Dated: April 19, 2018.

Anne Idsal,

Regional Administrator, Region 6.

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FEDERAL COMMUNICATIONS COMMISSION

47 CFR Part 54

[WC Docket Nos. 10–90, 14–58, 07–135, CC Docket No. 01–92; FCC 18–29]

Connect America Fund, ETC Annual Reports and Certifications, Establishing Just and Reasonable Rates for Local Exchange Carriers, Developing a Unified Intercarrier Compensation Regime

AGENCY: Federal Communications Commission.

ACTION: Proposed rule.

SUMMARY: In this document, the Federal Communications Commission (Commission) considers further reform to establish a budget that will allow for robust broadband deployment in rate-of-return areas while minimizing the burden that contributions to the Universal Service Fund (the Fund) place on ratepayers and to bring greater certainty and stability to rate-of-return high-cost funding, both in the near term and in the future. The Commission also seeks comment on additional reforms to increase broadband deployment, while promoting the efficient use of limited resources.

DATES: Comments are due on or before May 25, 2018 and reply comments are due on or before June 25, 2018. If you anticipate that you will be submitting comments, but find it difficult to do so within the period of time allowed by this document, you should advise the contact listed below as soon as possible.

ADDRESSES: You may submit comments, identified by WC Docket Nos. 10–90, 14–58, 07–135, CC Docket No. 01–92, by any of the following methods:

- *Federal eRulemaking Portal: http://www.regulations.gov.* Follow the instructions for submitting comments.
- *Federal Communications Commission's Website: http://fjallfoss.fcc.gov/ecfs2/.* Follow the instructions for submitting comments.
- *People With Disabilities:* Contact the FCC to request reasonable accommodations (accessible format documents, sign language interpreters, CART, etc.) by email: *FCC504@fcc.gov* or phone: (202) 418–0530 or TTY: (202) 418–0432.

For detailed instructions for submitting comments and additional information on the rulemaking process, see the **SUPPLEMENTARY INFORMATION** section of this document.

FOR FURTHER INFORMATION CONTACT: Suzanne Yelen, Wireline Competition Bureau, (202) 418–7400 or TTY: (202) 418–0484.

SUPPLEMENTARY INFORMATION: This is a summary of the Commission's Notice of Proposed Rulemaking (NPRM) in WC Docket Nos. 10–90, 14–58, 07–135, CC Docket No. 01–92; FCC 18–29, adopted on March 14, 2018 and released on March 23, 2018. The full text of this document is available for public inspection during regular business hours in the FCC Reference Center, Room CY–A257, 445 12th Street SW, Washington, DC 20554 or at the following internet address: *https://transition.fcc.gov/Daily_Releases/Daily_Business/2018/db0323/FCC-18-29A1.pdf.* The Report and Order and Third Order on Reconsideration that was adopted concurrently with the NPRM is published elsewhere in this issue of the **Federal Register**.

I. Introduction

1. Universal service can—and must—play a critical role in helping to bridge the digital divide to ensure that rural America is not left behind as broadband services are deployed. The directive articulated by the Commission in 2011 remains as true today as it did then: ''The universal service challenge of our time is to ensure that all Americans are served by networks that support high-speed internet access.'' Though the Commission has made progress for rural Americans living in areas served by our nation's largest telecommunications companies, the rules governing smaller, community-based providers—rate-of-return carriers—appear to make it more difficult for these providers to serve rural America. As a result, approximately 11 percent of the housing units in areas served by rate-of-return carriers lack access to 10 Mbps downstream/1 Mbps upstream (10/1 Mbps) terrestrial fixed broadband service while 34 percent lack access to 25 Mbps downstream/3 Mbps upstream (25/3 Mbps). It is time to close this gap and ensure that all of those living in rural America have the high-speed broadband they need to participate fully in the digital economy.

2. By improving access to modern communications services, the Commission can help provide individuals living in rural America with the same opportunities that those in urban areas enjoy. Broadband access fosters employment and educational opportunities, stimulates innovations in health care and telemedicine and promotes connectivity among family and communities. And as important as these benefits are in America's cities, they can be even more important in America's more remote small towns, rural, and insular areas. Rural Americans deserve to reap the benefits of the internet and participate in the 21st century society—not run the risk of falling yet further behind.

3. Today, the Commission takes the next step in closing the digital divide through proposals designed to stimulate broadband deployment in rural areas. To reach its objective, the Commission must continue to reform its existing high-cost universal support programs. Building on earlier efforts to modernize high-cost universal service support, the Commission seeks to offer greater certainty and predictability to rate-of-return carriers and create incentives to bring broadband to the areas that need it most.

4. In the NPRM, the Commission considers further reforms to establish a budget that will allow for robust broadband deployment in rate-of-return areas while minimizing the burden that contributions to the Fund place on ratepayers and to bring greater certainty and stability to rate-of-return high-cost funding, both in the near term and in the future. The Commission also seeks comment on additional reforms to increase broadband deployment, while promoting the efficient use of limited resources. For example, the Commission seeks comment on whether to fully fund existing A–CAM support recipients, afford a new opportunity for legacy providers to elect model-based support, and establish a minimum threshold of support for legacy providers that would not be subject to a budget cap. Lastly, the Commission seeks comment on other reforms, including, for example, exploring the need for caps on capital and operating expenses, using an auction process to address substantial competitive overlaps, and other options for simplifying the legacy rate-of-return mechanism.

II. Notice of Proposed Rulemaking

5. *Discussion.* The Commission seeks comment on revising the budget for rate-of-return carriers within the high-cost program. The Commission has not revised the budget since 2011, and as a result, has not accounted for the effects of inflation on the budget. Had the Commission accounted for inflation, the rate-of-return budget would have increased from $2 billion in the 2012 budget year to $2.193 billion in the 2018 budget year.

6. Moreover, since 2011 consumers' expectations and the Commission's requirements regarding broadband speed have continued to increase. The Commission's initial speed benchmark for Connect America Fund (CAF) recipients was 4 Mbps downstream and 1 Mbps upstream, later revised to 10 Mbps downstream and 1 Mbps upstream, and certain CAF recipients are now required to offer 25 Mbps downstream and 3 Mbps upstream. Consumer demand for higher speeds is also evident. Among residential users, the percentage of fixed broadband connections with a ''downstream speed of at least 25 Mbps has grown from 24% (or 23 million connections) in June 2013 to 57% (or 59 million connections) in June 2016,'' and ''slower downstream speeds of less than 3 Mbps has decreased from 18% (or 17 million connections) in June 2013 to 5% (or 5 million connections) in June 2016.'' A budget designed to speed the deployment of 4 Mbps/1 Mbps broadband to rural America may be insufficient to encourage the deployment of the high-speed broadband networks that residents of rural America need.

7. In initiating the budget review, the Commission seeks comment on the appropriate level of support—and the Commission notes that the Communications Act of 1934, as amended (Act) requires such support to be ''predictable and sufficient . . . to preserve and advance universal service.'' Should the Commission establish a separate budget dedicated to High-cost Loop Support (HCLS) and Connect America Fund Broadband Loop Support (CAF BLS)? If so, should the Commission set that budget at $1.23 billion (the current amount available for HCLS and CAF BLS), at $1.35 billion (that amount adjusted by the inflationary ratio that reflects inflation since 2011), or at some other amount? Commenters should submit evidence that labor costs or other costs, such as fiber or electronics, have increased since 2011 due to inflation. Commenters should also submit evidence that those increased costs, if any, have not been offset by savings related to increased labor productivity or the lower cost of network equipment.

8. Alternatively, should the amount of support available for HCLS and CAF BLS continue to be calculated by subtracting Alternative Connect America Cost Model (A–CAM), Alaska Plan, and Connect America Fund Intercarrier Compensation (CAF ICC) support from a single rate-of-return budget? If so, should the Commission increase that rate-of-return budget for the 2018 budget year to $2.193 billion (the inflation-adjusted figure) or adopt some other figure? If the Commission retains a single budget, how should the Commission account for other changes and proposals it makes today? For example, in the concurrently adopted Report and Order, the Commission offers existing A–CAM carriers revised support up to a per-location cap of $146.10 and here seeks comment on making a second A–CAM offer to legacy carriers—should that additional funding come from within a single, combined budget? The Commission notes that any increase in the budget attributable to those carriers now receiving A–CAM could help fully fund the original offer at the $200 per-location cap or incent more legacy carriers to elect a new model offer. Should the Commission adopt a budget that would fully fund a new model offer and fully fund the original A–CAM offer for all existing A–CAM providers? The Commission also proposes to offer model-based support to glide path carriers, which would decline over the 10-year term as transition payments phase down to the model amount. Should that support then be available to carriers continuing to receive HCLS and CAF BLS?

