

## NUSF and Reverse Auction Findings and Recommendations

### Draft—August 22, 2019

*Examine the role of the Nebraska Telecommunications Universal Service Fund in bringing comparable and affordable broadband services to rural residents and any effect of the fund in deterring or delaying capital formation, broadband competition, and broadband deployment;*

—Nebraska Revised Statutes 86-1102(3)(b)

*Examine alternatives for deployment of broadband services to areas that remain unserved or underserved, such as reverse auction programs described in section 4 of this act, public-private partnerships, funding for competitive deployment, and other measures, and make recommendations to the Public Service Commission to encourage deployment in such areas;*

—Nebraska Revised Statutes 86-1102(3)(d)

### Findings

- The Nebraska Universal Service Fund (NUSF) provides support to price cap, rate of return, and mobile wireless carriers in Nebraska. In 2019, the Nebraska Public Service Commission allocated \$12,049,546 for broadband support for price cap carriers and \$14,100,058 for rate of return carriers. In 2018, \$3,200,000 was allocated for support for mobile wireless carriers.<sup>1</sup>
- Providers must be accountable for the support received from the Nebraska Universal Service Fund. The Nebraska Public Service Commission has taken steps to move the fund toward a grant-like method of distribution whereby carriers must build first before receiving reimbursement.
- The total remittances to the NUSF have decreased from \$52 million in 2013 to about \$33 million in 2018. However, the Nebraska Public Service Commission has taken steps to stabilize the fund by modernizing the contribution methodology. Even with steps to stabilize the fund, however, the size of the fund is not sufficient to provide support for fiber deployment to all Nebraska residences and businesses.<sup>2</sup>
- In order for providers to make decisions about broadband infrastructure investments, support from the NUSF should be sustainable and predictable.
- Broadband availability varies by incumbent carrier. Approximately 80% of those rural households which do not have broadband available reside in Windstream, CenturyLink, Great Plains or Frontier (Citizens) exchanges.<sup>3</sup> Addressing the rural broadband divide in Nebraska will require strategies which address areas without broadband access served by both price cap and rate of return carriers.
- Implementing a reverse auction-like component could potentially maximize the impact of limited NUSF dollars in underserved areas of the state. The current NUSF high cost distribution processes do not provide opportunities for entities that are not the incumbent carriers to compete for state universal service fund support.

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<sup>1</sup> See Appendix 6 NUSF Overview and Support Allocations for more information.

<sup>2</sup> See Appendix 6 NUSF Overview and Support Allocations for more information.

<sup>3</sup> See Appendix 7 Broadband Coverage by ILEC Including Fixed Wireless Coverage by Rural Households Not Covered

- The FCC implemented a reverse auction, allocating \$1.488 billion in support in August 2018 to be distributed over 10 years to expand rural broadband service in unserved areas in 45 states. Awarded bids came in at 70% of the reserve/model costs for the block groups. Over \$4 million was awarded to four carriers to serve 8,900 locations in Nebraska. Most locations in Nebraska are to receive service of 100 Mbps down/20 Mbps up via fixed wireless. Providers must build out to 40 percent of the assigned homes and businesses in a state within three years of becoming authorized to receive support. Buildout must increase by 20 percent in each subsequent year, until complete buildout is reached at the end of the sixth year.<sup>4</sup>
- Nebraska Legislative Bill 994, enacted in 2018, permits the Nebraska Public Service Commission to withhold support from the Nebraska Universal Service Fund “to any telecommunications company that has not served, to the commission’s satisfaction, those areas with service that meets the criteria for successful investment of funding from the Nebraska Telecommunications Universal Service Fund.”

LB 994 further permits the Nebraska Public Service Commission to “use the funding that is withdrawn to implement and operate a reverse auction program, except that any funding that is withdrawn shall be utilized in the exchange area for which the funding was originally granted.”

- On March 12, 2019, the Nebraska Public Service Commission opened a docket, Rule and Regulation #202, to adopt Reverse Auction and Wireless Registry rules in accordance with LB 994. The process of developing rules and regulations is expected to take approximately one year.<sup>5</sup>
- The NUSF Subcommittee found no evidence that the Nebraska Universal Service Fund has deterred or delayed capital formation, broadband competition, and broadband deployment in conversations with stakeholders or in the subcommittee’s research efforts.

### ***Key Recommendations***

- *Support the Nebraska Public Service Commission’s efforts to modernize the NUSF contribution system and to improve provider accountability by moving to a grant-like system of distribution.*
- *Encourage the Nebraska Public Service Commission to continue to investigate a state-run reverse auction as a mechanism to spur broadband build out in rural areas.*

## **Recommendations**

- Support the Nebraska Public Service Commission’s efforts to stabilize the Nebraska Universal Service Fund by modernizing the contribution system.
- Support the Nebraska Public Service Commission’s efforts to modernize the distribution method and improve provider accountability through the system of grant-like awards for broadband infrastructure projects.

<sup>4</sup> More information on the Connect America Fund Phase II reverse auction is available at <https://www.fcc.gov/auction/903>. A map of winning bids is available at <https://www.fcc.gov/reports-research/maps/caf2-auction903-results>.

<sup>5</sup> See <https://psc.nebraska.gov/administration/proposed-rules-regulations> for information on the docket.

- Encourage the Nebraska Public Service Commission to continue to investigate, through their Rules and Regulations 202 docket, a state-run reverse auction as a mechanism to spur broadband build out in rural areas.
- Monitor the implementation of the FCC’s Connect America Fund II Reverse Auction to evaluate the success of the program and to identify any key lessons learned.
- Encourage the Nebraska Public Service Commission to explore alternate methods for redirecting support that allow for more collaboration between not only the incumbent and competitive carriers, but also the local business community, both main street and agriculture, as well hospitals, schools, municipalities, counties, and public power providers.<sup>6</sup>
- Examine how the Nebraska Public Service Commission currently collects information from carriers at the exchange level:
  - On what they built out the previous year and how the build out was funded, and
  - What their build out plans are for the next 3 to 5 years and how they intend to pay for that.

Determine if the collection of this data could be improved.

## Metrics

NUSF	
Measure	2019 Most Recent Data Nebraska Public Service Commission
Annual contributions to the Nebraska Universal Service Fund (By Calendar Year)	2017 - \$35,321,380 2018 - \$32,796,228 2019 - \$18,333,749 (Through 1 <sup>st</sup> Half, 2019)
Annual allocations from the Nebraska Universal Service Fund (By Calendar Year)	2017 – \$40,087,483 2018 - \$33,139,591 2019 - \$30,056,117 (Additional allocations may still be made in 2019)
The number of households and businesses in Nebraska which have broadband (25/3 Mbps Down/Up) available as a result of CAF II funding	A-CAM (2016-2018) – 3,828 Locations CAF II (Price Cap Carriers) – 677 locations

<sup>6</sup> See comments submitted by the Rural Telecommunications Coalition of Nebraska (RTCN) on April 18, 2019 available at <https://psc.nebraska.gov/sites/psc.nebraska.gov/files/doc/administration/2019-04-18%20Comments%20of%20RTCN.pdf>.

<p>The number of households and businesses in Nebraska which have, or will have broadband available as a result of NUSF funding (Includes only High Cost programs, NUSF-99 and NUSF-108)</p>	<p>NUSF-99 Projects (2016-Present) – 8,092</p> <p>NUSF-108 Projects (2019) – 346 (Includes project notices received as of 8/9/2019)</p>
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