The New Mexico Broadband Program

Broadband Guide for Electric Utilities

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**Introduction: The Potential for Utility Broadband Enterprises**

This guide represents a collaboration between the New Mexico Department of Information Technology (DoIT) and CTC Technology & Energy, DoIT’s broadband advisor. The guide was prepared by DoIT and CTC to fill a need for high-quality, independent guidance to utilities and utility groups as they consider their broadband options. We believe that broadband is an important tool for economic, educational, and civic growth and discourse in both rural and urban areas. To that end, we seek to build broadband capacity and enhance broadband adoption by providing utilities with tools that will help them plan for their broadband futures, wherever they are in their process.

Importantly, this guide addresses possible supplemental funding opportunities to offset utilities’ cost of fiber deployment. It also describes some nuances in network architecture and explores a range of issues and choices utilities may face when deploying fiber infrastructure. The overall goal is to provide utilities with a tool that will help them determine the best approach for their unique circumstances.

This guidebook is not meant to be entirely comprehensive—every utility that considers the feasibility of building a broadband network must customize analysis of its own needs, potential benefits, risks, and funding. Instead, the guidebook focuses on providing independent guidance to enable utilities to understand the type of questions to ask. It also offers guidance on potential costs, financing and funding opportunities, and the risks and rewards of a broadband network for the utility and its customers.

Utilities are well positioned to play an essential role in building world-class broadband networks in rural areas. Some of the most successful examples of cutting edge networks have been those of locally-owned electric utilities. The networks in Chattanooga, TN, Glasgow, KY, and Jackson, TN,\(^1\) are examples among TVPPA utilities. Bristol Virginia Utilities (BVU) was among the nation’s first utilities to build a fiber-to-the-premises (FTTP) network to serve residents, local businesses, and community anchor institutions (CAIs) such as schools and libraries.\(^2\) BVU, similar to many other networks built and operated by cooperative or municipal electric utilities, offers a full suite of retail services including broadband, cable television, and telephone directly to the public.

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\(^2\) Ibid.
Part of the reason electric utilities may be positioned for success in pursuing a fiber enterprise is that they already have experience in managing infrastructure. They own repair trucks and employ field engineers who can perform installations and conduct maintenance. Utilities also have experience with customer service, managing individual accounts, and staffing call centers to handle questions or complaints. A utility-owned broadband enterprise can frequently count on its electric operation to serve as an important anchor user of the network. The network can serve essential needs for internal utility operations and electric plant management. And utilities have established institutional structures to provide for community participation and local buy-in—either through a municipal or a cooperative governance mechanism.

We recommend a robust feasibility analysis to understand and address financial risk. However, it is important to note that no projects or business models are free of risk. There will always be some risks involved in pursuing a broadband initiative, just as there is with any significant utility investment or new enterprise.

But financials should not be the exclusive metric for evaluating the benefits of broadband infrastructure. Utilities should consider defining their success more broadly to include the “benefits beyond the balance sheet”—the intangible societal rewards that broadband offers the community as a whole and delivers to individual citizens and coop members. Broadband is an essential tool that can support public goals, including economic development, enhancing health care quality, and providing enhanced educational opportunities.

As we discuss below, each utility will have its own motivation and goals for deploying a fiber network. Some utilities may construct a small network to support their operations by connecting substations and offices, while others may deploy a large network to enable future growth, FTTP deployment, and possible partnership with public and/or private entities. Though we expect that most utilities are more likely to focus on middle-mile infrastructure—especially initially—we discuss FTTP in more detail in
Chapter 11: Fiber to the Premises (FTTP) Network Considerations. It is important to note that fiber has a long life and a fiber network can support future endeavors for years to come. Utilities that do not pursue FTTP today may elect to do so in the future, and a forward-thinking network architecture design (such as one that uses high-count fiber optic cables) can substantially prepare a utility in the event it deploys FTTP in the future.
Chapter 1: Fiber Network Characteristics and Architecture

The demand for high-speed fiber Internet and other data services has risen steadily due to a combination of factors, including the growing popularity of video streaming and cloud computing applications—as well as federal and state grant programs that have facilitated fiber construction, and the publicity around gigabit services provided by Google Fiber and others. Many localities, utilities, and utilities have pursued grant funding, taken out bonds, or otherwise sought funding for construction of publicly-owned fiber networks.

Below we describe the characteristics and components of a fiber network and the capabilities it may provide.

Segments of a Network

Here we explain the segments of the cable and infrastructure associated with the physical fiber network, known as the outside plant. Many utilities may have already constructed some components of a network—for example, you may have already installed several miles of fiber along your current electric distribution footprint.

Fiber networks typically comprise three distinct segments—a fiber “backbone,” a “middle-mile” section, and a “last mile” component—that each carry out a specific function. We expect that most utilities will be initially interested in constructing middle-mile fiber and will not plan to construct an FTTP network. Some utilities may be interested in providing last mile connectivity to key business or industrial customers. Figure 1 below shows an example of backbone, middle-mile, and last mile infrastructure.

Backbone

Like its name implies, backbone infrastructure is the core infrastructure that enables connectivity in global networks. The backbone is made up of high-count fiber-count cables. The Internet backbone consists of several networks worldwide that interconnect with each other. In an analogy with roads, backbone resembles the interstate highways, in that it is the highest capacity connection, in that it has the major cities at its endpoints, and it has limited access along the way.

Municipalities or utilities can connect to the backbone directly if they are located in a larger metropolitan area. Otherwise they connect through a middle-mile network.
**Middle-Mile**

The middle-mile consists of lateral cables that connect the Internet backbone to the last mile of the network. It links the fiber backbone and core electronics to the infrastructure that carries connectivity to the end user. To continue the analogy with the roads, the middle mile is like the major state roads—it connects the major cities to the medium and smaller cities, and capacity is high or low, depending on the specifics of the local area and the amount of attention that the owners of the infrastructure have given it. Whereas the Internet backbone is operated by many companies and competition exists along major routes, middle mile connectivity to a city or county might only be provided by one or two companies, sometimes only by the incumbent telephone company.

As a utility you may have already constructed middle-mile fiber along the same route as your existing electric distribution footprint. Fiber between substations in a coop system has roughly the same utilities also may work with local municipalities, counties, or other public and/or private entities to construct fiber routes that will be mutually beneficial.

In addition to backbone infrastructure, utilities may elect to construct a middle-mile network to support localities or entice private providers to connect key strategic locations throughout the community such as business or industrial parks. A provider’s middle mile does not necessarily require a large number of fiber strands. For this reason, leasing excess capacity on an existing public network—even where there may only be a dozen or so spare fibers—is frequently a feasible alternative to constructing an all-new network.

**Last Mile**

In an FTTP network, the last mile is the infrastructure that brings connectivity from a central office or substation to a customer’s home or business. This infrastructure represents a significant portion of the cost of constructing a fiber network. As a utility, you may choose not to act as an Internet Service Provider (ISP) serving customers directly, but you might construct a middle-mile network to enable other carriers or providers to distribute service via a last mile connection. Utilities may opt to construct this infrastructure to lease it to providers that will serve end-users.

Some utilities may elect to construct last mile infrastructure to support FTTP for all customers in their existing electric footprint. There are complex considerations for constructing an FTTP network, and utilities should be careful not to underestimate the potential risk of entering the FTTP market. Though we expect that most utilities will not initially construct and operate an FTTP network, we have included in
Chapter 11: Fiber to the Premises (FTTP) Network Considerations more detail about FTTP.

*Figure 1: Backbone, Middle-Mile, and Last-Mile Infrastructure*
Chapter 2: Understanding Broadband Supply and Demand

A first step for any utility considering building a broadband network is to quantify and understand the potential market and the threat, if any, of competition (even from lower level products that do not meet reasonable standards for broadband but that may serve to limit revenue opportunities). In this chapter, we will offer an overview and guidance on how to assess community demand for specific broadband services and applications, and the actual availability of broadband services to meet that demand.

Assessing Broadband Demand

Collecting detailed and accurate information about the potential demand for broadband in your service territory, particularly in the areas you plan to serve first with broadband, is one of the most important steps in planning a broadband project. Expectations for what applications, services and performance capabilities the network must provide is important to know early on, as this information can guide decisions around network design and engineering.

Most importantly, a viable project requires sufficient market to succeed, particularly given that selling broadband services is different from your experience with electric service in that many consumers still choose not to purchase broadband services. A clear understanding of institutional broadband demand is also fundamental to building a sustainable business plan. For example, securing buy-in and support from anchor institutions upfront can ensure secure contracts for providing broadband service later and, further, ensure that the new network has a stable revenue stream.

For these reasons, demand assessment should be viewed as the first component of a vital engagement strategy to gain the support and participation of stakeholders in the project.

In our experience, there exists a gap between the availability or supply of broadband and the demand of local residents, businesses, and institutions for faster and more robust, ubiquitous, and affordable service in almost every community across the United States. The reasons for this are many, but the critical question utilities need to answer before developing any broadband plan is: How great is the gap in your community and will the market respond to your utility filling that gap?

Sources of Broadband Demand

Quantifying broadband demand to a degree sufficient for planning an infrastructure project will require a substantial amount of time, effort, and direct engagement with a range of local
institutions and the public. To begin the assessment process, you should identify different types of broadband users. These include:

- **Government**
  - Local government office operations
  - Public works departments, including water or sewer
  - Public safety, including police, fire and other first responders

- **Education**
  - K-12 schools, including private, public, and charter schools
  - Libraries
  - Local universities, community colleges, and technical schools

- **Health care providers**
  - Hospitals
  - Community clinics
  - Physician offices and other facilities
  - Skilled care facilities

- **Commercial and industrial**
  - Area utilities (including your utility and your own needs)
  - Major area employers
  - Business and industrial parks

- **Small business**
  - Local chambers of commerce
  - Business improvement districts
  - Residents

For purposes of broadband planning, governmental and institutional facilities are sometimes collectively referred to as “community anchor institutions” (CAI). Because these entities are often among the largest purchasers of broadband services in a community, the process of determining CAI needs for broadband can offer a very good barometer of the demand in your community—not just now, but how it is likely to grow over time. These organizations typically have a firm grasp of their current broadband use (i.e., capacity, service levels, cost), and routinely project how much capacity they will need to meet future growth plans. CAIs are also often likely to be the driving force behind an infrastructure investment in your community because the potential revenue relative to the cost of construction is far better for connecting a single CAI than for a residential neighborhood. Thus, it will likely be more efficient and productive for you to focus, at least initially, on governmental and institutional stakeholders.

**Assessment Activities**

The process of assessing broadband demand in a community is typically nuanced and will require different methods of engagement for different stakeholders. In our experience, online
surveys tend to be more reliable and useful for business surveys than for residential surveys. Other stakeholder engagement may require in-person meetings such as for large institutions or government agencies that are likely to have more complex and specific needs.

Activities to assess demand may include:

- Informal conversations
- In-person interviews
- Stakeholder meetings
- Open meetings with public input
- Surveys, both by mail and online

The assessment process will vary and utility leaders should tailor it to build upon existing resources and institutions as much as possible. For example, assessing business and residential demand is challenging and will frequently require extensive mail or telephone surveys. These can be costly and time-consuming, particularly if they are to result in statistically significant data.

One shortcut to getting a sense of residential and small business demand is to talk to staff within the relevant local government offices who field calls from potential consumers who are unable to locate the broadband services they seek. This might be the cable franchising authority, an economic development authority, or an IT department. In almost any community there is a relatively steady stream of calls, complaints, and requests for help from small business and residential consumers who hope that their government will be able to help them identify (or incent the availability of) a type of service that they cannot currently obtain. Indeed, many of these calls may be coming to your utility as members seek to encourage the utility to add broadband service to existing services.