9. In revisiting the budget, how should the Commission take into account the reforms it adopted in the *Rate-of-Return Reform Order,* 81 FR 24282, April 25, 2016, as well as proposals the Commission makes in this NPRM—reforms and proposals that will bring more predictability to rate-of-return carrier support, while spurring deployment and mitigating regulatory inefficiencies? And how should the Commission account for the fact that recipients of CAF BLS and HCLS are uniquely situated because each recipient effectively determines its own support claims through its behavior (its expenses and capital investments) and each recipient's behavior has a collective effect on all recipients of these funds due to the budget cap. In other words, how should the Commission account for the fact that spending by one legacy carrier could reduce support available to other providers once adjustments are made to ensure that total spending falls below the cap?

10. The Commission is mindful of its obligation to ensure that scarce public resources are spent judiciously. As courts have recognized, too much subsidization could affect the affordability of telecommunications services for those that pay for universal service support, in violation of section 254(b). The Commission also notes that when the Tenth Circuit upheld the budget adopted in 2011, it stated that ''the FCC quite clearly rejected any notion that budgetary 'sufficiency' is equivalent to 'complete' or 'full' funding for carrying out the broadband and other obligations imposed upon carriers who are voluntary recipients of USF funds.'' The Commission therefore asks commenters to discuss whether the benefits of any budget increase would outweigh the burden on ratepayers from an increase in the contribution factor. The Commission notes that the proposed contribution factor for the second quarter of 2018 is 18.4 percent. The Commission takes seriously its obligations as steward of the Fund and is committed to fiscal responsibility. The Commission also recognizes that increases in the contribution factor raise the costs, directly and indirectly, of service to businesses and consumers. The Commission thus asks that commenters consider its commitment to fiscal responsibility when advocating an appropriate high-cost budget.

11. With any proposed budget, the Commission urges commenters to provide a detailed economic analysis. The Commission would find most helpful comments providing evidence on the amount of support legacy carriers would need to meet mandatory buildout requirements while offering at least one plan at the comparative benchmark rate, and why/if current support levels are insufficient. The Commission also asks that comments quantify how much additional broadband deployment could occur with any budget increase.

12. After the Commission has set a new initial budget, it proposes to increase that budget for inflation going forward and seek comment on this proposal. The Commission believes that adjusting the budget for inflation would account for any increases in the costs of network inputs and allow carriers an opportunity to recover those increased costs. The Commission seeks comment on inflation's impact on the costs of deploying and maintaining a network.

13. For an inflationary factor, the Commission proposes using Gross Domestic Product—Chain Price Index (GDP–CPI), the same factor used for the Rural Growth Factor (RGF). Using the same inflationary factor the Commission uses for the RGF would be administratively efficient. In addition, the Commission has been using the GDP–CPI in other contexts since 1996, and of the two versions used to index federal programs, the GDP–CPI is more accurate in estimating cost of living changes from month to month. Furthermore, in the document, the Commission modifies the operating expense limitation to add GDP–CPI as

the inflationary factor, which the industry had requested. Nonetheless, the Commission seeks comment on whether another inflationary factor be more appropriate and, if so, why?

14. The Commission also seeks comment on when it should next revisit the budget. Should the Commission revisit the budget again in six years, as set forth in the *USF/ICC Transformation Order,* 76 FR 73830, November 29, 2011? Given that current A–CAM funding continues until 2026, would it be more appropriate to revisit the budget in 2026? The Commission asks that commenters consider that any time frame should take into account carriers' needs for a sufficient and predictable funding stream, while providing the flexibility to make adjustments as marketplace circumstances warrant.

15. *A–CAM Offer.* In the *A–CAM Revised Offer Order,* 82 FR 4275, January 13, 2017, the Commission recognized that glide path carriers—those carriers electing A–CAM despite an ''offer of model-based support . . . less than the legacy support that they received''—leave more funding available in the A–CAM rate-of-return budget to the benefit of consumers and other rate-of-return carriers that elected model support. Here, the Commission proposes to extend a new model offer to carriers willing to accept lower support amounts in exchange for increased certainty of funding—which in turn could create additional headroom for legacy rate-of-return carriers over time. The Commission seeks comment on this proposal.

16. In proposing this new model offer, the Commission first seeks comment on limited adjustments to the cost model that may make participation more favorable to carriers that declined the A–CAM, including the addition of a Tribal Broadband Factor. The Commission next seeks comment on which carriers should be eligible to participate. The Commission then seeks comment on the support amounts available for electing carriers, as well as their accompanying obligations. Finally, the Commission seeks comment on the process used for elections.

17. *Revising Model Parameters.* The Commission generally proposes to use the A–CAM and the parameters it adopted in the *Rate-of-Return Reform Order* to provide its new model offers, but the Commission seeks comment on several proposed revisions.

18. *First,* the Commission proposes to adjust the model to reflect the unique challenges of deploying high-speed broadband to rural, Tribal communities by incorporating a Tribal Broadband Factor into the model. Specifically, the A–CAM incorporates assumptions about take rates and potential average revenues per subscriber that may be unrealistic given the ''high concentration of low-income individuals [and] few business subscribers'' in many rural, Tribal areas. By reducing the funding threshold by 25 percent for locations in Indian country—in other words, by setting a high-cost funding benchmark of $39.38 on Tribal lands—the Commission believes the revised model will better reflect the business case of deploying high-speed broadband in rural, Tribal areas and therefore spur further broadband deployment there. Because A–CAM support is calculated at the census block level, the Tribal Broadband Factor would efficiently target support to carriers that serve significant Tribal lands, as well as those carriers that serve only a minimal amount of Tribal lands or a small number of housing units on Tribal lands in their study area. The Commission proposes to use the definition of ''Tribal lands'' that was used in the *USF/ICC Transformation Order* and later modified in the *2015 Lifeline Reform Order,* 80 FR 40923, July 14, 2015. The Commission seeks comment on this proposal.

19. *Second,* the Commission proposes to include census blocks where an incumbent or its affiliate is providing 10 Mbps/1 Mbps or better broadband using either fiber to the premises (FTTP) or cable technologies. In the *Rate-of-Return Reform Order,* the Commission excluded these census blocks to focus its limited budget on those carriers most likely to build new networks with new funding. Because the Commission proposes to limit this new offer to glide path carriers, providing model support to maintain and upgrade existing networks is financially feasible and may create an additional incentive for legacy providers to consider shifting to model-based support.

20. *Third,* consistent with the $146.10 per-location funding cap the Commission is implementing for the original A–CAM electors, it proposes to cap the total amount of support available for the second offer at $146.10 per location instead of $200. The Commission also proposes a $13.12 higher per-location cap on rural, Tribal lands to reflect the high-cost threshold created by applying the Tribal Broadband Factor. The Commission seeks comment on this proposal. The Commission also seeks comment on alternatives. For example, because the Commission proposes to limit eligibility to carriers for whom A–CAM support would be less than legacy support, should the Commission anticipate that the available budget could potentially fund a higher per-location funding cap of $200? If so, should the Commission establish a per-location cap up to that amount? Alternatively, the Commission notes that a single per-location funding cap may unnecessarily exclude some carriers from participating in the new model offer. For example, a carrier might be willing to accept a small loss of support but not a larger loss—meaning a $146.10 per-location funding cap may be, for that carrier, too low to induce participation. In contrast, a carrier might be willing to accept a small loss of support but is not given the chance—because a $146.10 per-location funding cap may result in an increase to that carrier's legacy support. Should the Commission adjust the per-location funding cap for each carrier so that every legacy carrier has an opportunity to accept the new model with only a small loss (5 to 15 percent) of support? If so, should the Commission nonetheless retain a per-location funding cap maximum of $200 or $146.10?

21. *Fourth,* the Commission proposes to update the broadband coverage data with the most recent publicly available FCC Form 477 data prior to any additional offer of support. The Commission proposes to rely on the certified FCC Form 477 data rather than conducting a time-consuming and administratively burdensome challenge process. In this regard, the Commission notes that in the challenge process for the first A–CAM offer, the Bureau granted only 61 challenges of the more than 250 requests received to change A–CAM coverage. Even with the challenges granted, the coverage data may not have changed to ''unserved'' in particular census blocks if there were other unsubsidized providers that were not challenged reporting service in those census blocks. The Commission seeks comment on updating the broadband coverage data.

