



Mid-State Consultants, Inc. Newsletter, 1st Quarter 2014

The FCC's plans for rural telcos

The previous FCC leadership saw that the majority of rural telcos were providing very cost-effective broadband services, but there were a few whose costs were considered 'out of line.' The thought process seemed to have been, 'let's make everyone perform to the same level, and then we can redistribute the money to the rural RBOC areas that aren't getting good service.' Regardless of whether that was realistic. Or the fact that the RBOCs had already been given lots of money and made lots of promises to provide better rural services.

And now we get the impression that the FCC thinks this is a pretty good plan. As proof, it's as if they are saying, 'if it wasn't a good plan there would be a lot more bankruptcies'. Certainly some companies are worried that they are headed that way. So perhaps all we need is a few 'volunteers' to sacrifice themselves and go bankrupt for the benefit of the industry – any takers?

Proposed changes in the quantile regression analysis (QRA) sound good, but as one telco manager said, "The fact is, the USF pool is going to decrease. Changing the measurements will change some of the winners and losers, but overall the outlook is for less." And we're seeing a lot of companies dealing with that reality the best they can. A promised congressional re-write of the Communications Act probably won't be soon enough to really make an immediate difference. And hopefully it will make a good difference.

The FCC still intends for all telcos to submit a 5 year plan, due July 1 and updated every year. The plan needs to explain your efforts to reach the FCC's goals for broadband services; every potential subscriber in your area should be able to have service of 4 Mbs downstream and 1 Mbs up, with very little latency. And any new construction should provide 6 Mbs / 1.5 Mbs. Of course, your future settlements will be based on how many you serve with the target speed. The plan should explain why some subscribers just can't be cost-effectively served, if that is the case.

Apparently, to continue to receive USF you are expected (required?) to spend what you do receive on the plan you've created, in order to provide (or improve) service.

The threat to existing providers; areas with competition for broadband won't always receive support. And another, bigger threat; if your plan won't get it done, the FCC will open your area for a 'reverse auction' for someone else to take your USF and serve your subs. But most of the possible competitors don't appear to be able to do the job. More on them later.

The fact that the FCC requirements aren't even more draconian and the USF funds more restricted is testimony to some very good work by groups like NTCA, WTA, the SCC (Small Company Coalition), as well as others. Keep up the good efforts!

The RUS is still an option for financing

Your FCC 5 year plan should be useable for an RUS loan application. Some telcos figure they should get a loan started so that when they decide to make a big capital investment they won't have to wait a year just to line up all the financing. The new RUS administration is aware that they need to speed up the loan approval process and they are taking steps in the right direction. They have also seen that the FCC's rules could threaten their borrower's ability to pay back their loans. And some telcos have realized that the first issue may be the RUS 'TIER' ratio; USF changes threaten their ability to service their debt, at least in the short term. The RUS hasn't yet been able to change the rules on some of these kinds of requirements, but they are willing to work with borrowers on a plan. A plan supported by good assumptions and data can go a long way towards easing RUS concerns. Even though things like marketing data aren't always reliable. But cost data should be. Thus, the FCC plan and an RUS plan should really be coordinated. And if the data changes, both plans can change. Hopefully for the better.



The Competitors for Rural Service

When the FCC first proposed some of these new rules, there was an assumption that wireless and satellite providers would become fierce competitors, for voice and broadband services. We're sure there are still those who think so, but the realities seem to be that although more and more subscribers will move to wireless voice service, cellular and satellite data just can't provide the kind of 'broadband pipe' subscribers want at their home. Or office. Not enough capacity and too much latency. Although we will admit there are some areas where satellite may be the only cost-effective solution, and almost every telco should be looking at a wireless local loop (WLL) overlay solution for sparsely populated and 'difficult to build' areas. But, WLL and some of the new DSL technologies are really just 'band-aids'. FTTP is the FCC's goal. And 1 Gig service is the new buzzword.

The 'donut hole' problem

If USF disappears in areas with competition, does every town become a donut hole of un-subsidized town areas surrounded by subsidized rural areas? The FCC hasn't really addressed this directly. Perhaps they think this is o.k.

Municipal broadband builds

The city of Los Angeles is making big promises for any service provider that will self-finance a total FTTP build-out. Is this even possible? Would a Company spend billions to serve all of LA, for a few service guarantees? Stay tuned. Or perhaps LA is just trying to scare their existing providers?

We're also seeing a lot of smaller cities looking to expand service, one way or another. Our preference is always to work with rural telcos, who could be the service providers for nearby towns. Of any size. When we see network plans we think will be good opportunities we will try to alert our rural friends.

[Click here](#) for more info on another FCC concern, the “All IP” Telco. Posted on Mid-State Consultants, Inc. website www.mscon.com

[Click here](#) for more info on Wireless service issues --- Backhaul Backbones, cellular offload, ‘White Spaces’, Satellite data service, and FirstNet.

Some of the issues to be discussed in future Mid-State Consultants, INC. newsletters

What’s Google doing? Will it affect me?

Advanced DSL and ‘g.Fast’

The future of Video services

‘the cloud’ - how to connect, and provide more bandwidth