Similarly, if you have access to a comprehensive list of local businesses’ e-mail addresses from the local chamber of commerce or economic development agency, an online tool can offer a cost-effective alternative to mailing surveys. Your local or regional chamber of commerce is an important stakeholder, and a good resource for getting a sense of small business needs; broadband is frequently a high priority area for local chambers of commerce nationwide.

Ultimately, a utility’s demand assessment program will be tailored to its members. In the case of Co-Mo Electric Cooperative, which serves 25,000 members in central Missouri, assessing demand for fiber deployment in its service area meant going back to its roots. Before the co-op energized its first electric line in 1939, its founders went door-to-door to sign up members for electric service. Nearly 75 years later, when the co-op’s leaders sensed a growing interest in high-speed broadband service, the co-op launched an outreach effort to its 25,000 members and initially secured a commitment from more than 50 percent of them to purchase a new service. That was enough confirmed demand to support a business case for fiber-to-the-home
As the co-op describes its fiber project, “Co-Mo’s leaders never actively sought out the opportunity to get into a completely new line of work. Rather, the people asked for the service. For-profit companies that provided these communication services to cities around Co-Mo Country had no intention of extending them here. There simply were too few potential customers per square mile. Sound familiar? So Co-Mo and its members stepped up to make the project a reality.”

Co-Mo is building its fiber in stages, including to areas where a minimum number of members have committed to purchasing services and paid a $100 deposit (only slightly more, in inflation-adjusted terms, than the $5 the first members paid to commit to electric service). Ultimately, the co-op hopes to build the fiber network throughout its electric service area. Currently Co-Mo Comm has about 1500 miles of fiber through its 4,000 mile electric plant, and take rates have ranged from 15 percent to 40 percent immediately after announcing opening an area to more than 50 percent within 12 months after construction.

Assessing Broadband Supply: How to Understand Actual Availability in Your Community

Assessing supply helps understand what kind of competition you may face if you enter the broadband market. It’s important to know what Internet connectivity services are available in your community—and their actual capabilities—because even products that do not meet the federal standard for “broadband” may create competition for your products, particularly among members who are very price-sensitive.

Similarly, it’s crucial that you understand the competitive dynamic with regard to video services, as that is a product that you are likely to include in your offerings and for which you may face competition from a cable provider (in the more densely populated parts of your service territory) and from satellite.

Developing this picture requires a couple different approaches to survey the marketplace. We recommend taking the following initial steps:

- Review of the National Broadband Map
- Review of broadband and cable providers’ websites

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4 Ibid.

• Mapping based on technical data collection
• Mapping based on stakeholder interviews

National Broadband Map

The National Broadband Map (NBM) was created in 2011 with the goal of providing a database to track broadband availability down to the neighborhood level. The National Telecommunications and Information Administration, in collaboration with the Federal Communications Commission, administers the map. The NBM contains the aggregated information of various state-level broadband mapping initiatives. It represents the first time that the United States government has attempted to collect this data in one central location, to ideally provide a picture of true broadband availability in local communities.

However, it is important to note that the NBM data have several limitations that impact their overall accuracy and usefulness. The map relies heavily on self-reporting by commercial Internet service providers—all of whom use different methodologies to quantify their service levels. Thus, there are reports of service providers overstating their service areas and connection speeds. The NBM also tracks availability only down to the Census block level (which, in rural America, can represent large areas). If any location in that block reports as being served by a broadband provider, the entire block will be shown as served—even through most of the residents may not actually have access. NBM search results could therefore paint an overly optimistic picture of broadband availability relative to the reality on the ground.

The map also fails to distinguish between residential broadband and business class services: enterprise-level connectivity sold only to institutions, government, and businesses. NBM search results could indicate high-speed broadband services are available in an area, but then these could be business-class only providers who do not offer their services to residents. Finally, the NBM collects no information on the cost of broadband services listed as available. Therefore broadband services could be available in a certain area, but at prices that make them unaffordable to most area residents or businesses.

Keeping these limitations in mind, the NBM is a good first step in identifying your community’s broadband supply. The map’s user-friendly website (see Figure 2) allows you to search by state, county, city, or a single address.

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The NBM website also allows you to access summary data for the state as a whole (see Figure 3), or for other geographies (e.g., congressional district, native lands, city, county). And you can export data in a number of file formats for further analysis or mapping.

The NBM data include a list of all reported service providers in a given geography that can assist you with the next level of research into your local broadband supply: determining what service providers are active in your community.
Broadband Providers’ Websites

Commercial broadband providers frequently offer detailed information about their services on their websites. Often, you can use an individual address in your community to pinpoint the availability of broadband from a given company (see Figure 4). Indeed, this strategy is likely to give you more granular data than the National Broadband Map, whose database is less granular than the broadband providers’ own internal databases.

![Figure 4: Service Provider Website with Search Function](image)

When we discuss service providers, we are often referring to “last-mile” providers, or the companies that will connect an individual home or business to the Internet. At a high level, these last-mile services providers can be categorized as follows:

- **Incumbent wireline providers.** These include the large incumbents, such as the phone and cable companies. Local incumbents may also include small local phone companies or local co-ops, which are smaller and more locally and regionally focused than the large national carriers. Getting information about incumbent services can be difficult because the big providers, in particular, consider their coverage data to be proprietary.

- **Business-focused wireline providers.** At the higher end of the market are companies that focus largely or completely on high-capacity connections for small and large businesses.

- **Competitive wireline providers.** These are companies on the smaller side who are attempting to compete with the incumbents. Even in rural areas, there usually exist one or two local wireline competitors, most of them reselling DSL provided by the
phone company, but some of them operating over their own limited fiber footprints combined with phone company capacity.

Similar in nature to the wireline last-mile providers are various wireless providers:

- **Satellite providers.** Popular in rural areas where wireline infrastructure is particularly limited, these providers can sell service to virtually any resident or business. However, their products usually have slower speeds and other technical challenges, are more expensive, and include highly restrictive data caps compared to DSL, cable, or fiber-based broadband services.

- **Mobile (cellular) providers.** The NBM provides basic data, and on the providers’ sites you can often plug in an address to determine whether service is available. Mobile service areas are often challenging to define in less densely populated areas, however. The same holds true where there is challenging terrain (e.g., canyons, mountains) because it is hard to reliably propagate wireless signals there.

- **Fixed wireless providers.** Fixed wireless service relies on a set of point-to-point wireless links to provide wireless broadband to residents and business. The providers are usually small companies, or sole proprietorships, that offer service over a certain area of a city or in rural areas that are unserved by wireline incumbents. As a result the providers may not be listed on the NBM and thus you may need to utilize alternative resources such as the Wireless Internet Service Providers Association (WISPA) site that offers a tool to search for fixed wireless providers in a community.\(^7\)

Middle mile networks and backhaul providers: In contrast to last-mile providers are “middle-mile” networks, which, as their name implies, operate the infrastructure necessary to connect the last-mile providers to the Internet backbone. The large phone and cable companies are all middle-mile providers in the sense that they bring their long-haul capacity through most communities. There are also small middle-mile networks in states and regions. Examples of this type of providers include Level3, AboveNet, Zayo, ENA, Allied, Cogent, and Tata. Smaller middle-mile networks typically do not sell services directly to residents or business customers, and they often have limited “footprints” or service areas. Here again the NBM does not identify these providers, so you will need to.

Knowing the middle mile providers in and near your service territory is important not only so that you understand the competition you will face, but also because you will need a middle mile network to connect your local network to the Internet backbone.

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If long-haul or backbone fiber optics pass near or through your service territory, they likely attach to your poles, so your internal records are the first crucial resource for understanding what providers are present. Utility poles that carry fiber optic cables often have banjo-shaped storage loops in the cables (Figure 5). They may also have tags identifying their owners. Underground fiber may have manholes and markers identifying their owner and providing contact information (primarily as a warning to others who may dig near the fiber.)

![Aerial Fiber Optic Cable with Storage Loop](image)

**Figure 5: Aerial Fiber Optic Cable with Storage Loop**

**Mapping Based on Technical Data**

There is a considerable amount of work you can do in the field to try to determine the location of infrastructure and the quality of services throughout your electric service territory. For aerial plant, you can rely on your internal records to determine who is attached to your poles and what the type, and quality, of their attachment. In many communities, outside plant may be buried, in which case your local permitting office may be able to advise you regarding who is in the rights of way. Where plant is buried on private land, there may not be adequate public record of the infrastructure.

Before you attempt to gather any hard data, there are several assumptions you can safely make about broadband technology locations. In the case of cable modem broadband service, you should expect to find service mostly in and near population centers, and mostly in residential areas. For DSL, the availability of service depends on proximity to a provider’s central office. Finally, mobile broadband access depends on both proximity to cellular antennas and terrain (because topography can have a big impact on the uniformity of coverage from a given antenna).
Cable TV Broadband

Cable broadband service is typically only available in cities and towns with sufficient population density to support the operator’s business model. If you are a jurisdiction of some population density, you likely have cable infrastructure. In sparsely populated rural areas, you likely do not.

Cable providers operate under an agreement with a local franchising authority designated by the local government. Their service footprint is delineated by the agreement. If a municipality is the franchising authority, you can expect to find service throughout much of that municipality. However, while franchising agreements require a certain standard of service, they often require the provider to build only to areas surpassing a certain population density. In many parts of the country, cable companies have negotiated franchise agreements that have not obligated them to build out to communities with fewer than 20 homes per square mile, or to areas that are not contiguous with the rest of the cable system. This is a very important point to take into account as you study supply. Initial impressions may indicate that an entire jurisdiction has cable broadband service, when in fact portions of the community are not served due to low population density in those areas. In virtually all communities throughout the country, cable service is, to some extent, marked by a patchwork of gaps of this kind.

Furthermore, cable operators may opt not to build business or commercial areas, so these may also present a gap within a service area otherwise served by the cable operator.

In many smaller, rural towns, there may be a cable system offering video services, but that system has not been upgraded to offer broadband Internet. In this case, you face a video competitor but not one who can compete for Internet data services.

Digital Subscriber Line (DSL)

In sparsely populated areas, DSL is often the only wireline broadband service available. DSL infrastructure does not require a new build-out to the premises, because it runs over the copper telephone lines that exist nationwide. In the case of DSL supply, then, the main issue is not population density, but proximity to provider infrastructure.

DSL signals are routed through phone lines via a provider’s central office; your state government will know the locations of these central offices. DSL providers may also have installed DSL cabinets, which extend the distance of service by another 15,000 to 18,000 feet, so it is important to determine if and where these cabinets exist. The farther the user is from the central office or cabinet, the weaker and less reliable the DSL signal will be. The signal ceases to be viable outside of a distance of 15,000 to 18,000 feet.
Even within this range, signal strength varies greatly, and service is not guaranteed; a DSL provider will have a finite number of circuits at a given central office, and potential new subscribers may find that the provider has no capacity available.

**Fiber Optics**

Fiber optic technology is used for 1) fiber-to-the-premises (FTTP) broadband service, 2) the backbone portions of DSL and cable TV networks, 3) long-distance intercity or interstate links, and 4) high-volume connections for commercial and institutional customers.

Some communities are served by small local FTTP providers, who provide high-speed data, video, and voice services. If your community receives these services, you are probably aware of them. FTTP is usually concentrated in more built-up areas and new housing or business developments, or where a rural telephone company has built FTTP with federal funding.

**Mobile (3G and 4G)**

Mobile broadband service is available across greater areas than wireline service, but coverage varies a great deal. Important factors include the locations of wireless towers, the physical topography of the area, and what generation of service the incumbent providers offer.