22. *Eligibility Requirements. First,* the Commission proposes to limit this new model offer to legacy carriers eligible to receive HCLS and CAF BLS, *i.e.,* those rate-of-return carriers that are not recipients of A–CAM support and that are not participants in the Alaska Plan.

23. *Second,* the Commission proposes to limit this new model offer to carriers that would be glide path carriers, *i.e.,* those for whom the new offer of model support will be below their legacy support. The Commission seeks comment on how to set the baseline level of legacy support for these purposes. Should the Commission use the same baseline it did in authorizing

the A–CAM? Should the Commission set the baseline as total support received in calendar year 2017 or budget year 2017? In setting the baseline, should the Commission ignore the parent trap rule where applicable? For instance, if a carrier's legacy support would have been $500,000, but because of the parent trap rule, support is $300,000, which amount should the Commission use?

24. *Third,* the Commission seeks comment on whether to exclude from this new model offer carriers whose deployment obligations would include no fully funded locations. That is, should the Commission exclude from the new model offer those carriers that would only be obligated to deploy 4/1 Mbps to a certain number of locations, and to provide broadband only upon reasonable request to the remaining locations?

25. In the *Rate-of-Return Order,* the Commission excluded from the initial A–CAM offer any carrier that had deployed 10/1 Mbps broadband to 90 percent or more of its eligible locations in a state in order to maximize its limited funding toward those areas with less deployment. Because the Commission proposes to limit this new offer to glide path carriers, it declines to propose such a limit because offering model support to such carriers is financially feasible and may create an opportunity for legacy providers to consider shifting to model-based support and increasing their deployment of even higher-speed service. The Commission also seeks comment on any other eligibility criteria that it should consider.

26. *Support.* The Commission proposes aligning the term of support for this new model offer with the 10-year term of the first A–CAM offer. Current A–CAM support recipients began receiving support as of January 1, 2017. If support is authorized pursuant to a second A–CAM offer in 2018, the Commission seeks comment on providing a nine-year term of support that will expire at the end of 2026, with support beginning January 1, 2018. If additional A–CAM recipients are not authorized until late 2018, in 2019, or later, should the Commission offer a shorter term of support or take other measures to align the A–CAM support terms? In addressing an appropriate term of support, commenters are invited to address the Commission's competing goals of providing the certainty needed to stimulate investment with its interest in promoting administrative efficiency and accounting for marketplace developments over time.

27. As adopted by the Commission for current A–CAM recipients, it proposes a three-tiered process to transition electing carriers from the legacy support mechanism to the model. The Commission proposes to base the transition payments on the difference between model support and legacy support, and phase down transition payments over longer periods of time where that difference is greater. If the Commission aligns the term of support for the new model offer with the 10-year term of the original A–CAM offer, the Commission proposes to adjust the percentage reductions also to align with the shorter support term. The Commission seeks comment on this proposal. In the alternative, the Commission seeks comment on modifying the transition payments so that a greater portion of the available budget will be directed to increased broadband deployment obligations. Commenters are also invited to address whether the Commission should modify deployment obligations if a carrier forgoes transition payments or accepts faster transitions.

28. The Commission notes that given that it proposes to extend a new model offer only to those carriers for whom the offer is less than their legacy support, support claims alone will cover the A–CAM support plus transition payments regardless of any per-location cap adopted by the Commission. The Commission therefore proposes to base the budget for a new model offer on the 2017 claims amount contributed by electing carriers.

29. *Obligations.* The Commission proposes to require the same performance and deployment obligations as the Commission requires for existing A–CAM recipients. Specifically, the Commission proposes to require rate-of-return carriers electing model support to maintain voice and existing broadband service and to offer at least 10/1 Mbps to the number of locations ''fully funded'' by the model, and at least 25/3 Mbps to a certain percentage of those locations, by the end of the support term. The Commission continues to believe that this approach strikes the appropriate balance in allowing carriers to conduct network planning, while accounting for evolving standards in the future.

30. The Commission proposes to vary the deployment obligations by density, as it did for the previous A–CAM offers. Carriers with a density in the state of more than 10 housing units per square mile would be required to offer 25/3 Mbps to at least 75 percent of the fully funded locations; carriers with 10 or fewer, but more than five, housing units per square mile would be required to offer 25/3 Mbps to at least 50 percent of the fully funded locations; and carriers with five or fewer housing units per square mile would be required to offer 25/3 Mbps to at least 25 percent of the fully funded locations.

31. The Commission also proposes requiring carriers electing model support to offer at least 4/1 Mbps to a defined number of locations that are not fully funded (*i.e.* with a calculated average cost above the funding cap) by the end of the support term. The Commission proposes that carriers with a density of more than 10 housing units per square mile be required to offer at least 4/1 Mbps to 50 percent of all capped locations; and carriers with a density of 10 or fewer housing units per square mile be required to offer at least 4/1 Mbps to 25 percent of all capped locations. The remaining capped locations would be subject to the reasonable request standard. The Commission seeks comment on these proposed obligations. The Commission also seeks comment on whether it should modify the broadband speed obligations in any way, such as by requiring additional 25/3 Mbps deployment in census blocks that would have been excluded from the original A–CAM offer because of reported cable or fiber deployment.

32. Consistent with CAF requirements for funding recipients, the Commission proposes to require carriers electing the new model offer to offer a minimum usage allowance of the higher of 170 GB per month or one that reflects the average usage of a majority of consumers, using Measuring Broadband America data or a similar data source. In addition, the Commission proposes to require carriers electing to receive model support to certify that 95 percent or more of all peak period measurements of round-trip latency are at or below 100 milliseconds. Because there may be a need for relaxed standards in areas where carriers may use alternative technologies to meet their public interest obligations, the Commission proposes that this latency standard would apply to locations served by terrestrial technologies. The Commission seeks comment on whether to use the high latency metric adopted in the CAF II auction proceeding for any capped locations served by a non-terrestrial technology. Under the high-latency standard, carriers would be required to certify that 95 percent or more of all peak period measurements of round-trip latency are at or below 750 milliseconds, and with respect to voice performance, a score of four or higher using the Mean Opinion Score (MOS). The Commission seeks comment on these proposals.

33. The Commission proposes to require carriers electing a new model offer to meet the same deployment milestones as the Commission requires for existing A–CAM recipients, adjusted for the proposed nine-year term of support or as appropriate. Assuming a nine-year term, the Commission would eliminate the 40 percent benchmark in 2020, and propose to require new A–CAM support recipients to offer at least 10/1 Mbps service to 50 percent of the requisite number of funded locations by the end of 2021, an additional 10 percent each year thereafter, and 100 percent by 2026. In addition, by the end of 2026, the Commission proposes to require these carriers to offer at least 25/3 Mbps and 4/1 Mbps to the requisite percentage of locations, depending on density. The Commission also proposes to provide the same flexibility afforded other A–CAM recipients to deploy to only 95 percent of the required number of fully funded 10/1 Mbps locations by the end of the term of support. The Commission seeks comment on these proposed deployment milestones.

34. Consistent with existing obligations, the Commission proposes to require carriers to report geocoded location information for all newly deployed locations that are capable of delivering broadband meeting or exceeding the speed tiers. The Commission also proposes to adopt defined deployment milestones, so that the same previously adopted non-compliance measures would apply.

35. *Election Process.* The Commission proposes a single-step process whereby electing carriers make an irrevocable acceptance of the offered amount because no support adjustments will need to be made to address budget targets.

36. *Continuing Uniform Collections.* The Commission seeks comment on whether it should extend its direction to the Universal Administrative Company (USAC) to forecast total high-cost demand as no less than one quarter of the annual high-cost budget, regardless of actual quarterly demand in order to minimize volatility in contributions. If the Commission maintains an overall cap on the legacy portion of the rate-of-return budget, are there any reasons why demand might shift dramatically, causing unexpected increases to the contribution factor? Are uniform collections with a reserve fund a prudent budgetary practice or an unnecessary change to the Commission's traditional framework?

37. *Fully Fund Existing A–CAM.* In the concurrently adopted Report and Order, the Commission offers additional support to authorized A–CAM recipients based on a $146.10 per-location cap. Here, the Commission seeks comment on whether to offer A–CAM support to those carriers using a $200 per-location funding cap, and what additional deployment commitments may be appropriate. The Commission also provides information on the amount by which the acceptances for the model exceeded the available funding. The Commission notes that carriers who elected A–CAM offers that were below then-current support levels have already received full funding. To stay within the budget, however, the Bureau revised the offer for all other electing carriers by reducing the funding cap to $146.10 per location, and then further reducing carrier-specific offers by varying amounts based on the percentage of locations lacking 10/1 Mbps.

