

CAF II Reverse Auction Heads for (Modest) Success

Auction winners will likely serve between 200,000 and 400,000 rural households and businesses – at best, about 40 percent of those eligible.

By Steven S. Ross / *Broadband Communities*

The first round of bidding in the FCC's Connect America Fund reverse auction (commonly known as CAF II) starts July 24. The auction will provide support for broadband from the Universal Service Fund to high-cost areas that large carriers have shunned in previous proceedings for allocating this money. These areas are typically rural but include some stray locations in otherwise well-served areas.

To be eligible, a census block cannot already have voice and broadband service of at least 10/1 Mbps (based on FCC Form 477 data) by an unsubsidized competitor or a price-cap carrier that has already won subsidies. The 30,032 census block groups (210,000 blocks) eligible for this auction cover less than 1 percent of the U.S. population and 971,223 locations (not all of them residences) in 1,589 counties – about half the counties in the United States.

Excluded from the auction are New York (which made a separate deal to coordinate with the state's broadband grant program), Alaska, Puerto Rico and the U.S. Virgin Islands.

In sparsely populated rural counties, census blocks can cover wide areas to preserve the privacy of census responders. A glance at the FCC map at www.fcc.gov/maps/caf2-auction-final-areas/ suggests that the census block groups in the auction cover about half the U.S. land mass outside Alaska.

Winners can expect to share \$198 million in annual support for 10 years (a total of \$1.98 billion). Different census blocks have wildly different reserve prices (maximum bids, as this is a reverse auction in which the lowest price wins). Reserve prices are based on the sum of the annual support amounts calculated by a cost model for all premises within each eligible census block in the census block group, subject to a cap of \$146.10 per location per month. They range from a high of \$1,226,728 a year for the 784 eligible locations in Piscataquis County, Maine, to as little as a dollar in a few urban locations.

The maximum support level, \$146.10, would support only about 113,000 locations – about one of every nine eligible. Bids at the reserve price for every census block would require

more than three times the money available from the fund. So it's likely that not every block will be funded.

WHAT'S NEXT

First, 220 bidders made it through the daunting prequalification process; 57 did not. To maximize bidding competition, the FCC did not provide the locations of the prequalified bidders or the locations of the census blocks they expect to bid on, but bidders appear to be spread across the country and include a few major carriers, such as Verizon.

Second, if, as expected, the opening bids require more support than is available, there will be extra rounds to allow bidders to sharpen their pencils and exercise their spreadsheets.

Third, bidders must offer at least one voice and one broadband service that meet the relevant service requirements to the required number of locations. By the end of the third year of support, they must offer service to 40 percent of the locations in each state in which they have successfully bid to serve census block groups. They must add 20 percent in each subsequent year and reach 100 percent by the end of six years.

Fourth, they must offer at least one broadband and one voice service at rates "reasonably" comparable to those in urban areas.

Finally, the FCC will accept bids for four service tiers and two latency tiers (one "low" latency at less than 100 ms, one "high" but still below 750 ms). Not surprisingly, some satellite providers made the list. The bandwidth baseline is 25/3 Mbps, but speeds as low as 10/1 Mbps and as high as a gigabit are allowed. The greater the bandwidth, the lower the weighting against the bid (65 percent for 10/1, zero for 1 Gbps/500 Mbps).

Bids will be scored relative to the reserve price for each area, with lower bids selected first. Given the geographic distribution of the qualified bidders, some bids should be well below the FCC's cap. That suggests 200,000 to 400,000 new broadband premises will be served. ❖

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