Competition from mobile broadband is important to assess because these services are so important to consumers, and becoming more popular all the time. Even though mobile services are very different in capability to the services you are likely to offer over a fiber network, some consumers are satisfied with mobile, while others will not purchase both mobile and land-line broadband for cost purposes. In addition, the large incumbent phone companies are concentrating their broadband investments in the mobile space (as opposed to FTTP), and they serve both their traditional phone markets and those where they do not have a wireline footprint; as a result, you should assume that mobile services will grow in capacity and popularity with time and will provide significant competition to your broadband services.
Chapter 3: Understanding Broadband Technologies

Not all broadband technologies are created equal. As telecommunications providers plan for the future, understanding the advantages and disadvantages of different broadband technologies and their capabilities to deliver certain services and application is critically important. Broadband is a loose term that can be applied to a range of different technologies—each of which offers different capabilities and limitations. Within the context of broadband, there is a wide range of speeds and reliability.

One of the main factors creating this range is the different type of infrastructure used to deliver the service. DSL, cable, fiber optics, Wi-Fi, wireless 4G, and other technologies all provide a form of broadband service. However, the inherently different physical properties of these technologies as well as their network architectures impact the type and quality of online activities available to users.

As the capacity and technical requirements of Internet applications and services continue to evolve, it is important to understand how different broadband technologies can support different uses and applications. This chapter will provide short discussions of the main types of broadband technologies used to provide Internet service and IP (Internet protocol) communications. Each section will examine the properties of the technology in question, its advantages and disadvantages, and its scalability to meet future demands.

Wired/Wireline Technologies

Twisted-pair Copper / Digital Subscriber Line (DSL) Technology

One of the predominant physical media supporting communications within the U.S. and the rest of the world continues to be twisted-pair copper wiring. These are the legacy copper lines originally built for traditional telephone service. Copper wiring conducts data as electrical signals at various frequencies. Dial-up Internet service via the telephone network is provided on the same frequencies used to transmit basic voice service. The relatively narrow spectrum is the reason for the slow speeds of dial-up connections. Because dial-up modems use the full voice circuit, they cannot be used simultaneously with traditional telephone calls on the same line.

Digital Subscriber Line (DSL) service utilizes the same legacy copper telephone lines as dial-up, but the technology transmits data at higher and wider frequencies separate from those used for voice calls. This enables DSL technology to provide speeds faster than dial-up and allows for simultaneous use with traditional telephone voice service. The main advantage of copper-based DSL technology is the already wide availability of copper
telephone lines. Traditional copper wire networks have proven to be highly adaptable, and various updates to DSL technology have allowed speeds to increase modestly over the past two decades. Regardless of these incremental advancements, however, broadband over copper wiring will always be limited by the physical properties of copper lines.

Typical DSL lines provide download speeds of up to 25 Mbps. Some providers offer DSL speeds of 40 Mbps or more in areas where additional network upgrades have been installed, and new G.fast technologies offer the potential of speeds in hundreds of Mbps. Research continues on ways to improve DSL performance further. Yet future developments will continue to be subject to the physical limits of a network that relies on copper wiring for all or part of the broadband service.

DSL technology relies on electrical signals to transmit data. These signals degrade substantially over distances of a few miles, and higher frequency signals degrade more quickly. Thus, the length of a copper line is a key determinant of the speeds of a connection. This characteristic is especially relevant for DSL, since it utilizes the higher frequencies that degrade over distance. The physical limit of electrical signals is why DSL service is only available to residents who live less than two or three miles away from certain network operator equipment. G.fast is limited to copper line distances of a few hundred feet for the fastest speeds.

Locations outside of that range will not be able to get broadband-speed DSL service. Residents within this radius can subscribe to DSL, but the download and upload speeds they receive will depend on their relative proximity to the network equipment. Only those who live in very close proximity will be able to enjoy the highest speeds the technology can deliver.

In addition, DSL services typically offer far slower upload speeds than download speeds. The ratio of broadband download speeds to upload speeds varies but is typically 10:1. The choice to provide asymmetrical speeds is an engineering decision; copper-based networks are capable of offering symmetrical service. Equipment designers assume that typical broadband customers will consume much more data than they share. Therefore, network capacity for most DSL equipment is divided to prioritize downloading data over uploading it.

Slower upload speeds were less of a concern when broadband users were primarily consumers of data (i.e., browsing websites and downloading content) but Internet use is increasingly shifting to applications that require faster upload speeds. Connections must have reliable upstream capacity to facilitate activities like sharing media (e.g., pictures and videos) and video conferencing. Businesses value higher upload speeds as well because they enable the quick transfer of large files for easy collaboration and review, use of cloud computing services, and high-quality video conferencing applications.
Hybrid Fiber-Coaxial (Cable Television)

After twisted-pair copper lines, the next most recognizable telecommunications infrastructure is coaxial cable used in cable television technology. Cable television systems originated in the late 1940s and rose to popularity in the 1980s and 1990s. Cable television programming is carried into the user’s home via coaxial cable. Like telephone networks, these systems have been updated to provide Internet service. Cable technology is commonly called “hybrid fiber-coaxial” or HFC. This is because most cable systems consist of fiber connections from the headend or hub facility (the cable counterpart of the telephone central office) to a “node” within a mile or less of the customer premises, and thereafter are coaxial cable.

Cable operators have extended fiber optics progressively closer to their subscribers’ premises but have generally stopped at nodes about one mile from the premises, using coaxial cable for the last mile. Thus, their networks are a hybrid of fiber and coaxial infrastructure. Comcast, for example, typically only constructs fiber optics to the premises of businesses that subscribe to Metro Ethernet and other advanced services (i.e., generally for symmetrical services faster than 50 Mbps).

Cable operators have discussed constructing fiber optics to the premises, starting with new greenfield developments, but so far have generally not done so. They have typically opted instead to install new coaxial cables to new users, even though the construction cost to new premises is approximately the same.

The current leading cable technology for broadband, known as Data over Cable System Interface Specification version 3.0 (DOCSIS 3.0), makes it possible for cable operators to increase capacity relative to earlier cable technologies by bonding multiple channels together. The DOCSIS 3.0 standard requires that cable modems bond at least four channels, for connection speeds of up to 200 Mbps downstream and 108 Mbps upstream (assuming use of four channels in each direction). A cable operator can carry more capacity by bonding more channels.

Theoretically, there is significant room for upgrading the speeds in a cable system, especially if there is access to high-speed fiber optic backbone. For example, Virgin Mobile is offering 1.5 Gbps service in Britain over a cable network, presumably by bonding more than 30 channels. It is critical to note that these are peak speeds and all customers share capacity on a particular segment of coaxial cable. This is typically hundreds of homes or businesses. Speeds decrease during bandwidth “rush hours” when more users simultaneously use greater amounts of data. For example, residential bandwidth use typically goes up a great deal during evening hours when more people use streaming video services and other large data applications.
Figure 6 illustrates sample DOCSIS 3.0 network architecture.

Ultimately, the maximum speed over an HFC network is limited by the physics of the cable plant; although an HFC network has fiber within certain portions of the network, the coaxial connection to the customer is generally limited to less than 1 GHz of usable spectrum in total. By comparison, the capacity of fiber optic cable is orders of magnitude greater and is limited, for all intents and purposes, only by the electronic equipment connected to it—allowing for virtually limitless scalability into the future by simply upgrading the network electronics.

Thus, while DOCSIS 3.0 is more than adequate for the high-speed demands of most residential customers in the current market, it will not have the same longevity as fiber-to-the-premises, which is basically immune from obsolescence.

Another drawback to cable broadband service is asymmetric speeds. When cable networks were first designed, signals only had to travel in one direction: downstream. The network’s purpose was to re-broadcast television channels through the coaxial cable from a central location to individual subscribers. A small set of frequencies was allocated for upstream
transmission—generally for communication with cable set-top boxes. Even after the integration of broadband, the frequencies often utilized for uploading data by subscribers remain limited. Advances in cable broadband technology such as DOCSIS 3.1 allow cable providers to repurpose and combine other frequencies for uploading data, but these technologies are still in development, and almost all cable systems still have only 5 percent of the total capacity in the upstream direction.

As a result, cable networks are designed to offer much faster download than upload speeds. Typical cable broadband subscription plans offer download speeds of up to 20 to 100 Mbps, but upload speeds of up to only 2, 4, or 10 Mbps. As is the case with DSL networks, this is an architectural design choice and the underlying infrastructure is capable of offering symmetrical service. Cable-based Internet providers are in the process of upgrading speeds, and introducing speeds of 100 Mbps or more. Future upgrades may allow cable networks to deliver theoretical download speeds of 500 Mbps or even 1 Gbps, but doing so would require cable companies to divert some capacity in the network away from television services.

**Fiber Optic Technology**

Fiber is the newest and most advanced form of wireline communications infrastructure. Fiber cables contain thin strands of glass (or in some cases plastic). Most commercial broadband providers already use fiber in portions of their network architecture, but then connect the user over wireless, coaxial, or copper lines. Since the 1980s, fiber has been incorporated into middle-mile and backhaul connections, the lines that are used to aggregate data traffic and provide high-capacity transport between cities and across continents. Fiber optic cables have a range of fiber strands depending on the specific application—a backbone fiber cable could have hundreds of strands. A fiber cable serving a neighborhood or a few buildings would have a few dozen strands and a cable to an individual apartment or house might have one or two strands of fiber.

Fiber carries data as a series of pulses of light, traveling from one end of the fiber to the other. This is a major change from the electrical signals of metal conductor-based networks of telephones and cable television. Fiber cables and their optical light signals do not experience most of the physical limitations of metal-based networks. Optical light signals can travel great distances with minimal signal deterioration. Typical fiber networks can carry broadband data signals up to 50 miles between electronics. The superior range eliminates the need for electrical power and equipment in the middle of most networks. Fiber networks also have lower operating costs relative to cable and DSL networks because they require less staffing and maintenance.

Fiber networks also have better reliability. With less equipment needed to operate the network, there are fewer points of failure that could disrupt communications. Optical fibers
do not conduct electricity and are immune to electromagnetic interference. These properties allow optical fibers to be deployed where conductive materials would be dangerous or ineffective, such as near power lines or within electric substations. Lastly, fiber optics do not corrode due to weather and environmental conditions in the same way that metallic components can deteriorate over time.

Once installed, fiber optics have few technical limitations. The main drawback for fiber optic networks is the upfront cost and process of building out to connect institutions, homes, apartments, and businesses. The price for fiber optic cable itself is declining, but costs associated with construction to existing premises remain high. (In a greenfield setting, the cost of fiber optic network construction is the same on a per-unit basis as coaxial or DSL.) As a result, the build-out of fiber optics, especially to individual residences, is relatively limited as compared to the deployment of DSL or cable technology—because DSL and cable can leverage existing infrastructure and minimize new construction. The largest national FTTP network is Verizon’s FiOS. Verizon has built the network in several major U.S. markets but has stated it has no plans to expand its service area. Other FTTP networks include municipal fiber networks such as those in Chattanooga, TN; Bristol, VA; and Lafayette, LA; as well as the Google Fiber projects.

Figure 7 illustrates a sample FTTP network demonstrating how high levels of capacity and reliability are brought directly to the premises. Figure 7 illustrates at a higher level of detail how an FTTP network provides connectivity without a technical bottleneck to the Internet or other service providers, and can also provide a flexible, high-speed backbone for wireless services.

![Figure 7: Sample FTTP Network](image-url)
Despite the potentially high upfront construction costs, fiber networks can be continually upgraded to faster and faster speeds. Fiber provides a broad communications spectrum and has a capacity of thousands of Gbps per individual fiber with off-the-shelf networking hardware. Even lower-priced equipment easily provides 1 Gbps service. The main limitation on the speeds fiber networks can achieve are not based on the properties of the fiber optic cables themselves but instead on the processing power of the networking equipment connected to the network. Fiber’s ability to scale has led some to describe it as “future-proof.”