38. The Commission now seeks comment on using additional headroom in the budget to offer the carriers that accepted the revised offer of A–CAM support in 2017 the fully funded amount, using a per-location funding cap of $200 per location. Providing full funding for the original A–CAM recipients would accelerate broadband deployment in those rural areas for which rate-of-return carriers accepted the first A–CAM offer. If all eligible carriers accept this offer, it anticipates that it would result in approximately $66.6 million more support per year for the 10-year A–CAM term. If the Commission were to move forward with this additional offer, the Bureau would release a public notice announcing the offer and provide carriers 30 days to accept the offer and carriers accepting the fully funded offer be subject to the original deployment obligations. The Commission seeks comment on this option, including any timing considerations that it should bear in mind.

39. *An A–CAM Offer for All Legacy Carriers.* Encouraged by the response to the first A–CAM offer, the Commission seeks comment on whether to open a new window for all legacy carriers—not just those for whom the offer of model-based support is less than the legacy support they received—to elect to receive specific and predictable model-based support on a state-level basis in exchange for extending broadband service to a pre-determined number of locations in eligible census blocks. Expanding the number of carriers receiving A–CAM support will advance the Commission's longstanding objective to provide high-cost support based on forward-looking, efficient costs to help spur additional broadband deployment in rural areas. If the Commission initiates a broader new model offer, generally propose to use the same process, obligations, and criteria described in this document. Accordingly, when reviewing the proposals and questions the Commission asks in this document, commenters should also consider them in light of a second offer to all legacy carriers. In the following, the Commission discusses and seeks comment on aspects of a new model offer that are not discussed in this document, *i.e.* those aspects that are applicable only if the Commission makes a new model offer to legacy carriers who might receive more funding than they had received previously.

40. *Budget.* If the Commission extends a second offer to all legacy rate-of-return carriers, it proposes to direct the Bureau to use a multi-step process for non-glide path carriers, similar to the one used in the first offer, to determine support amounts if the available budget is insufficient to maintain the initial per-location funding cap of $146.10 (or some other amount). The Bureau would first total the amount of model-based support for electing carriers and determine the extent to which, in the aggregate, their model-based support exceeds the total legacy support they received in 2017. The Commission seeks comment on whether it should collect additional contributions to fully fund all electors at this point, rather than calculating a second offer for electors. The Commission seeks comment on this approach.

41. Alternatively, if the Commission does not decide to collect sufficient contributions to fully fund all electors, should it direct the Bureau to reduce the funding cap and/or prioritize support amounts to those areas that have the lowest deployment of broadband? Should the Bureau first reduce the per-location funding cap? If the new model support amounts using this lower funding cap still exceeded the budget, should the Bureau further reduce support offers by varying percentages based on the percentage of locations lacking 10/1 Mbps? Is there a different way to allocate the budget amongst new model electors that would maximize broadband deployment?

42. *Election Process.* If the Commission extends a new model offer to non-glide path carriers, it proposes to use the same two-step election process the Commission used for the first A–CAM offer. The Bureau would first release a public notice showing the offer of model-based support for each carrier in a state and associated deployment obligations, including the number of

fully funded and capped locations. The Commission seeks comment on providing carriers 30 days or 60 days to indicate on a state-by-state basis whether they elect to receive model-based support. The Commission proposes that the elections would be irrevocable if no adjustment to the support amounts would be required either because the support amounts are within the available budget or because the Commission has concluded to collect sufficient amounts to fully fund the offers. If the budget is insufficient, the Commission proposes that it adopts a methodology similar to that used to revise the first A–CAM offers. The Bureau would approve fully funded amounts for glide path carriers. The Bureau would also release a public notice showing the revised offers for all other carriers. Carriers would have 30 days to accept the revised offer. The Commission seeks comment on this option.

43. *Threshold Level of Support.* In funding support claims affected by the budget control mechanism from July 2017 to June 2018 in the concurrently adopted Report and Order, the Commission provides an opportunity to consider the effects of the budget control mechanism on rate comparability in conjunction with its overall review of the rate-of-return budget. The Commission also acknowledges carriers' claims that unpredictability may make capital planning difficult, potentially resulting in reduced broadband deployment that, in turn, could harm consumers. With each successive annual calculation of the budget control mechanism, the budget adjustment factor has increased and legacy carriers have faced increasing reductions in their support relative to their support claims. Moreover, the Commission notes that reductions can vary from year-to-year and even quarter-to-quarter, given that each carrier's reduction in support is affected by the spending of other carriers.

44. Here, the Commission seeks to address this concern and provide greater long-term stability and predictability for legacy carriers to facilitate planning and help spur deployment. At the same time, the Commission wants to better motivate legacy carriers to operate efficiently. To achieve this result, the Commission proposes two changes to the budget control mechanism.

45. *First,* the Commission proposes to modify the budget control mechanism to use only a pro rata reduction applied as necessary to achieve the target amount and no longer include a per-line reduction. The Commission's experience thus far with per-line reductions has led to larger and more unpredictable swings in support than might otherwise be expected; accordingly, using only a pro rata reduction may be a more predictable and equitable way to reduce support amounts because all carriers' support is reduced by the same percentage. It is also a less complex mechanism to administer. Accordingly, the Commission proposes that the budget control mechanism would operate in the same manner as the current one, but without the per-line reduction aspect. The Commission seeks comment on this proposal.

46. *Second,* the Commission proposes to provide legacy providers a threshold level of annual support that would not be subject to a budget cap. Establishing a level of uncapped support may give legacy carriers more predictability, allowing them to make longer term plans while knowing that certain expenses could push them above the uncapped amount and therefore would be less likely to be fully recoverable.

47. The Commission seeks comment on alternatives for establishing a level of high-cost support that would not be subject to the budget control mechanism. One option would be to set the uncapped amount of annual support at 80 percent of the amount a legacy carrier would have received had they elected the new model offer (based on a funding cap of $146.10 per location). In evaluating this option, the Commission seeks comment on whether basing a carrier's uncapped level of support using 80 percent of the revised model is appropriate, as opposed to a different percentage.

48. Another option would be to use the five-year CAF BLS forecast developed by the National Exchange Carrier Association (NECA) for the carrier-specific deployment obligation as the uncapped threshold, but subject any amounts greater than that to a budget control mechanism. A third option could set the uncapped threshold at a specified fraction of each carrier's unconstrained 2016 or 2017 claims amount. If the Commission adopts this approach, would a 70 percent fraction be appropriate? Should it be lower or higher? And should this amount be adjusted to reflect line loss, so that a carrier is not guaranteed a fixed amount to serve a decreasing number of lines? Finally, a fourth option if the Commission does retain the per-line reductions would be to limit any reductions in support due to the budget control mechanism to no more than twice the ''budget adjustment factor.'' For example, if total demand, prior to the application of the budget control mechanism, was $1.4 billion and the overall legacy rate-of-return budget remains at $1.23 billion, then a 12.1 percent reduction would be applied to CAF BLS and HCLS to stay within the budget. Under this alternative, no carrier would have a reduction in support greater than 24.2 percent.

49. The Commission seeks comment on these alternatives, and any others that parties may propose. What are the benefits and costs of each proposal? Would they result in a threshold level of support that is sufficient or excessive? Should any of these options be adopted as an additional layer to one of the methods of limiting support losses described above? In evaluating the various options, the Commission requests that commenters discuss what factors and goals it should consider. For instance, is the best option the one where the average decrease in support from current levels is the least or is it better to base the guaranteed amount on those carriers the cost model indicates can use it most efficiently? To what extent should the Commission weigh the certainty and predictability of support associated with each option? The Commission also seeks comment on how each option helps to mitigate the inefficiencies of the legacy rate-of-return system, such as the incentive for rate-of-return companies to over-invest capital to increase profits, the Averch–Johnson effect. In addition, the Commission seeks comment on any other mechanisms for calculating an amount of support not subject to a budget control that balances the Commission's objective of providing specific, predictable, and sufficient support, with its goals of spurring rural broadband deployment, all while fairly allocating a finite budget among legacy carriers.

50. The Commission seeks comment on revising deployment obligations should it decide to provide carriers a threshold level of support that is not subject to the budget control mechanism or a cap on overall support, based on the A–CAM model. The deployment obligations adopted in the *Rate-of-Return Reform Order* were based on each legacy carrier targeting a defined percentage of its five-year forecasted CAF BLS support to the deployment of broadband where the carrier has not already deployed. Deployment obligations were determined by dividing the dollar amount of targeted CAF BLS by a cost-per-location amount. In forecasting the amount of CAF BLS that a carrier would receive, NECA incorporated the impact of the budget control mechanism.

