $45 per location for an area in which the reserve price is $90, while Bidder B bids $15 per location for an area in which the reserve price is $20. Even though Bidder A's bid is three times higher than Bidder B's bid on a per-location basis, Bidder A would be selected first because Bidder A's bid-to-reserve ratio is 0.5 while Bidder B's bid-to-reserve ratio is 0.75.

[12] In the example in footnote 11, Bidder A's bid would be selected before Bidder B's bid, even though Bidder B's $15 per location bid could serve three times as many locations as Bidder A's $45 per location bid. Had the Commission adopted instead the alternative approach discussed in the *Competitive Bidding Order* – ranking bids on a dollars per location basis – it would have maximized the number of locations served with the limited budget, i.e., maximized the "bang for the buck."

The Commission should assign a significant negative weight[13] to the high-latency option because it fails to meet one of the dimensions of the CAF II offers' performance standard.[14] End users in competitive bidding-supported areas should not be relegated to lesser services than end users in CAF II offer-supported areas, especially since the competitive bidding support term will continue for several years after the CAF II offer support term has ended. Accordingly, the Commission should set the weights such that a high latency bid will be awarded support only in exceptional circumstances, i.e., only if the bid is substantially lower than a low-latency bid.

II. The Commission Should Maximize the Number of Locations in Declined States that Obtain Broadband from the Auction

In the *Competitive Bidding Order*, the Commission notes concerns expressed by New York and other states about "the need for an efficient and equitable allocation of Phase II funds, particularly for those states in which a substantial amount of the offer of Phase II support was declined."[15] To address these concerns, the *Further Notice* seeks comment "on measures to achieve the public interest objective of ensuring appropriate support for all of the states."[16]

Commission decisions in the *Competitive Bidding Order* actually increase the probability that locations in the declined states will be left unserved after the auction. As is discussed above, the auction budget is well below the broadband cost model's estimate of the subsidy required for the eligible locations. Moreover, as the *Competitive Bidding Order* acknowledges, the "ratio of

---

[13] In other words, the bid would be adjusted upwards for ranking purposes.

[14] Although the high latency option includes a requirement that bidders demonstrate a Mean Opinion Score (MOS) of 4 or higher, the Commission made clear that the MOS requirement is not a substitute for low latency. *See Competitive Bidding Order* ¶ 33. The high latency option still precludes use of VoIP and other interactive and highly interactive applications. *Id*. ¶ 32. *See also* http://business.hughesnet.com/learn-more/faq/compatibility/what-about-voip-skype-netflix-streaming-movies-p2p-file-sharing-and-other-high-bandwidth-applications.

[15] *Competitive Bidding Order* ¶ 86.

bid to reserve" ranking method will tend to spread funds *away* from the states with relatively lower costs, i.e., the declined states.[17]

In order to ensure that it meets its universal service obligation to customers in the declined territories, [18] the Commission should adopt measures to ensure appropriate support for those areas. The *Further Notice* suggests several viable approaches. Among the measures suggested by the Commission are weights that provide a preference to declined states;[19] a "backstop" to ensure equitable distribution to declined states;[20] reserving funding in the Remote Areas Fund for declined states;[21] a ceiling on each state's support;[22] and prioritizing bids for declined states until a specified floor is met.[23]

The most straightforward approach would be to rank bids for the declined territories ahead of other bids until the Commission has awarded support to a threshold percentage of bidding-eligible locations in the declined territory or has awarded support in the amount of the

---

[16] *Id*. ¶ 217.

[17] *Id*. ¶ 85 ("We conclude that [the bid-to-reserve ratio] approach is more likely to ensure winning bidders across a wide range of states than selecting bids based on the dollar per location, which could result in support disproportionately flowing to those states where the cost to serve per location is, relatively speaking, lower than other states."). Because the "ratio of bid to reserve" ranking method will in some instances support higher bids, e.g., bids for extremely high cost locations, over lower bids, e.g., bids for declined states' high cost locations, it will deplete the limited budget more rapidly and leave more locations in the declined territories without broadband service.

[18] *Id*. ¶ 217 ("[W]e recognize that where incumbent carriers declined the offer of support does not diminish our universal service obligation to connect consumers in areas that would have been reached had the offer been accepted and to provide sufficient universal service funds to do so.").

[19] *Id*. ¶ 219.

[20] *Id*. ¶ 220.

[21] *Id*. ¶ 221.

[22] *Id*. ¶ 222.

[23] *Id*. ¶ 223.

CAF II offer to the declined territory,[24] whichever occurs first. For example, the Commission could rank bids for a declined territory ahead of other bids until it has either awarded support to 95 percent of the eligible locations in that territory or has awarded support in the amount of the CAF II offer to that territory. The CAF II auction support awarded in this manner would complement state initiatives in declined states that have such programs, such as New York,[25] and would also support the deployment of broadband in other states.

III. Conclusion

The Commission can best achieve its universal service obligations by designing the auction rules to maximize the number of locations that obtain broadband service from the auction, including locations in the territory of price cap LECs that declined the CAF II offer.

Respectfully submitted,

By: *<u>/s/ Tamara L. Preiss</u>*

William H. Johnson
Of Counsel

Tamara L. Preiss
1300 I Street N.W.
Suite 400 West
Washington, DC 20005
(202) 515-2540

July 21, 2016

[24] *See id*. ¶ 223.

[25] *Id*. ¶ 218 and n. 415.