Fiber networks using “Active Ethernet” or comparable technologies provide symmetrical download and upload speeds, in contrast to DSL or cable broadband services. Such upload speeds are particularly useful for institutions and businesses and can readily facilitate the sharing of extremely large data files. For example, one hospital sending a patient’s medical images to another hospital makes it possible to perform remote treatment and surgery and support next generation high-definition video conferencing known as “virtual presence.” Fiber networks can scale to meet demands of the next generation of Internet services and applications without a need for construction in the future to upgrade.
**Wireless Technologies**

Use of mobile and wireless broadband has skyrocketed since the introduction of iPhones, Android devices, and tablets starting in 2007. As a result, there is a growing expectation for robust and ubiquitous wireless connectivity. But just like wireline infrastructure, wireless broadband services are supported by a range of different technologies and each have their own advantages and disadvantages. This section examines the most common technologies, including 3G/4G, Wi-Fi, and satellite.

No matter the type of wireless technology, the quality of wireless connections is affected by several factors, such as:

- The over-the-air radio frequencies or spectrum utilized
- The user’s proximity to a transmission tower or antenna
- Physical barriers such as buildings, trees or terrain
- Weather
- The type of wireline connection at the tower or router (i.e., whether or not it is connected to a DSL, point-to-point wireless, or fiber-optic service and the speed of that connection)

The variable nature of all of these factors means that wireless performance can be unpredictable. High speeds are possible, but only if environmental and other conditions allow. It is also important to note that wireless networks are largely composed of wireline technology. For example, when a user accesses the Internet on a smartphone, the initial connection is from the device wirelessly to the provider’s nearest tower. But all subsequent data transmission from the antenna onward through the network likely occurs via wireline copper or fiber networks. Similarly, in a residence or in a local Wi-Fi deployment by a cable or wireless provider, a Wi-Fi router provides wireless flexibility and allows multiple users to connect to the underlying DSL, cable, or fiber broadband connection.

Wireless technologies provide flexible, convenient, and mobile communication, but have tradeoffs with respect to data capacity and reliability. While the speed of mobile and wireless technologies is constantly improving, under most scenarios these technologies are not capable of supporting applications for telehealth, interactive distance learning, or high-definition “virtual presence” video conferencing, all of which require very large amounts of bandwidth and reliable connections.

**Mobile 3G/4G Technology**

3G and 4G are terms used to describe a cellular provider’s different mobile broadband offerings. However, 3G and 4G stand for “third-” or “fourth-generation” of mobile broadband and do not refer to specific mobile technologies. Different wireless providers
employ different wireless technologies. The term 4G was originally intended to designate wireless services with 1 Gbps capability, but is now mostly a marketing term that can encompass a number of different mobile technologies. In practice, 4G refers to mobile technologies such as Evolved High Speed Packet Access (HSPA+), WiMAX, and Long-Term Evolution Release 8 (LTE) employed by wireless carriers.

The greatest advantage of 3G/4G services is mobility. With basic feature phones, smartphones, and other mobile devices the user connects to a series of antennas and base stations that are attached to cell phone towers or, in more urban settings, located on tall buildings. If placed on a mountaintop or high tower with minimal line of sight restrictions, wireless services have a transmission distance of over 40 miles. However, more typically networks are designed with coverage and data capacity as the main goal, not point-to-point distance. Therefore, the transmission radius for most 3G/4G towers is about one mile. The smaller radius is intended to ensure adequate bandwidth for all customers accessing that tower, avoid scenarios in which too many individuals are competing for limited capacity, and provide the capability for users to simultaneously connect to more than one antenna.

As is the case with all wireless technologies, the main limitation on 3G/4G networks is the variability of connection quality and speeds. Typical 3G technologies have maximum download speeds of 1 to 2 Mbps and upload speeds of less than 1 Mbps. Typical 4G technologies have theoretical maximum download speeds from 42 Mbps to 100 Mbps and upload speeds from 11.5 Mbps to 50 Mbps. The speed users actually experience in everyday use may be significantly lower due to environmental factors or how many users are sharing access at a tower.

Even when a 3G/4G network is designed in small-cell radius to decrease the number of subscribers falling within coverage of the cell, the number of other user devices simultaneously trying to communicate with the antenna can cause congestion. Likewise, the technology used to connect the wireless antenna to the rest of the network, whether copper or fiber optic cable, can influence the actual data speeds available to users. Recent testing has shown that typical 4G speeds are usually between 4 to 13 Mbps download and 2 to 6 Mbps upload.

3G/4G networks are most limited with regard to upload speeds. This limitation is a byproduct of the technology itself. Upload speeds will always be slower than download speeds given that 3G/4G wireless antennas are point-to-multipoint, meaning that a single antenna broadcasts a signal to and receives signals from many devices. This approach makes it simpler for transmission to go downstream to cellular users, from the single point out to the many devices. It is more difficult to manage incoming traffic from multiple devices to the single antenna, as is the case when users send data. In addition, power and battery limitations
mean that the signal strength of transmissions from smartphones or other end-user devices is significantly weaker than signals from the tower, further limiting upload speeds unless a user is very close to a tower. Thus, 3G/4G networks will be optimized to deliver significantly faster download speeds than upload speeds.

The asymmetrical service of 3G/4G networks limits the types of applications they can sustain, such as high-definition video conferencing applications or large-scale online file backup services that require access to higher upload speeds. Furthermore, even where wireless capacity exists for video and other bandwidth-demanding services, wireless service providers typically charge for usage, limiting how much capacity and what applications can be affordably used.

![Technology (Download/Upload Service Speeds)]

<table>
<thead>
<tr>
<th>Applications</th>
<th>Technology (Download/Upload Service Speeds)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple text e-mails without attachments (50 KB)</td>
<td>2G/2.5G–EDGE/GPRS, 1xRTT(128 Kbps–300 Kbps/70 Kbps–100 Kbps)</td>
</tr>
<tr>
<td>Web browsing</td>
<td>Good (2 seconds)</td>
</tr>
<tr>
<td>E-mail with large attachments (500 KB)</td>
<td>OK (14 seconds)</td>
</tr>
<tr>
<td>Play MP3 music files (5 MB)</td>
<td>Bad (134 seconds)</td>
</tr>
<tr>
<td>Play video files (100 MB for a typical 10-min YouTube video)</td>
<td>Bad (45 minutes)</td>
</tr>
<tr>
<td>Maps and GPS for smartphones</td>
<td>Bad</td>
</tr>
<tr>
<td>Internet for home</td>
<td>Bad</td>
</tr>
</tbody>
</table>

*These data assume a single user. For downloading small files up to 50 KB, it assumes that less than 5 seconds is good, 5–10 seconds is OK, and more than 10 seconds is bad. For downloading large files up to 500 KB, it assumes that less than 5 seconds is good, 5–15 seconds is OK, and more than 25 seconds is bad. For playing music, it assumes that less than 30 seconds is good, 30–60 seconds is OK, and more than 100 seconds is bad. For playing videos, it assumes that less than 5 minutes is good, 5–15 minutes is OK, and more than 15 minutes is bad.

Table 1: Mobile 3G/4G Download speeds

### Wi-Fi Technology

Wi-Fi routers have become commonplace in households, offices, coffee shops, airports, public spaces. Wi-Fi is a wireless networking standard known as 802.11 developed by the Institute of Electrical and Electronics Engineers (IEEE). Wi-Fi currently operates in the United States within the 2.4 GHz and 5 GHz frequency bands allocated by the FCC for unlicensed use. This designation means that individual users do not require a license from the FCC and allows the public to purchase Wi-Fi equipment approved by the FCC and operate it freely. This is different than 3G/4G networks that have equipment designed to only operate
on the frequencies where a mobile operator has a license, typically purchased through an auction carried out by the FCC.

There are advantages and disadvantages to operating on unlicensed spectrum. With worldwide access to those frequencies, manufacturers of Wi-Fi equipment can take advantage of significant economies of scale, as equipment does not need to be designed for a single operator or licensee. As a result, Wi-Fi equipment is substantially less expensive than 3G/4G technology. In addition, Wi-Fi has access to larger and more contiguous frequencies compared to most licensed frequencies, which are broken into smaller and more discrete sections in order to allow multiple operators to obtain exclusive licenses. The shared common pool of frequencies in the 2.4 GHz and 5 GHz bands allows Wi-Fi devices to operate on wider channels to increase capacity and speeds. Most Wi-Fi equipment offers maximum download and upload speeds between 50 and 100 Mbps and updates to the 802.11ac standard could allow for maximum speeds up to 500 Mbps.

The drawback of operating on unlicensed spectrum is that Wi-Fi devices must co-exist with other Wi-Fi devices in the band as well as other unrelated consumer devices. For example, in the 2.4 GHz band, Wi-Fi devices share spectrum with garage door openers, TV remote controls and microwave ovens. These devices create interference in the band that can inhibit the performance of Wi-Fi connections. The density of other Wi-Fi devices in the area can also have an impact.

The Wi-Fi standard has a built-in contention protocol to manage this issue. Wi-Fi devices are designed to detect other Wi-Fi devices and not broadcast at the same time. However, too many Wi-Fi radios operating in a small area and all on the same frequencies can cause significant performance degradation.

The FCC also has regulations on operation within the unlicensed bands used by Wi-Fi that include limitations on transmit power in order to accommodate more devices and users in the band. Thus, Wi-Fi networks have limited range compared to 3G/4G networks. High-end Wi-Fi routers have a range of around 800 feet, or approximately one to two city blocks. These devices are called “omnidirectional” in that they broadcast their signal equally in all directions. Directional Wi-Fi antennas that broadcast their signal focused in a single path can have a range of 2 to 4 miles, depending on environmental conditions. Further limiting the range is the fact that Wi-Fi utilizes higher frequency spectrum, where signals cannot penetrate walls and foliage or travel as far as signals operating at lower frequencies.

Wi-Fi was designed as a wireless local area networking solution, and is therefore ideal for supporting and sharing connectivity over a small area such as a home, office, campus, or public park. It is largely a complementary technology to a wireline connection; thus, the
speeds a Wi-Fi connection provides are usually a reflection of the speeds of the underlying DSL, cable, or fiber optic connection that connects to a router that then provides connectivity to end-user devices. Over small areas and with a small number of users, Wi-Fi networks can support most widely available Internet applications including higher bandwidth streaming video or video conferencing depending upon the speed of the wired connection at the router. However, as one expands the coverage area and adds more users, a Wi-Fi network’s ability to support higher-bandwidth uses diminishes and it offers connectivity and speeds similar to 3G/4G service.

**Satellite Broadband Technology**

Internet satellite service is available to any potential customer who can install a satellite dish and has an unobstructed view facing the part of the sky where the satellite orbits. As a result, satellite service is typically cited as an option for rural residents who do not have access to wireline services such as fiber, cable, or DSL. The greatest benefit of satellite service is its ability to provide connectivity to the most remote areas, since it can serve areas that have no wireline infrastructure. The capacity and speeds of satellite service have increased with improvements in the technology.

However, compared with wireline technologies, satellite service is fundamentally constrained by unavoidable physical properties and the number of users it must accommodate.

Traditional satellite Internet service is limited by the technology. The distances involved in sending signals to and from satellites create delays in the transmission. This delay is known as latency in networking terminology. Latency can make certain online activities difficult or impossible for satellite users. Trying to conduct an online video-conference over a connection with high latency will result in the video appearing choppy, broken, and otherwise unusable. Satellite communications also create challenges for Voice over Internet Protocol (VoIP), multiplayer online gaming, and accessing a virtual private network (VPN). Even satellite Internet providers themselves caution against using these applications in conjunction with their services. Satellite signals are also affected by environmental conditions. For example, heavy cloud cover can block transmission.