51. Consistent with the Commission's proposal in this document, it seeks comment on revising the deployment obligations to reflect any guaranteed level of support that is not subject to the budget control mechanism. Specifically, the Commission seeks comment on whether each carrier should have a minimum deployment obligation that is based on the number of locations that would be served under the revised A–CAM model at an 80 percent funding level. For example, if the revised A–CAM, at the 80 percent funding level, indicated that a carrier should serve 1,000 locations with broadband service, and it currently serves 900, then it would be required to build out to an additional 100 locations. Each carrier would have further deployment obligations based on any additional support it is forecasted to receive in excess of its uncapped threshold level of support. The forecasted amount and the further obligations could be developed using the same methodology as was initially used after the adoption of the *Rate-of-Return Reform Order* (*i.e.,* by dividing the amount of targeted CAF BLS in excess of the threshold level by a cost-per-location amount).

52. The Commission seeks comment on this option. Would this buildout requirement better serve the public interest and promote deployment than the current buildout obligations? Does setting deployment obligations consistent with the threshold level of support improve certainty for carriers? Are there any additional benefits or possible concerns regarding setting deployment obligations in this manner? Should deployment obligations be modified to align with the expiration of the A–CAM support mechanism? Are there other ways to improve the determination of deployment obligations?

53. *Monthly Per-Line Limit.* The Commission seeks comment on lowering the $250 per-line monthly limit on support to $225 or $200. The Commission adopted the monthly limit on support in the *USF/ICC Transformation Order,* finding that amounts higher than $250 per loop per month (not including CAF ICC) should not be provided to carriers without further justification. In adopting that limit, the Commission noted that only 18 incumbent rate-of-return carriers received more than $250 per loop each month and estimated that only 12 would be subject to the limit after other reforms adopted in the *USF/ICC Transformation Order* were applied.

54. The Commission's experience suggests that a lower limit may be justified. Currently, approximately 13 study areas are affected by the monthly per-line limit. However, carriers serving only 10 of those study areas have petitioned the Commission to justify higher support amounts, and some withdrew their requests. To date, the Commission has awarded relief in only three instances. This history suggests that the $250 per-line monthly limit has been neither too restrictive nor likely to have a negative impact on the ability of carriers to provide service. Moreover, the Commission notes that a reduction to $200 would currently affect approximately 25 study areas that are not already subject to the $250 per-line monthly limit, and the same waiver process would be available to all affected study areas. Lowering the per-line monthly limit would also free up additional support within the legacy budget for other carriers. The Commission invites comment on whether to adopt a lower per-line monthly limit and, in particular, what amount may be appropriate.

55. *100 Percent Overlap Process.* The Commission seeks comment on whether to replace the 100 percent overlap process by which it eliminates support for legacy rate-of-return study areas that are fully served by unsubsidized carriers with a different mechanism. In the *USF/ICC Transformation Order,* the Commission adopted a rule to eliminate high-cost universal service support in incumbent LEC study areas where an unsubsidized competitor or a combination of unsubsidized competitors offers voice and broadband services that meet the Commission's service obligations throughout the study area. High-cost universal service support for the study areas found to be 100 percent overlapped is frozen at the amount disbursed in the prior calendar year, and support is phased down over three years. The Bureau conducted this biennial review in 2015 and 2017 and found only one study area to be 100 percent overlapped by unsubsidized competitors.

56. The Commission seeks comment on the effectiveness of the 100 percent overlap process. The Commission notes that to date there has been little participation by unsubsidized competitors. This lack of participation likely reflects the absence of incentives to participate. In competitively served rate-of-return areas, a study area is often not completely overlapped by one competitor, but rather multiple competitors covering different parts of the study area. An unsubsidized competitor that only partially overlaps an incumbent may not participate in the current process because there is a cost to doing so (*e.g.,* cost of compiling the information and filing) but other competitor(s) similarly may not participate such that the incumbent's support will not be phased out. In addition, the current process requires Commission staff to weigh the certifications and evidence presented to determine whether all locations are in fact served by voice and broadband, which can be challenging. Does the benefit of eliminating support from study areas 100 percent served by competitors outweigh the cost of conducting this process?

57. In lieu of the current process to determine whether a study area is 100 percent overlapped, the Commission seeks comment on using an auction mechanism to award support to either the incumbent LEC or the competitor(s) in areas where there is significant competitive overlap. Competitive bidding can result in more efficient levels of support. Competitors will have an incentive to bid less than the amount the incumbent currently receives, and incumbents will have an incentive to increase efficiencies by bidding less than the competitor(s). In addition, the Commission anticipates that the competitive overlap process adopted by the Commission in the 2016 *Rate-of-Return Reform Order* will require substantial Commission resources because it will require the Commission to review evidence regarding each census block that is competitively served individually. An auction procedure is likely to be quicker and more efficient.

58. If the Commission were to conduct auctions, should it focus only on study areas that are 100 percent overlapped according to FCC Form 477 data, or should the Commission focus on some lesser percentage, such as 90 percent overlapped or greater? If a lesser percentage, should the Commission adopt an auction to replace the competitive overlap process adopted by the Commission in the *Rate-of-Return Reform Order*? Using an auction at the study area level rather than the current process would give competitors an incentive to participate—the opportunity to win support to serve these areas. In the current 100 percent overlap process, the Commission uses the 10/1 Mbps standard to determine whether an area is served by unsubsidized competitors. If a study area is determined to be 100 percent overlapped, then the incumbent's support is phased out, perhaps trapping the area at 10/1 Mbps for the foreseeable future. An auction for support in these areas could increase speeds to the Commission's current standard of 25/3 Mbps, or indeed even higher. If one of

the goals of this auction process is to increase speeds in these areas, should the Commission only auction those areas that are overlapped at the 10/1 Mbps level, or any speed less than 25/3 Mbps?

59. *Other Reforms to Legacy Support Mechanisms.* The current legacy support mechanisms are complicated and remain mired in the complexities and disadvantages of rate-of-return regulation. The Commission therefore seeks comment on broader measures that would simplify its legacy support mechanisms while providing flexibility and certainty to carriers. For example, the Commission could rely on its prior HCLS and Interstate Common Line Support (ICLS) mechanisms but treat all lines similarly, regardless of what services customers purchase. Under this scenario, carriers would include certain costs associated with standalone broadband service when calculating HCLS and ICLS and all voice and standalone broadband lines would be counted as working loops when calculating support. Thus, HCLS and ICLS would continue as they had prior to the adoption of the *Rate-of-Return Reform Order* but would now include standalone broadband costs and lines in the calculations. The Commission seeks comment on whether this approach would be less complex than the CAF BLS program adopted by the Commission in 2016. Alternatively, is there a way to treat voice and broadband lines similarly that could be incorporated into the CAF BLS program? If so, would this approach minimize the effect of the budget control mechanism? Because carriers have long experience with HCLS and ICLS, would using HCLS and ICLS for standalone broadband line support provide more certainty and predictability to support flows?

60. The Commission also seeks comment on whether combining its high-cost support programs into one support stream would be simpler to administer and provide carriers with more flexibility. HCLS and CAF BLS rely on mechanisms originally designed to support voice services. Carriers receiving A–CAM support receive one monthly payment in exchange for meeting specific buildout obligations. Would a single support mechanism that combines current HCLS and CAF BLS resources and focuses on broadband deployment rather than voice services reduce regulatory burdens and provide more certainty and predictability to carriers receiving legacy support? Could such a mechanism be structured to provide incentives for carriers to operate efficiently and minimize the disadvantages of rate-of-return regulation? The Commission seeks comment on how a single high-cost support mechanism could reduce the need for complex cost regulation while encouraging broadband deployment.

61. The Commission seeks comment on whether there are other alternatives it should consider to further enhance the efficiency of the legacy high-cost program and target support to where it is most needed. For example, should the Commission target support not only to high-cost areas but low-income areas as well? Should the Commission adopt means-testing within the high-cost program? Either approach could target support where it is needed most by focusing only on areas or consumers with lower household income. Should the Commission award support for high-cost areas through a portable consumer subsidy or voucher? Would a voucher system increase the choices available to consumers? Should the Commission target support to States with less ability to fund the deployment of broadband in rural areas? How should the Commission identify States that are most in need of support, and how can the Commission do so while avoiding perverse incentives? Are there other alternatives the Commission should consider? Commenters should address considerations of timeliness, ease of administration, and cost effectiveness for each alternative.