Satellite networks are susceptible to congestion as well. In the same way that 3G/4G service is affected by too many customers using the same towers simultaneously satellite service is affected by the numbers of users who simultaneously access the same satellite. Standard satellite Internet service offers download speeds of up 15 Mbps with much slower upload speeds of 2 to 3 Mbps. However, given the high number of users a single satellite must accommodate, the service usually has significant caps or limits on how much data a single subscriber can consume. The highest-priced plans provide only 25 GB of data a month for
residential subscribers, or a maximum of 45 GB for business plans. By comparison, wireline home broadband services have monthly limits of 150 to 300 GB of data, if they have any data limits at all. Monthly subscription fees for satellite connections are also nearly three times as expensive as comparable plans from cable providers.

**TV White Space Technology**

In 2009, the FCC approved the use of unused portions of the broadcast television spectrum for wireless broadband, sometimes referred to as “super Wi-Fi.” The authorization allows new wireless hardware to use vacant television frequencies called TV white space (or simply white spaces).

Devices must check an approved database to determine what frequencies are open in a local area. Rural areas, with few television broadcasters, have large amounts of TV white space, making them particularly attractive areas for deployment using this technology. Even in urban areas where the broadcast spectrum is more heavily utilized, there are often unused channels available.

The main advantage over current Wi-Fi access is that signals operating on frequencies in the TV band have much better transmission qualities than the frequencies used by current Wi-Fi devices. The signals can penetrate physical obstructions, like exterior building walls and foliage, that block Wi-Fi and satellite signals. Signals can also travel greater distances at lower power, so larger areas will be covered by a network.

Because TV white space technology is in an early phase of development, equipment is not yet mass-produced or standardized. Therefore user devices are still expensive—typically $500 or more apiece. The transmission speeds and other capabilities of the technology are likely to improve in the coming years, relative to current early-adopter equipment. White space equipment supporting broadband is expected to be able to support point-to-point connections up to 7.5 miles and point-to-multipoint service radii of a few miles. Equipment supports broadband service speeds of up to 12 Mbps over a standard TV channel of 6 MHz. Access to additional channels can increase the overall capacity of a network and provide greater speeds. The available speeds will depend upon the number of open channels in a given area, as well as the number of users.

Initial deployment of TV white space devices will likely focus on fixed wireless networks. A base station connects to multiple homes, institutions, or businesses. The connection to the individual users is typically over Wi-Fi, since smartphones, tablets, and laptops do not yet have the chips and antennas to directly use white spaces technology. Pilot TV white space networks have focused on connecting remote schools and libraries to base stations located
at larger institutions that have Internet access. Other white spaces networks are used for
machine-to-machine communications across oil fields and mining operations.

It is also uncertain how much channel capacity will be available to TV white space devices. The FCC is currently developing plans to auction some TV spectrum to mobile operators, which means that spectrum will no longer be available for white spaces use. There are also discussions underway to potentially add more frequencies outside of the TV band to the FCC approved databases, meaning TV white space devices could be designed to operate in those additional frequencies as well as those within the existing TV band.

Figure 9: TV White Space Technology

Limitations

In addition to the limited range of Wi-Fi and TVWS networks, mobile wireless broadband has technological limitations relative to wireline. These include:

1) Lower speeds. At their peaks, today’s newest wireless technologies, WiMAX and LTE, provide only about one-tenth the speed available from FTTP and cable modems. In coming years LTE Advanced may be capable of offering Gbps speeds with optimum spectrum and a dense build-out of antennas—but even this will be shared with the users in a particular geographic area and can be surpassed by more advanced versions
of wireline technologies (with Gbps speeds already provided by some FTTP providers today).

2) More asymmetrical capacity, with uploads limited in speed. As a result it is more difficult to share large files (e.g., video, data backup) over a wireless service, because these will take too long to transfer; it is also less feasible to use video conferencing or any other two-way real-time application that requires high bandwidth. (See below for more details.)

3) Stricter bandwidth caps. Most service providers limit usage more strictly than wireline services. Though wireless service providers may be able to increase these caps as their technologies improve, it is not clear whether the providers will keep ahead of demand. A Washington Post article about Apple’s iPad, with 4G connectivity, highlights the issue: “Users quickly are discovering the new iPad gobbles data from cellular networks at a monstrous rate. Some find their monthly allotment can be eaten up after watching a two-hour movie. That has left consumers with a dilemma: Pay up for more data or hold back on using the device’s best features.”

4) Limitations on applications. For example, users of smartphones and some tablet computers are limited to approved applications by service providers or device manufacturers. Apple limits the applications that can operate on its iPhone and iPad devices. Although Android is an open platform, Verizon Wireless blocks uploads of video from Android wireless devices on its networks by disabling the feature unless the user is on a private Wi-Fi network. Until recently, the FCC has reiterated that wireless providers have almost unlimited latitude to manage usage on their networks, in effect applying network neutrality rules only to wired networks; service providers can therefore expand their “management” of applications beyond the devices they provide to blocking or slowing applications from users with aircard-equipped PCs or home networks. The 3GPP protocols underlying LTE and subsequent technologies are designed to enable service providers to manage capacity based on application type (i.e., to prioritize particular types of traffic and make others lower priority). However, as the FCC now seeks to implement network neutrality on wireless networks, one approach going forward may be to allow any application on the wireless networks, and

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treat “like” applications alike, with carrier provided and competitive over-the-top applications having access to the same treatment and prioritization.  

**Broadband Applications and Bandwidth Demands**

Broadband is not an end in itself. The value of broadband is in its ability to reliably and consistently deliver applications—from Internet content, e-mail, and distance learning to telehealth and e-commerce. Broadband applications also include telecommuting, videoconferencing, data backup, VoIP, distance learning, security cameras, and remote access.

Broadband must provide the needed applications to and from users, whether they are individual citizens, public school buildings, businesses, or some other organization. Higher-quality broadband means more flexibility in using and adding applications, and applications running better and more reliably. Therefore, a suitable broadband connection requires taking into account all of the presently used applications, all of the users using them, and all of the applications that users might need in the future. The service should also be scalable, in the event that a user group outgrows the connection.

Broadband is important to residential users, but an occasional outage, while frustrating, is acceptable. Some organizations, on the other hand, could not operate if they could not connect, or if customers or suppliers could not reach them. While websites and e-commerce are typically “hosted” away from the business at a data center, many other applications must connect to the business. For those businesses, having both primary and backup connections is an option, as is a service-level agreement (SLA) with a provider, guaranteeing a particular level of performance, with penalties for nonperformance.

For both businesses and citizens, applications can run radically differently if high-capacity, high-quality broadband is available for a reasonable cost. Given suitable assumptions, entire classes of applications—server access, videoconferencing, video upload, server backup, telecommuting, and distance learning, for example—require more than 5 Mbps downstream. These applications are not currently supported by satellite, and hence will require other broadband services. The applications can be supported by higher-speed DSL services and higher-end cable services if those services are available.

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This is more of an issue for businesses; 5 Mbps DSL services require the appropriate proximity to a phone central office, and therefore might not be available at a business location, even if the phone company has lines to the business. Cable may adequately support the applications, but again, cable might not be present at the business location. And these speed requirements assume a single user; as more users are added, the suitability of DSL and cable modem services quickly declines. Cable services from the smaller providers in smaller markets also become significantly more expensive above 5 Mbps—typically more than $100 per month. In other words, even businesses with some broadband availability will face availability and cost barriers that may slow or stop their use of broadband applications.

Table 2 below describes the performance of common broadband applications, given a particular broadband service speed.\(^\text{10}\) This table defines performance needs from today’s perspective. The demand for higher-capacity connections will continue to rise—as, for example, more users (citizens and small businesses alike) explore public or private “cloud computing” services, which support and deliver hosted applications and storage over the Internet. Unlike traditional hosting services, cloud computing requires no special equipment beyond Internet access and a personal computer, and many companies are aggressively marketing cloud-based services for personal and business use.

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\(^{10}\) The table assumes a single user. For downloading small files up to 1 MB, download time less than 10 seconds is good, 10 to 15 seconds is fair, and more than 15 seconds is not acceptable. For uploading videos of 1 GB, upload time less than 30 minutes is good, 30 to 90 minutes is fair, and more than 90 minutes is not acceptable. For downloading high-definition videos (2 GB), download time less than 10 minutes is good, 10 to 15 minutes is fair, and more than 15 minutes is not acceptable. For applications such as videoconferencing and remote server access, the table assumes no concurrent usage of the same application by the same user. Server back-up will normally occur during off-peak times (10 p.m. to 6 a.m.). For telemedicine files up to 160 MB, download time of less than 30 seconds is good, 30 to 60 seconds is fair, and more than 60 seconds is unacceptable.
<table>
<thead>
<tr>
<th>Applications</th>
<th>56 Kbps/56 Kbps (Dial-up, maximum speed)</th>
<th>256 Kbps/256 Kbps</th>
<th>768 Kbps/768 Kbps (DSL; Satellite)</th>
<th>1 Mbps/1 Mbps (DSL; Satellite 3G/4G)</th>
<th>3 Mbps/3 Mbps (DSL; Satellite)</th>
<th>7 Mbps/7 Mbps (DSL; Satellite)</th>
<th>10 Mbps/2 Mbps (DSL; Cable; Fiber; 4G)</th>
<th>20 Mbps/2 Mbps (Cable)</th>
<th>50 Mbps/10 Mbps (Cable)</th>
<th>100 Mbps/100 Mbps</th>
<th>1 Gbps/100 Mbps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple text e-mail without attachments (50 Kbps)</td>
<td>OK</td>
<td>Good (2)</td>
<td>Good (1)</td>
<td>Good (1)</td>
<td>Good (1)</td>
<td>Good (1)</td>
<td>Good (1 sec.)</td>
<td>Good (1)</td>
<td>Good (1)</td>
<td>Good (1)</td>
<td>Good (1)</td>
</tr>
<tr>
<td>Receive e-mail with medium attachments or e-mail attachments (160 MBytes)</td>
<td>Bad (72 sec.)</td>
<td>OK (16 sec.)</td>
<td>Good (6)</td>
<td>Good (4)</td>
<td>Good (2)</td>
<td>Good (1)</td>
<td>Good (1 sec.)</td>
<td>Good (1)</td>
<td>Good (1)</td>
<td>Good (1)</td>
<td>Good (1)</td>
</tr>
<tr>
<td>Download small files (e.g., a fifty-page text document with limited graphics)</td>
<td>Bad (3 min.)</td>
<td>OK (32 sec.)</td>
<td>OK (11 sec.)</td>
<td>Good (8)</td>
<td>Good (2)</td>
<td>Good (1)</td>
<td>Good (1 sec.)</td>
<td>Good (1)</td>
<td>Good (1)</td>
<td>Good (1)</td>
<td>Good (1)</td>
</tr>
<tr>
<td>Download large files (e.g., new software or a large program)</td>
<td>Bad (20)</td>
<td>Bad (5)</td>
<td>Bad (87 min.)</td>
<td>OK (23 min.)</td>
<td>OK (10 min.)</td>
<td>Good (7)</td>
<td>Good (5)</td>
<td>Good (4)</td>
<td>Good (80)</td>
<td>Good (40)</td>
<td>Good (1)</td>
</tr>
<tr>
<td>Download high-definition (HD) video (5 GB)</td>
<td>Bad (9 days)</td>
<td>Bad (44)</td>
<td>Bad (15)</td>
<td>Bad (12)</td>
<td>Bad (4)</td>
<td>Bad (96 min.)</td>
<td>Bad (67 min.)</td>
<td>Bad (45 min.)</td>
<td>Good (34 min.)</td>
<td>Good (14)</td>
<td>Good (7)</td>
</tr>
<tr>
<td>Upload videos, presentations (1 GB) (10 sec.)</td>
<td>Bad (40)</td>
<td>Bad (9)</td>
<td>Bad (6)</td>
<td>Bad (3)</td>
<td>Bad (134 min.)</td>
<td>OK (67 min.)</td>
<td>Good (6 min.)</td>
<td>Good (14)</td>
<td>Good (14)</td>
<td>Good (80)</td>
<td>Good (40)</td>
</tr>
<tr>
<td>Daily incremental backup, up to 20 GBytes (e.g., radiological images such as mammograms)</td>
<td>Bad (&gt; 1 day)</td>
<td>Bad (&gt; 1 day)</td>
<td>Bad (&gt; 1 day)</td>
<td>Bad (&gt; 1 day)</td>
<td>Bad (&gt; 1 day)</td>
<td>Bad (23 hr.)</td>
<td>Bad (23)</td>
<td>OK (5 hr.)</td>
<td>OK (5 hr.)</td>
<td>Good (27)</td>
<td>Good (1)</td>
</tr>
<tr>
<td>Telemedicine (e.g., radiological images such as mammograms)</td>
<td>Bad (7)</td>
<td>Bad (84 min.)</td>
<td>Bad (28 min.)</td>
<td>Bad (22 min.)</td>
<td>Bad (8 min.)</td>
<td>Bad (4 min.)</td>
<td>Bad (3 min.)</td>
<td>Bad (86 sec.)</td>
<td>Good (26)</td>
<td>Good (13)</td>
<td>Good (2)</td>
</tr>
<tr>
<td>Web browsing</td>
<td>Bad</td>
<td>Bad</td>
<td>OK</td>
<td>OK</td>
<td>OK</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
</tr>
<tr>
<td>Interactive online applications (online meeting presentation, document sharing)</td>
<td>Bad</td>
<td>Bad</td>
<td>Bad</td>
<td>OK</td>
<td>OK</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
</tr>
<tr>
<td>Videoconferencing streaming at 384 Kbps (desktop/single)</td>
<td>Bad</td>
<td>Bad</td>
<td>Bad</td>
<td>OK</td>
<td>OK</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
</tr>
<tr>
<td>Telecommuting/remote server access/VPN</td>
<td>Bad</td>
<td>Bad</td>
<td>Bad</td>
<td>Bad</td>
<td>OK</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
</tr>
<tr>
<td>Multi-point videoconferencing streaming at 768 Kbps for a group of five to six</td>
<td>Bad</td>
<td>Bad</td>
<td>Bad</td>
<td>Bad</td>
<td>Bad</td>
<td>OK</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
</tr>
<tr>
<td>Stream HD video (3–5)</td>
<td>Bad</td>
<td>Bad</td>
<td>Bad</td>
<td>Bad</td>
<td>Bad</td>
<td>OK</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
</tr>
<tr>
<td>Distance learning</td>
<td>Bad</td>
<td>Bad</td>
<td>Bad</td>
<td>Bad</td>
<td>Bad</td>
<td>OK</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
<td>Good</td>
</tr>
</tbody>
</table>

Table 2: Performance of Applications Over Various Broadband Speed
Chapter 4: Survey of Business Models

This chapter is intended to provide utilities with an overview of several different business models for a utility broadband network. Utilities should balance control, risk, and reward when evaluating which model will most likely meet their goals. Utilities also should perform a robust feasibility analysis. It is important to note, however, that all such projects and business models entail financial and other risks for the community—at the same time as enabling enormous direct and indirect benefits.

Retail Services

In the most common utility broadband model, the coop or municipal builds a fiber-to-the-premises infrastructure and offers retail Internet services to businesses and residences. In some cases, the coop will also offer phone service (a “double-play” bundle) or phone and video (a “triple-play”).

Douglas Electric Cooperative, which serves members over a 2,200 square mile area in southern Oregon, offers a double-play bundle through Douglas Fast Net (DFN). The coop founded DFN about 12 years ago with a straightforward goal: “to deliver high-speed broadband to everyone in Douglas County—even those in outlying areas that might not have gotten service before.”

In addition to its retail residential and business services, DFN has “brought unparalleled service to the medical and education community.”

In terms of direct financial factors, such a retail FTTP network entails significant risk because of the size of the upfront capital commitment necessary and the ongoing operating costs to run the network.

In this business model, the utility may also be an over-builder, providing services in competition with the existing phone and/or cable incumbents. Though the incumbents’ products may not meet the federal definition for broadband, they can still provide stiff competition for a utility’s superior services. While the potential exists for the community to obtain sufficient market penetration necessary to support enough cash flow, sustaining enough customers can be a significant challenge, particularly when well-resourced incumbent providers can aggressively market or discount services in response to the entry of a competitive provider.

Financing in this network is usually through bonding secured through identified utility funds or other revenue source.

**Open Access**

In this model, the utility builds, owns, and maintains fiber optics all the way to homes and businesses. Rather than becoming a provider serving the public, however, it leases access to private providers who then offer services directly to the public. Under the open access model, the utility can operate and maintain the fiber and the transport electronics, or it can contract these tasks out to a private sector partner. Private providers then lease access to the infrastructure which they use to deliver phone, video, and Internet services.

Thus a “wholesale” or "open access” model separates the infrastructure from the retail service. In this way, the utility theoretically addresses the high cost of market entry for providers, and facilitates the ability of multiple providers to serve residents and businesses over the same infrastructure. The result is the potential for new competition.

The business model involves significant risk with respect to recovery of project costs through network revenues. A number of factors outside the control of the utility, including the interest of retail providers to offer services over the network, and the retail providers’ marketing success, have the potential to reduce revenues below break-even cash flow needs.

Financing in this network is usually through bonding secured through identified utility funds or other revenue source.

**Alternative Model: Institutional/Middle Mile**

In this model, the utility seeks to offer dark fiber connections, through a lease, to institutions and businesses. The utility can lease the excess fiber to recover incremental costs, so long as the leased fiber contract is structured so it does not violate internal, state, and federal safety requirements. Under the lease, the utility would receive a revenue stream with very little risk associated. This model requires less involvement in operations than does a retail model because it does not require the utility to go into the business of providing communications services itself. At the same time, the model leverages such assets as the utility's considerable right-of-way knowledge and maintenance capabilities.

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13 The well-known UTOPIA (Utah Telecommunications Open Infrastructure Agency, a joint project of 14 communities in suburban and rural Utah) network encountered exactly these problems—difficulty finding providers to offer services over the network, and uneven marketing efforts by those providers that did offer services.

14 Dark fiber refers to the lease of point-to-point fiber strands. The lessee of dark fiber is responsible for adding electronics to "light" the fiber.
Experience suggests that this is the business and technical model with the highest possibility of financial success and with the lowest risk for the utility. This model can facilitate a modest portion of the potential enabled by broadband while still minimizing risk. This model requires a smaller capital investment than does more extensive fiber deployment and experience suggests that the utility could realize a modest revenue stream from this model—at the same time as meeting its own communications needs and reducing the cost of leasing circuits.

Significantly, though this model has the potential to fill a market vacuum for selected business consumers or members, it does not address the needs of residents and small businesses. The model does offer some incentives for a private provider to construct FTTP infrastructure, but is unlikely to be enough to attract private sector investment in FTTP because it does not significantly lower the costs of market entry.
Chapter 5: Understanding Capital and Operating Costs

This chapter is intended to provide utilities with an idea of the range of different costs for a utility fiber network. Because actual costs depend so greatly on the network being constructed, we have included ranges of costs for illustration.

The chapter focuses on a retail service model offered over fiber-to-the-premises (FTTP), which has been the most common among coop and municipal utilities. Under the retail model, the utility becomes a competitive provider of voice, video, and data services. The model assumes the utility will define and update services on an ongoing basis, establish consumer level sales and marketing efforts, and establish consumer support services. The retail model requires a broad range of staff additions, training, marketing, and other activities to run and maintain.

Capital Costs

Capital costs include fiber construction, installation to premises, electronics, and preparation of central office/hub facilities. At a general level, an FTTP build in an area of moderate density (i.e., 50 to 200 homes per mile), including electronics, might cost anywhere from $800 to $1,500 to pass each home or business, and an additional $400 to $750 per location connected. As with any infrastructure construction, costs may vary widely depending on the specific area being built—and some costs will rise as the distance between premises increases.

Further, construction costs will vary based on whether you choose to keep construction in-house or seek an outside contractor. There are merits to both approaches—costs tend to be lower when you use existing resources, but construction is typically completed more quickly when you engage an outside firm.

The cost range depends on many factors, but primarily on the 1) breakdown between overhead and underground plant, 2) density of premises per mile of plant, 3) size of the project/available economies of scale, 4) length of the deployment, 5) prevailing labor costs, and 6) amount of pole make ready required.

We note that in areas of extremely low density (i.e., less than 10 passings per mile), the cost can exceed $10,000 per home/business passed.

We have developed cost estimates for the various outside plant components based on available industry pricing for fiber and facility construction. A good practice is to perform detailed designs of representative areas of the system and generate estimates for each one, since there are numerous factors that can impact costs in a particular service area, including:
- Home density
- Average home setbacks
- Percentage of overhead (aerial) versus underground construction
- Utility pole conditions and loading
- Congestion of underground right-of-way
- Soil conditions
- Restoration requirements for right-of-way disturbances, sometimes driven by permitting authorities, historical preservation organizations, and even homeowners’ associations

### Self-Performed or Contracted Labor

Utilities may use a combination of internal and external resources to construct and maintain the network. In the early stages of planning, you should consider how quickly the network must be completed in order to support your goals.

Using in-house labor can significantly reduce overall cost of construction, and if there is no urgency to complete the entire network, this may be the best option for many utilities. Power line utility staff can be trained to perform this type of construction, giving utilities the flexibility to use “down time” from power crews. Training can be a combination of vendor instruction and internal training, and crews can usually be trained in a matter of days.

Once network construction is complete, fiber installation is not likely to be a recurring need, so it may be prudent to temporarily reallocate existing staff within your organization to take on initial construction instead of hiring new employees. Or, you may want to hire additional staff who can later take on shared responsibilities of both your electric operation and your fiber enterprise. Fiber splicing is particularly specialized and may require additional training and equipment for staff. Small, intermittent splicing tasks can be performed with hand-held splicing and may be shared internally among staff.

Alternatively, you may elect to retain a contractor for the sole purpose of network maintenance. The contractor performs routine maintenance tasks like moving and splicing sections of fiber as necessary to accommodate network and community growth, and they would be on call to perform emergency maintenance 24 hours a day. Many fiber agreements contain provisions that require a network owner to affect emergency repairs within a specific, often short timeframe. If you intend to allow other providers access to your fiber and are concerned about your staff’s ability to be on call, you may want to consider retaining a contractor for maintenance and repairs. Depending on the size of your network and the type of agreement you have with a maintenance contractor, you may find that this arrangement is more feasible than using existing staff for this ongoing function.
**Overhead (Aerial) Construction**

Where space on utility poles exists, overhead construction is the preferred method for most fiber optic construction because it is typically far less expensive and time consuming than underground construction. In an aerial electric utility area the utility can install all-dielectric self-supporting (ADSS) fiber cable in the utility space, thus avoiding pole replacement if the pole does not have sufficient clearance in the communications space.

Estimated unit costs for the various outside plant construction materials and labor needed in developing the sample design are itemized in Table 3 and Table 4.

While materials costs are fairly consistent (depending upon volume), labor rates can vary greatly depending on the geographic region and the demand for personnel to perform outside plant construction. Labor costs will vary substantially according to demand for service. It is difficult to calculate labor charges without receiving firm bids from fiber optic construction companies. Furthermore, a utility can potentially reduce costs by using in-house labor. Thus it is necessary to examine labor costs within a likely range. Table 4 provides the most likely and worst-case labor estimates used in calculating our cost estimates.