62. *Modifying Limitations on Capital and Operating Expenditures.* The Commission seeks comment on the opex limitation and capital investment allowance. Through this proceeding, the Commission seeks to adopt further reforms to legacy support mechanisms that will simplify administrative processes and provide carriers with greater flexibility to deploy efficient broadband networks. Accordingly, the Commission seeks comment on whether the current limitations on capital and operating expenditures—currently untethered from the budget control mechanism—are successfully curbing unnecessary expenditures and incentivizing prudent investments or instead creating unnecessary burdens or deterring efficient investments. The Commission notes that for NECA to calculate the capital investment allowance, legacy carriers must track every capital expenditure and the number of locations affected by that expenditure. Is that additional administrative work yielding results for ratepayers? Also, given the trade-off many carriers must make between capital and operating expenditures, the Commission seeks comment on whether these limitations might actually lead to greater inefficiencies in overall business operations than would be the case without the constraints.

63. The Commission also seeks comment on the extent to which the limitations on capital and operating expenditures have been effective in promoting efficient spending. Do the company-specific limitations reflect reasonable upper limits on the amount of operating and capital expenses that a carrier need incur? For example, the Commission notes that that the National Tribal Telecommunications Association recently argued that carriers serving Tribal lands incur costs that other rural carriers do not face, resulting in significantly higher operating expenses to serve very sparsely populated service areas. Are there other specific examples that the Commission should take into account? For instance, are there modifications to the process or amounts that would improve operation of these limitations? Alternatively, should the Commission eliminate the opex limitation or the capital investment allowance entirely?

64. *Conforming Changes to Information Collection.* The Commission seeks comment on proposed changes related to the collection of line count data for rate-of-return carriers. Currently, carriers that receive CAF BLS must use FCC Form 507 to file, on July 31 of each year, their voice and broadband-only line counts as of the prior December 31. Carriers may file, also using FCC Form 507, optional updates on September 30, December 31, and March 31, reporting line counts as of six months prior to the filing. These data are used to apply the monthly $250 per-line cap and to administer the budget control mechanism. In addition, these data are extremely useful in monitoring and analyzing the benefits and efficiency of high-cost universal service.

65. First, the Commission proposes to change the date for mandatory line count filings for CAF BLS to March 31 of each year but to continue to require line counts as of December 31 (*i.e.,* reduce the lag until filing to 3 months). This would ensure that recent line counts are used to apply the monthly cap and administer the budget control mechanism. Currently, when USAC performs the necessary calculations in April of each year, it typically must rely on the carrier's FCC Form 507 from the prior July, which in turn reports line counts as of the prior December 31. In other words, these calculations are based on line counts that are more than 15 months old. Revising the line count reporting process as proposed would mean that USAC would be able to use

line count data that is only three months old. The Commission seeks comment on this proposal.

66. The Commission notes that the FCC Form 507 filing deadlines mirror the line count filing deadlines used for HCLS. Would changing the FCC Form 507 deadlines so that they no longer coincided with the HCLS deadlines create significant administrative burdens? Would it be feasible also to revise the HCLS line count deadlines to be consistent with the proposed FCC Form 507 deadlines? If the Commission modifies the filing schedule as proposed, do the optional filings serve any benefit, or could they be eliminated?

67. The Commission also seeks comment regarding whether FCC Form 507 should be mandatory for rate-of-return carriers that do not receive CAF BLS (*i.e.,* carriers that have elected A–CAM) or whether there are alternative sources of this data that would be less burdensome for carriers. Line count data is extremely useful for monitoring and analyzing high-cost universal service programs. Carriers that elected A–CAM were required to file line count data on FCC Form 507 prior to the implementation of A–CAM because they received ICLS, but no longer do so. Requiring the A–CAM carriers to continue to provide line count information would allow the Commission to maintain a frequently used data set for assessing whether the Commission's rules are achieving its universal service goals, while being a minimal burden to A–CAM recipients. The Commission seeks comment on this proposal. The Commission currently estimates that it takes approximately six hours to complete and file FCC Form 507. Is this an accurate estimate of the burden associated with completing this form? Are there alternate sources of these data that the Commission could rely on instead? Would the public benefit of maintaining these data for the purpose of monitoring and analyzing high-cost universal service exceed the burden?

68. In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016–02, Leases, which is codified as Accounting Standards Codification (ASC) Topic 842 (ASC 842). The new standard affects both capital and operating leases. Under this new standard, capital leases are referred to as financing leases and the procedures for expensing amounts recorded for financing leases are the same procedures previously used for capital leases.

69. ASC 842 adopts new requirements for operating leases. For example, ASC 842 requires that operating leases longer than one year be carried on a company's balance sheet along with a corresponding liability to reflect the net present value of future lease commitments. The new standard provides procedures for expensing amounts recorded in the operating lease asset account. A carrier would recognize a lease expense from the operating lease on a straight-line basis over the lease term. Thus, for an operating lease with an escalation clause, ASC 842 would require the recorded operating expense to be higher in the first year than the amount paid in cash. This is different than the current Part 32 treatment of operating leases, which classifies leases as expenses associated with the executory agreements that are recorded as expenses at the time lease payments are made. Pursuant to the current Part 32 treatment, a company would continue to disclose future lease commitments through a footnote to the financial statements. Additional recordkeeping would be necessary if Part 32 were not to adopt the ASC 842 guidelines.

70. The Commission seeks comment on whether to incorporate the ASC 842 guidelines into the Uniform System of Accounts (USOA) contained in Part 32. The differences in the two approaches raise questions regarding how the asset and liability should be recorded and the ability of, and the additional burden on, a carrier to maintain records to support the two approaches. The Commission seeks comment on these questions in general, as well as in connection with the specific issues raised below. The Commission is particularly interested in the additional record-keeping burden that maintaining both the Part 32 and ASC 842 lease accounts would place on carriers if the Commission were not to adopt ASC 842 for Part 32 purposes. A party asserting a burden should address the level of that burden in the context of any ratemaking effects that would occur.

71. If the Commission were to incorporate ASC 842 into Part 32, it proposes to create an asset and a liability account to reflect operating leases. The Commission seeks comment on this proposal. The Commission also invites comment on whether other balance sheet or income statement-related accounts are necessary to account for leasing activities, either financing or operating. If so, parties should specify the additional accounts that are needed. The Commission proposes to adopt new or revised instructions for accounting for leases. Commenters supporting the adoption of ASC 842 are encouraged to provide language for the instructions and other rule revisions needed to implement ACS 842 in Part 32, taking into account the issues raised below.

72. The creation of a new asset account and a new liability account for operating leases raises questions about the treatment of these amounts in the ratemaking context. The operating lease asset would record the discounted value of payments due under operating leases longer than one year. Because there is no current outlay of funding for the operating leases, the Commission proposes that such amounts be excluded from the carrier's rate base. Similarly, because the liability is based on the value in the operating lease account, the Commission proposes that such liability should not be used in calculating the cost of capital. The Commission seeks comment on these two proposals, including whether the proposed treatment is warranted and what effect such treatment would have on a carrier's revenue requirement. Commenters are encouraged to identify and provide specific language to effectuate the changes to Part 65, or other affected provisions in the Commission's rules, that would be needed to implement this proposal.

73. Adopting ASC 842 would also modify the way operating lease expenses are currently calculated pursuant to the Commission's Part 32 rules. As noted earlier, ASC 842 would spread lease payments on a straight-line basis over the term of the operating lease. The Commission seeks comment on any recognition or timing issues between the Part 32 treatment and the treatment under ASC 842. In particular, the Commission seeks comment on how any entries reflecting interest associated with the use of the net present value approach to recording operating leases should be treated for purposes of calculating lease expense. If the Commission adopts ASC 842, it proposes to assign operating lease costs to the expense accounts currently being used to record such amounts. Would any revisions to the separations rules contained in Part 36 would be required under this proposal, and if so, which sections would need to be revised and what specific language should be used?

74. The Commission also seeks comment on the impact any ratemaking changes resulting from this proposed accounting modification would have on the levels or distribution of CAF BLS or other universal service support mechanisms. Commenters should identify any recognition and/or timing issues raised by any change and should,

to the extent possible, quantify any difference.

75. ASC 842 becomes effective for fiscal years beginning after December 15, 2018 for public business entities and certain other businesses. For all other entities, it becomes effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Commission seeks comment on when any changes the Commission adopts should become effective and whether there are any other implementation issues the Commission should address.