<table>
<thead>
<tr>
<th>Item</th>
<th>Unit</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>60 count fiber</td>
<td>Foot</td>
<td>$0.65</td>
</tr>
<tr>
<td>48 count fiber</td>
<td>Foot</td>
<td>$0.52</td>
</tr>
<tr>
<td>24 count fiber</td>
<td>Foot</td>
<td>$0.44</td>
</tr>
<tr>
<td>60 fiber splice case</td>
<td>Each</td>
<td>$338.75</td>
</tr>
<tr>
<td>48 fiber splice case</td>
<td>Each</td>
<td>$271.00</td>
</tr>
<tr>
<td>4 way tap 300 ft.</td>
<td>Each</td>
<td>$188.00</td>
</tr>
<tr>
<td>6 way tap 325 ft.</td>
<td>Each</td>
<td>$231.50</td>
</tr>
<tr>
<td>8 way tap 225 ft.</td>
<td>Each</td>
<td>$275.00</td>
</tr>
<tr>
<td>12 way tap 200 ft.</td>
<td>Each</td>
<td>$365.00</td>
</tr>
<tr>
<td>Fiber distribution cabinet (FDC)</td>
<td>Each</td>
<td>$13,000</td>
</tr>
<tr>
<td>Hardware</td>
<td>Foot</td>
<td>$0.50</td>
</tr>
<tr>
<td>Strand</td>
<td>Foot</td>
<td>$0.27</td>
</tr>
<tr>
<td>288 count ADSS fiber</td>
<td>Foot</td>
<td>$3.75</td>
</tr>
<tr>
<td>48 count ADSS fiber</td>
<td>Foot</td>
<td>$1.45</td>
</tr>
</tbody>
</table>

*Table 3: Aerial Construction Material Cost Assumptions*
Selecting a range of assumptions based on the discussion above, we find that aerial FTTP construction cost can range from $25,000 to $75,000 per route mile. These estimates do not include costs for make ready—the process by which utility poles are prepared for new cable attachments.

Make ready is necessary to ensure that structural and safety requirements are met, often dictated by individual cooperative electric standards, local and national codes. Prior to construction, the entire construction route, including all utility poles, must be surveyed to determine make ready requirements, generate permit applications, and develop pole attachment agreements with the utility pole owners (if not owned by your utility).

If you have to locate on another entity’s poles, attachment fees and make ready costs, in particular the make ready costs, represent the greatest degree of uncertainty and cost variance for overhead construction.

We note that an electric utility has the option of putting its fiber in the power space on its own utility poles. This eliminates make ready costs and ensures that there will be space for the fiber. The disadvantages of this type of placement are that only personnel trained in the power space can work on the fiber or, if taps are located in the power space, install it to homes. Also, only ADSS fiber can be used. Additional cables, including those for service drops to homes and businesses, cannot be overlashed to ADSS fiber—limiting the scalability of the installed fiber.

Utility company requirements, condition of existing plant, local permitting requirements and local code are all unique to an individual service area. In addition, some utility pole owners allow the new provider to survey and perform any necessary changes on their own, while others require that their own crews complete the make ready work.

During the make ready survey, each pole is visited and attachments on the pole are identified and recorded. The height of the pole, down guy size, anchor status, and location of pole attachments are captured in a “stick drawing.” In addition, the proposed new cable attachment

<table>
<thead>
<tr>
<th>Item</th>
<th>Unit</th>
<th>Low case</th>
<th>High case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Place strand</td>
<td>Foot</td>
<td>$1.25</td>
<td>$2.00</td>
</tr>
<tr>
<td>Place ADSS fiber</td>
<td>Foot</td>
<td>$3.25</td>
<td>$4.50</td>
</tr>
<tr>
<td>Lash cable</td>
<td>Foot</td>
<td>$1.80</td>
<td>$2.50</td>
</tr>
<tr>
<td>Splicing</td>
<td>Each</td>
<td>$10.00</td>
<td>$45.00</td>
</tr>
<tr>
<td>Place FDC</td>
<td>Each</td>
<td>$2,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>Place taps</td>
<td>Each</td>
<td>$15.00</td>
<td>$40.00</td>
</tr>
</tbody>
</table>

*Table 4: Aerial Construction Labor Cost Assumptions*
type and location is determined following utility pole owner, Rural Utility Services (RUS), and National Electrical Safety Code (NESC) requirements. Required changes in existing utility attachments are documented. Each utility examines the requested changes and submits an estimate for clerical, engineering, and inspection costs to the new operator. Typical make ready work on the aerial plant includes raising or lowering lines, adding ground bonds, changing down guys, adding anchors, adding guards and adding new attachment clamps. In some cases the entire utility pole must be replaced for the new operator to attach to the pole.

Once the make ready estimate is paid by the new operator, the utility or its contractor is permitted to complete the make ready. When construction is completed, the utility companies make a final inspection to ensure the plant was built according to plans. The utility companies then compare actual costs to estimated costs and reconcile the account. CTC estimates the average cost to complete make ready to range from $2,500 per mile, in an area where poles are not crowded, to over $50,000 per mile, where poles are crowded and many poles need to be replaced.

**Underground Construction**

Underground fiber optic construction can vary greatly in cost depending on the type of construction, availability of space in the right-of-way, permitting requirements, and local ordinances in the areas of construction. In particular, traffic monitoring, lane closures, street and sidewalk repair (if any exist), and existing underground utility locations can affect the overall cost of construction. Many of the unknowns of underground construction cannot be determined until the final detailed design and walk-out are performed. Table 5 and Table 6 provide the material and labor costs used in our preliminary budgetary estimates. Due to the range of labor rates associated with construction, we include both low and high case labor rates.
<table>
<thead>
<tr>
<th>Material</th>
<th>Unit</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>60 count fiber</td>
<td>Foot</td>
<td>$0.65</td>
</tr>
<tr>
<td>48 count fiber</td>
<td>Foot</td>
<td>$0.52</td>
</tr>
<tr>
<td>24 count fiber</td>
<td>Foot</td>
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</tr>
<tr>
<td>60 fiber splice case</td>
<td>Each</td>
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</tr>
<tr>
<td>48 fiber splice case</td>
<td>Each</td>
<td>$271.00</td>
</tr>
<tr>
<td>4 way tap 300 ft.</td>
<td>Each</td>
<td>$188.00</td>
</tr>
<tr>
<td>6 way tap 325 ft.</td>
<td>Each</td>
<td>$231.50</td>
</tr>
<tr>
<td>8 way tap 225 ft.</td>
<td>Each</td>
<td>$275.00</td>
</tr>
<tr>
<td>12 way tap 200 ft.</td>
<td>Each</td>
<td>$365.00</td>
</tr>
<tr>
<td>Conduit</td>
<td>Foot</td>
<td>$2.00</td>
</tr>
<tr>
<td>Splice vaults</td>
<td>Each</td>
<td>$550.00</td>
</tr>
<tr>
<td>Tap vaults</td>
<td>Each</td>
<td>$200.00</td>
</tr>
<tr>
<td>Fiber distribution cabinet</td>
<td>Each</td>
<td>$13,000</td>
</tr>
<tr>
<td>Hardware</td>
<td>Foot</td>
<td>$0.50</td>
</tr>
</tbody>
</table>

*Table 5: Underground Construction Material and Labor Rates*

<table>
<thead>
<tr>
<th>Labor Item</th>
<th>Count</th>
<th>Low Case</th>
<th>High Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Place conduit</td>
<td>Foot</td>
<td>$1.80</td>
<td>$3.00</td>
</tr>
<tr>
<td>Trench</td>
<td>Foot</td>
<td>$8.00</td>
<td>$20.00</td>
</tr>
<tr>
<td>Bore</td>
<td>Foot</td>
<td>$10.00</td>
<td>$30.00</td>
</tr>
<tr>
<td>Pull fiber</td>
<td>Foot</td>
<td>$1.00</td>
<td>$2.50</td>
</tr>
<tr>
<td>Splicing</td>
<td>Each</td>
<td>$10.00</td>
<td>$45.00</td>
</tr>
<tr>
<td>Place FDC</td>
<td>Each</td>
<td>$3,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>Place tap vaults</td>
<td>Each</td>
<td>$150.00</td>
<td>$500.00</td>
</tr>
<tr>
<td>Place splice vaults</td>
<td>Each</td>
<td>$650.00</td>
<td>$1,500</td>
</tr>
</tbody>
</table>

*Table 6: Underground Construction Labor Rates*

Selecting a range of assumptions based on the discussion above, we find that underground FTTP construction cost ranges from $60,000 to $250,000 per route mile, with the worst-case in a dense environment with extensive, costly restoration and hand digging required to locate existing utilities.

Compared to many fiber construction projects targeting particular buildings or types of customers, complete FTTP construction is more costly on a per route mile basis. An FTTP network must be designed to serve all potential customers and service taps are needed to serve every premises. Unlike middle-mile or backbone fiber, FTTP, by definition, needs to pass each location.
User Installation

Each customer needs to be physically connected to the system, and most operators install service only to premises that subscribe to the service. Some operators have focused on sales to limited portions of their service areas as the infrastructure is installed, to achieve an economy of scale in the installation.

Cost depends on a range of factors including the distance of the premises from the right-of-way, whether the drop is aerial or underground. Installation cost typically ranges from $300 to $600, but can reach thousands of dollars if the house or business is extremely far from the road or requires construction under roads or driveways.

Electronics Costs

FTTP electronics include core electronics (routers, aggregation switches, optical line terminals) and user premises electronics (ONT/Ethernet switch/router). Additionally, if the provider is offering video services, the user will require set-top converters and potentially a video headend.

The type and scale of the core electronics depend on the size of the network. A typical range, per activated customer, is $100 to $600. The premises electronics range from $200 to $600 per activated customer.

Facility Construction and Fixed Network Equipment Costs

The network headend or central office requires space for network electronics, servers to support a range of network management and service provisioning functions, and collocation space for potential third-party providers. The estimated space requirement for the headend—as well as the cost of the equipment—is largely dependent on the size of the network. Figure 10 illustrates a hub site for a large-scale network.
Hub sites are necessary to aggregate fiber connections and to house FTTP transport electronics. The number of hub facilities depends on the size and physical distribution of the system and the electronics selected (e.g., active Ethernet, PON). Hub facilities can be co-located in substation premises (Figure 11) and can also be located in outdoor cabinets or small prefabricated buildings (Figure 12). The size can range from two standard racks for fiber termination and distribution equipment, to a 2,000 square foot space. The cost of each hub building and the associated power backup ranges from $10,000 to $500,000.
Figure 11: Hub Facility Colocation in Power Utility Substation
The headend and hubs house central networking and application hardware necessary for the central operator to maintain and operate an FTTP system. The equipment includes core networking equipment, servers, and network operations and management equipment, incorporating all fixed costs for provisioning advanced VoIP telephony, Internet, and video distribution services comparable to competing services available today. The headend and hubs will also include space for other service providers to collocate their equipment.

**Operating Costs**

Operating costs for an FTTP network will vary dramatically based on the business model selected (retail, open access), services offered (broadband only, triple play), performance of services offered (best-effort data rates vs. committed interface rates), customer support levels (8am-5pm weekdays vs. 24/7), size of market (number of subscribers and geographic footprint of service area), and other factors.
Some of the key cost areas are summarized below. Legal fees are not included in this list, but will likely be an essential budget item.

**Financing**

Generally, a utility should assume two kinds of bonds: First, a 20-year bond to cover the cost of new fiber. Given current interest rates, we assume such bonds would be issued at an interest rate based on current market conditions and would be paid off in equal principal and interest payments over the 20-year depreciable life of the fiber.