III. Procedural Matters

A. Paperwork Reduction Act

76. The NPRM adopted herein contains new, proposed new or modified information collection requirements. The Commission, as part of its continuing effort to reduce paperwork burdens, invites the general public and the Office of Management and Budget (OMB) to comment on the information collection requirements contained in this document, as required by the Paperwork Reduction Act of 1995, Public Law 104–13. In addition, pursuant to the Small Business Paperwork Relief Act of 2002, Public Law 107–198, the Commission seeks specific comment on how it might further reduce the information collection burden for small business concerns with fewer than 25 employees.

77. As required by the Regulatory Flexibility Act of 1980, as amended (RFA), the Commission has prepared this Initial Regulatory Flexibility Analysis (IRFA) of the possible significant economic impact on a substantial number of small entities from the policies and rules proposed in the NPRM. The Commission requests written public comment on this IRFA. Comments must be identified as responses to the IRFA and must be filed by the deadlines for comments on the NPRM. The Commission will send a copy of the NPRM, including this IRFA, to the Chief Counsel for Advocacy of the Small Business Administration (SBA). In addition, the NPRM and IRFA (or summaries thereof) will be published in the **Federal Register**.

78. The proposals in this NPRM seek to build on efforts to modernize high-cost universal service support by offering greater certainty, predictability, and stability to rate-of-return carriers and creating incentives for efficient spending and bringing broadband to the areas that need it most.

79. The Commission reviews the amount of support available to rate-of-return carriers by initiating review of the high-cost universal service support budget, proposing to increase the budget based on inflation, and proposing an offer of model-based support for carriers whose model-based support would be lower than the support they received in 2016. By examining the budget and the support available for rate-of-return carriers, the Commission is looking to bring stability to the program and fulfill its commitment to reexamine the budget. To address some of the shortcomings and inefficiencies in the Commission's existing support programs, it also seeks comment on whether to fully-fund carriers that have elected to receive model-based support, subject to additional build-out obligations, and on providing another opportunity for all legacy rate-of-return carriers still receiving legacy support to elect a voluntary path to model support. For those carriers that choose to remain on legacy support, the Commission proposes to adopt a mechanism whereby legacy carriers would be guaranteed a threshold level of annual support, and the Commission seeks comment on an implementing an individual cap for each legacy carriers. This would alleviate the unpredictability created by the budget control mechanism. The Commission also seeks comment on eliminating limitations on capital, operational, and corporate expenses to minimize the burden these mechanisms put on carriers. Finally, the Commission seeks comment on modifying various rules, including legacy buildout obligations, the methodology for applying the budget constraint, the $250 per-loop, per-month cap, and looking at other reforms to the rate-of-return mechanisms. The Commission also seeks comment on proposals to modify line count data reporting requirements and accounting rules for capital and operating leases.

80. The legal basis for any action that may be taken pursuant to the NPRM is contained in sections 1–4, 5, 201–206, 214, 218–220, 251, 252, 254, 256, 303(r), 332, 403, and 405 of the Communications Act of 1934, as amended, and section 706 of the Telecommunications Act of 1996, 47 U.S.C. 151–155, 201–206, 214, 218–220, 251, 256, 254, 256, 303(r), 403 and 405.

81. The RFA directs agencies to provide a description of, and where feasible, an estimate of the number of small entities that may be affected by the proposed rules, if adopted. The RFA generally defines the term ''small entity'' as having the same meaning as the terms ''small business,'' ''small organization,'' and ''small governmental jurisdiction.'' In addition, the term ''small business'' has the same meaning as the term ''small-business concern'' under the Small Business Act. A ''small-business concern'' is one which: (1) Is independently owned and operated; (2) is not dominant in its field of operation; and (3) satisfies any additional criteria established by the Small Business Administration (SBA).

82. *Small Businesses, Small Organizations, Small Governmental Jurisdictions.* The Commission's actions, over time, may affect small entities that are not easily categorized at present. The Commission therefore describes here, at the outset, three broad groups of small entities that could be directly affected herein. First, while there are industry specific size standards for small businesses that are used in the regulatory flexibility analysis, according to data from the SBA's Office of Advocacy, in general a small business is an independent business having fewer than 500 employees. These types of small businesses represent 99.9% of all businesses in the United States which translates to 28.8 million businesses.

83. Next, the type of small entity described as a ''small organization'' is generally ''any not-for-profit enterprise which is independently owned and operated and is not dominant in its field.'' Nationwide, as of Aug 2016, there were approximately 356,494 small organizations based on registration and tax data filed by nonprofits with the Internal Revenue Service (IRS).

84. Finally, the small entity described as a ''small governmental jurisdiction'' is defined generally as ''governments of cities, counties, towns, townships, villages, school districts, or special districts, with a population of less than fifty thousand.'' U.S. Census Bureau data from the 2012 Census of Governments indicates that there were 90,056 local governmental jurisdictions consisting of general purpose governments and special purpose governments in the United States. Of this number there were 37, 132 General purpose governments (county, municipal and town or township) with populations of less than 50,000 and 12,184 Special purpose governments (independent school districts and special districts) with populations of less than 50,000. The 2012 U.S. Census Bureau data for most types of governments in the local government category shows that the majority of these governments have populations of less than 50,000. Based on this data the Commission estimates that at least 49,316 local government jurisdictions fall in the category of ''small governmental jurisdictions.''

85. *Line Count Data.* In the NPRM, the Commission seeks comment on

proposed changes related to the collection line count data for rate-of-return carriers. Currently, carriers that receive CAF BLS must use FCC Form 507 to file, on July 31st of each year, their voice and broadband-only line counts as of the prior December 31st. Carriers may also file quarterly updates. First, the Commission proposes to change the date for mandatory line count filings for CAF BLS to March 31st of each year, but to continue to require line counts as of December 31st (*i.e.,* reduce the lag until filing to 3 months). Second, the Commission seeks comment regarding whether the FCC Form 507 should be mandatory for rate-of-return carriers that do not receive CAF BLS (*i.e.,* carriers that have elected A–CAM).

86. *Accounting for Capital and Operation Leases.* In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016–02, Leases, which are codified as Accounting Standards Codification (ASC) Topic 842 (ASC 842). The new standard affects both capital and operating leases. Under this new standard, capital leases are referred to as financing leases and the procedures for expensing amounts recorded for financing leases are the same procedures previously used for capital leases. ASC 842 adopts new requirements for operating leases. The Commission seeks comment on whether to incorporate the ASC 842 guidelines into the Uniform System of Accounts (USOA) contained in Part 32. The changes the Commission proposes would lead to carrier being required to modify certain accounting practices. The Commission is interested in the burden this change would create for carriers.

87. *Deployment Obligations.* In the NPRM, the Commission seeks comment on whether the number of locations legacy carriers are required to deploy to should change and how based on the new support mechanism proposed.

88. The RFA requires an agency to describe any significant alternatives that it has considered in reaching its proposed approach, which may include (among others) the following four alternatives: (1) The establishment of differing compliance or reporting requirements or timetables that take into account the resources available to small entities; (2) the clarification, consolidation, or simplification of compliance or reporting requirements under the rule for small entities; (3) the use of performance, rather than design, standards; and (4) an exemption from coverage of the rule, or any part thereof, for small entities. The Commission expects to consider all of these factors when it has received substantive comment from the public and potentially affected entities.

89. Largely, the proposals in the NPRM if adopted would have no impact on or would reduce the economic impact of current regulations on small entities. Certain proposals in this NPRM could have a positive economic impact on small entities; for instance, the Commission seeks comment on fully funding the original A–CAM offer and increasing the budget for rate-of-return carriers based on an inflationary factor.

90. In this NPRM, the Commission seeks comment on making a second offer of A–CAM support. The offer will be voluntary and carriers are not required to accept it or take any action. Therefore, the Commission's proposal for a second A–CAM will not have a significant impact on small entities.

91. The Commission also seeks comment on mechanisms to provide legacy carriers a guaranteed threshold of annual support and a carrier specific cap, which would reduce the unpredictability of the current budget control mechanism. The Commission proposes several alternatives for carriers to evaluate. In addition, because legacy carriers' support amounts could change due to the Commission's proposals, to minimize significant economic impact, the Commission seeks comment on whether or how deployment obligations should change.

92. The Commission also seeks comment on whether it should retain the operating expense limitation, the corporate operations limit, and the capital investment allowance. If the Commission were to eliminate these limitations on expenses and investment, it would be further minimizing the economic impacts on small entities of the Commission's current regulations. In addition, the Commission seeks comment on ways to simplify legacy support mechanisms by making changes to how HCLS and CAF BLS are calculated.

93. The Commission proposes to change the date for mandatory line count filings for CAF BLS to March 31st of each year, but to continue to require line counts as of December 31st (*i.e.,* reduce the lag until filing to 3 months). The Commission also seeks comment regarding whether FCC Form 507 should be mandatory for rate-of-return carriers that do not receive CAF BLS (*i.e.,* carriers that have elected A–CAM). Finally, the Commission seeks comment on whether to incorporate the ASC 842 guidelines into the Uniform System of Accounts (USOA) contained in Part 32. These changes would require carriers to modify certain accounting practices and for certain carriers add a reporting requirement. In the NPRM, the Commission seeks comment on the burden this change would create for carriers and will factor that into its decision.

94. More generally, the Commission expects to consider the economic impact on small entities, as identified in comments filed in response to the NPRM and this IRFA, in reaching its final conclusions and taking action in this proceeding. The proposals and questions laid out in the NPRM were designed to ensure the Commission has a complete understanding of the benefits and potential burdens associated with the different actions and methods.

95. *Permit-But-Disclose.* The proceeding this NPRM initiates shall be treated as a ''permit-but-disclose'' proceeding in accordance with the Commission's *ex parte* rules. Persons making *ex parte* presentations must file a copy of any written presentation or a memorandum summarizing any oral presentation within two business days after the presentation (unless a different deadline applicable to the Sunshine period applies). Persons making oral *ex parte* presentations are reminded that memoranda summarizing the presentation must (1) list all persons attending or otherwise participating in the meeting at which the *ex parte* presentation was made, and (2) summarize all data presented and arguments made during the presentation. If the presentation consisted in whole or in part of the presentation of data or arguments already reflected in the presenter's written comments, memoranda, or other filings in the proceeding, the presenter may provide citations to such data or arguments in his or her prior comments, memoranda, or other filings (specifying the relevant page and/or paragraph numbers where such data or arguments can be found) in lieu of summarizing them in the memorandum. Documents shown or given to Commission staff during *ex parte* meetings are deemed to be written *ex parte* presentations and must be filed consistent with rule 1.1206(b). In proceedings governed by rule 1.49(f) or for which the Commission has made available a method of electronic filing, written *ex parte* presentations and memoranda summarizing oral *ex parte* presentations, and all attachments thereto, must be filed through the electronic comment filing system available for that proceeding, and must be filed in their native format (*e.g.,* .doc, .xml, .ppt, searchable .pdf). Participants in this proceeding should familiarize

themselves with the Commission's *ex parte* rules.

96. *People With Disabilities.* To request materials in accessible formats for people with disabilities (braille, large print, electronic files, audio format), send an email to *fcc504@fcc.gov* or call the Consumer & Governmental Affairs Bureau at 202–418–0530 (voice), 202–418–0432 (tty).

97. Comments and reply comments must include a short and concise summary of the substantive arguments raised in the pleading. Comments and reply comments must also comply with section 1.49 and all other applicable sections of the Commission's rules. The Commission directs all interested parties to include the name of the filing party and the date of the filing on each page of their comments and reply comments. All parties are encouraged to utilize a table of contents, regardless of the length of their submission. The Commission also strongly encourages parties to track the organization set forth in the NPRM in order to facilitate its internal review process.

IV. Ordering Clauses

98. Accordingly, *it is ordered* that, pursuant to the authority contained in sections 1–4, 5, 201–206, 214, 218–220, 251, 252, 254, 256, 303(r), 332, 403, and 405 of the Communications Act of 1934, as amended, and section 706 of the Telecommunications Act of 1996, 47 U.S.C. 151–155, 201–206, 214, 218–220, 251, 256, 254, 256, 303(r), 403 and 405, this Notice of Proposed Rulemaking IS ADOPTED, effective thirty (30) days after publication of the text or summary thereof in the **Federal Register**.

99. *It is further ordered*, Pursuant to Section 220(i) of the Communications Act, 47 U.S.C. 220(i), that notice be given to each state commission of the above rulemaking proceeding, and that the Secretary shall serve a copy of this Notice on each state commission.

100. *It is further ordered* that, pursuant to the authority contained in sections 1, 2, 4(i), 5, 201–206, 214, 218–220, 251, 252, 254, 256, 303(r), 332, and 403 of the Communications Act of 1934, as amended, and section 706 of the Telecommunications Act of 1996, 47 U.S.C. 151, 152, 154(i), 155, 201–206, 214, 218–220, 251, 252, 254, 256, 303(r), 332, 403, 1302, *notice is hereby given* of the proposals and tentative conclusions described in this Notice of Proposed Rulemaking.

Federal Communications Commission.

Marlene Dortch,

Secretary.

[FR Doc. 2018–08569 Filed 4–24–18; 8:45 am]

BILLING CODE 6712–01–P

DEPARTMENT OF VETERANS AFFAIRS

48 CFR Parts 829, 846, 847, 852, and 870

RIN 2900–AQ04

Revise and Streamline VA Acquisition Regulation

AGENCY: Department of Veterans Affairs.

ACTION: Proposed rule.

SUMMARY: The Department of Veterans Affairs (VA) is proposing to amend and update its VA Acquisition Regulation (VAAR) in phased increments to revise or remove any policy superseded by changes in the Federal Acquisition Regulation (FAR), to remove procedural guidance internal to VA into the VA Acquisition Manual (VAAM), and to incorporate any new agency specific regulations or policies. These changes seek to streamline and align the VAAR with the FAR and remove outdated and duplicative requirements and reduce burden on contractors. The VAAM incorporates portions of the removed VAAR as well as other internal agency acquisition policy. VA will rewrite certain parts of the VAAR and VAAM, and as VAAR parts are rewritten, we will publish them in the **Federal Register**. VA will combine related topics, as appropriate. In particular, this rulemaking revises VAAR Parts 829—Taxes, 846—Quality Assurance, and 847—Transportation, as well as affected Parts 852—Solicitation Provisions and Contract Clauses and 870—Special Procurement Controls.

DATES: Comments must be received on or before June 25, 2018 to be considered in the formulation of the final rule.

ADDRESSES: Written comments may be submitted through *www.Regulations.gov*; by mail or hand-delivery to Director, Regulation Policy and Management (00REG), Department of Veterans Affairs, 810 Vermont Avenue NW, Room 1063B, Washington, DC 20420; or by fax to (202) 273–9026 (this is not a toll-free number). Comments should indicate that they are submitted in response to ''RIN 2900–AQ04—Revise and Streamline VA Acquisition Regulation—Parts 829, 846, 847.'' Copies of comments received will be available for public inspection in the Office of Regulation Policy and Management, Room 1063B, between the hours of 8:00 a.m. and 4:30 p.m., Monday through Friday (except holidays). Please call (202) 461–4902 for an appointment. (This is not a toll-free number.) In addition, during the comment period, comments may be viewed online through the Federal Docket Management System (FDMS) at *www.Regulations.gov*.

FOR FURTHER INFORMATION CONTACT: Mr. Rafael N. Taylor, Senior Procurement Analyst, Procurement Policy and Warrant Management Services, 003A2A, 425 I Street NW, Washington, DC 20001, (202) 382–2787. (This is not a toll-free number.)

SUPPLEMENTARY INFORMATION:

Background

This rulemaking is issued under the authority of the Office of Federal Procurement Policy (OFPP) Act, which provides the authority for an agency head to issue agency acquisition regulations that implement or supplement the FAR.

VA is proposing to revise the VAAR to add new policy or regulatory requirements and to remove any redundant guidance and guidance that is applicable only to VA's internal operating processes or procedures. Codified acquisition regulations may be amended and revised only through rulemaking. All amendments, revisions, and removals have been reviewed and concurred with by VA's Integrated Product Team of agency stakeholders.

The VAAR uses the regulatory structure and arrangement of the FAR and headings and subject areas are broken up consistent with the FAR content. The VAAR is divided into subchapters, parts (each of which covers a separate aspect of acquisition), subparts, sections, and sections.

The Office of Federal Procurement Policy Act, as codified in 41 U.S.C. 1707, provides the authority for the Federal Acquisition Regulation and for the issuance of agency acquisition regulations consistent with the FAR.

When Federal agencies acquire supplies and services using appropriated funds, the purchase is governed by the FAR, set forth at Title 48 Code of Federal Regulations (CFR), chapter 1, parts 1 through 53, and the agency regulations that implement and supplement the FAR. The VAAR is set forth at Title 48 CFR, chapter 8, parts 801 to 873.

Discussion and Analysis

VA proposes to make the following changes to the VAAR in this phase of its revision and streamlining initiative. For procedural guidance cited below that is proposed to be deleted from the VAAR, each section cited for removal has been considered for inclusion in VA's internal agency operating procedures in accordance with FAR 1.301(a)(2). Similarly, delegations of authority that