Second, we assume an additional bond to cover the remaining implementation costs, including headend equipment, operating equipment, customer premises equipment and other miscellaneous costs. Most of this equipment investment depreciates over seven to 10 years and the financial projections should include reinvestment and upgrade costs to keep the equipment useful over 20 years. This second bond is paid off over 10 years (reflecting the shorter life of the assets than that of fiber) at an interest rate based on current market conditions.

You will need to include bond issuance costs, a debt service reserve, and an interest reserve account based on current market conditions. Any federal or other grant funds received for construction of the FTTP network would reduce the size of the bonds and the associated debt service.

**Staffing**

Sales and marketing staff are critical to the success of the business. Staffing requirements are highly dependent upon the local market; the more competitive the market, the greater role sales and marketing will play. The same rule applies for more new or innovative services, which require more consumer education to build demand. The ability to leverage other local resources will also impact the required sales and marketing staffing and effort. A contract administrator might be required if the operation provides high-end data services, dark fiber, and other specialized services.

Technical staff requirements will vary based on the services offered, which services are hosted, number of shifts, and other factors. For example, if the utility maintains its own cable television headend, the network will need at least one technician for its maintenance. The same is true for the broadband offering. Are the servers located on-site or are they part of a wholesale service provided by another vendor?

Requirements for field and support technicians can vary from one per 2,000 customers to one per 3,500 customers per shift. In addition, the operation may need a systems administrator and supporting staff. Customer service representatives and help desk support often range from one
per 2,000 customers to one per 3,500 customers per shift. Outside fiber plant typically requires one technician per 80 to 100 miles of route miles of plant. This function can also be contracted out. Staffing costs also need to include ongoing training and other overhead costs.

Considering all aspects of the operation, the distributor will likely require skills in the following disciplines:

- Sales/promotion
- Finance
- Internet and related technologies
- Vendor negotiations
- Staff management
- Networking (addressing, segmentation)
- Strategic planning
- Marketing

**Marketing and Sales**

It is important to be proactive in setting customer expectations, addressing security concerns, and educating customers on how to initiate services.

**Internet Bandwidth**

The size of the data pipe to the Internet and ultimate bandwidth cost per subscriber will vary according to the level of oversubscription and bandwidth sharing on the network. Oversubscription is defined as the ratio of the backbone transit Internet connection to the sum of the Internet connections provided to the utility members. For example, a residential-class broadband service may have an oversubscription ratio of 50 to 1, while some data-intensive businesses require a one-to-one ratio. Further, the cost of commodity bandwidth varies greatly across the country. In locations that have competitive backhaul markets, access can be less than $1 per month per Mbps, while less competitive markets can see prices of more than $40 per month per Mbps, or even $100 per month per Mbps.

**Billing**

The cost of billing will vary based on the services and options offered, and what kind of customers the enterprise serves. For example, IRU holders may need only be billed once yearly for maintenance fees, while lease holders may require monthly billing. The public entities that the utility serves may pay monthly or quarterly, or in some cases there may be unique contract terms that include service trades (for example, a municipality's information technology department may provide support as its payment for having its facilities connected).

If a utility opts to pursue retail services, billing materials and labor increases significantly. This function may be absorbed into existing billing services if a utility already offers billing support.
for its utility customers; existing staff and materials can be augmented to take on billing for the telecommunications utility.

Billing for a data-only service can be relatively easy and cost less than $1 per month per subscriber. Billing for cable television and telephone services is more complex and require additional operating costs.

**Maintenance**

If fiber maintenance is done internally the majority of this cost becomes a staffing expense. For underground plant, an additional expense will arise from locates. For aerial plant, pole attachment fees (if any) represent an ongoing operational cost. Ongoing maintenance and software licensing fees for hub and network electronics can exceed 15 percent of the accrued investment in the equipment. Ongoing maintenance on outside plant, exclusive of pole rental and locates, is approximately 2 percent of the initial capital cost per year, although this will vary depending on the amount of construction in and around the rights-of-way; a utility will be able to better estimate the number after a few years of operations.

**Telephone Service**

Most utility networks offering telephone services today will find a partner to provide the interconnection to the public telephone network. This is typically negotiated on a case-by-case basis in the local market. The fees can often exceed 50 percent of the retail service price.

**Video Content**

Fees for video content depend upon two factors: number of subscribers and the channels offered. Each cable operator must negotiate the right to place a given channel in its lineup. Operators pay the content owners a monthly fee per subscriber rather than a flat fee. Content fees continue to rise at a faster rate than other expenses (often exceeding 10 percent per year). Small cable operators have limited buying power and typically do not have a content ownership stake (like some large cable operators), so they are often forced to sell cable services at a breakeven point or, worse, as a loss leader. A typical per-customer cost for video content, exclusive of video on demand, is $40 per month, although this number is increasing each year.

**Bad Debt and Collections**

In the retail market, some residential customers will move without paying their final bills and some businesses will go bankrupt or otherwise close their doors. In some service areas, the bad debt percentage can remain relatively low (under 0.5 percent of revenues); in more challenging circumstance, losses can rise to as much as 3 percent of revenues or more.
Churn

Residential customers tend to switch services to respond to promotional offers. Some communities also have a high resident turnover. Customer churn rates can range from a few percent per year to more than 1 percent per month. Churn costs include the cost of acquiring and hooking up a new customer, less any connection fees charged. In a competitive market, most customer connection charges are waived, so churn can cost an operator more than $400 for each new customer acquired.

Equipment Replacement

Any equipment under the utility's control is relatively secure, so replacements are scheduled at predictable intervals and funded through depreciation accounts. If the service has customer premises equipment, that equipment is subject to theft and damage.

Facilities

The addition of new staff and inventory requirements requires allocation of office and warehousing space. Like any commercial provider, the utility will need to invest in office space, warehousing space, network equipment space, and a retail storefront to help market the new services.

Training

Training of existing utility staff is important to fully realize the economies of adding a business unit. An acceptable benchmark is 4 percent of payroll per year.
Chapter 6: Understanding the Breadth of Revenue Sources

This chapter summarizes briefly a range of revenue sources on which your broadband utility is likely to depend. The three key markets for broadband service are residential, business, and institutional. In addition to high quality data (Internet) services, you are likely to offer video (cable) to the residential market. These revenue opportunities are summarized at a high level below and neither this list nor this discussion is exhaustive. As with any significant new investment or service offering, a utility should conduct market research to gather data regarding how willing potential customer/member groups would be to switch to your services at various price levels. This chapter also discusses the significant customer service and localism advantages that a utility can use to benefit members and customers and to secure revenues.

We expect that most utilities will not immediately offer FTTP services such as video (cable) to the residential and business market. Rather, most utilities will likely start out providing dark fiber or wholesale access to their fiber plant, and possibly connecting key community anchor institutions (CAIs) such as government buildings and other public institutions.

Dark Fiber Agreements

The term “dark fiber” refers to unlit strands of fiber on a network that are not in use by the network owner. As we noted, we suggest that you include excess fiber capacity during network construction to support future growth, and to be used as a potential revenue source. Government agencies, other utilities, internet service providers (ISPs), and others may seek access to dark fiber on your network through a short-term lease or by purchasing a 20-year IRU.

In a dark fiber agreement, the lessee or IRU-holder essentially “owns” the fiber for the duration of the agreement. The network owner is responsible for fiber maintenance, but is not responsible for ensuring that the fiber is lit and functional; this falls to the lessee or IRU-holder. This distinction is important in that the costs and resources required to manage lit fiber are significant.

Revenue frequency and amount are also important to consider—an IRU will yield a large, one-time payment while a lease is paid on an ongoing basis. Lease fees may be paid on a monthly, quarterly, or yearly basis, depending on the terms of the agreement, and it is possible that not every agreement will be the same. That is, you may have a lease agreement with one lessee who pays monthly while you have a different agreement with another lessee who pays quarterly.
Both an IRU and a lease agreement typically require the lessee or IRU-holder to pay ongoing operations and maintenance fees to support the utility’s maintenance of the physical fiber plant. This money is separate from the lease and IRU fees and is intended to offset the cost of network maintenance, such as fiber repair after unexpected damage.

A dark fiber agreement may be a cash revenue source to sustain maintenance and operations of the network or it may provide an opportunity to offset upfront capital expenses through a fiber exchange or “swap” with other providers. In a fiber swap, a utility may grant access to dark fiber strands on its existing network in exchange for access to dark fiber strands on another provider’s network. This can be beneficial in cases where a utility needs access to a specific location where it may not be economically feasible to build several miles of fiber or where access for new construction is difficult. While this arrangement does not provide a long-term cash revenue source, it can provide significant savings in certain situations, especially during the costly startup construction phase. It is an alternative that utilities can explore as they consider the overall cost of construction, maintenance, and expansion of their network.

A utility can choose to execute an IRU in certain cases and a lease in others, depending on the partnering entity. As an example, you may want to provide a 20-year IRU to a county government but you may want to offer a short-term lease to a local ISP. Each mechanism has advantages and disadvantages, and each utility must determine the best approach in their circumstances. Further, not every lease or IRU must be identical—that is, the lease you execute with one entity may not contain the same terms as your lease with a different entity. In fact, large private providers often have their own boilerplate lease documents that must be incorporated into your lease agreement.

Regardless of which type of agreement you opt to use, it is crucial to protect your interests when entering into any agreement that will allow another entity to access your network. We encourage you to consult qualified legal counsel to ensure that responsibilities for each party are clearly defined and that your interests are protected.

**Wholesale Fiber Agreements**

Dark fiber agreements use the physical layer of the network, or the fiber plant. The network owner provides only the infrastructure, and has no responsibility to maintain any electronics or light the fiber. Another potential relationship and revenue source for utilities with other providers is through lit fiber, or wholesale services.

Unlike dark fiber where the utility provides dedicated fiber strands to a provider, wholesale services uses the data link layer of the network to provide services. That is, the utility does not grant access to a physical fiber strand, but provides a virtual link that allows movement of data across the network.
This is a potentially important revenue source and an opportunity to build relationships with small ISPs that may want to provide services over a utility’s network, but that may not have capital to pursue a dark fiber agreement.

**Revenues from Residential Consumers**

The primary form of revenues your broadband enterprise will require is revenues from your residential members or customers. The residential market is at the core of a fiber-to-the-premises network and also represents a very important target market for your project because building to the home is so capital intensive.

The success of the retail services model generally depends on the utility’s ability to compete in a consumer market with established and experienced providers. Many municipal FTTP networks that have been successful are located in rural or small town communities where competition is limited or nonexistent and the utility possesses a strong branding or trust image with its citizens. And of course, these utilities have strengths with respect to existing facilities, operations, construction, brand-name, image, and marketing.

In larger cities, the likelihood of facing difficulty obtaining such retail market penetration increases. Denser areas generally have a greater presence of incumbent Internet providers, and the local phone company is more likely to offer wireline broadband service. The addition of competitive mobile wireless services can make it very challenging for the utility to achieve sufficient market share to realize sufficient revenues.

Getting pricing right is a critical part building sufficient revenues, because of its impact on the adoption of service.\(^\text{15}\) It is important to keep in mind that maximizing market share is not necessarily the same as maximizing revenue – a very inexpensive product can drive market share, but if the revenue generated cannot maintain operations and financing payments, then the model is not sustainable. As a result, we recommend generating a model with pricing that maximizes revenue generation rather than market share. Internet packages should ideally be priced to be competitive with existing area Internet service providers while offering higher capacity connections.

As you contemplate your revenue sources, avoid the temptation to replicate industry products, services, and prices. Competing against the incumbents through imitation is a difficult, if not impossible, proposition. Offering a non-differentiated triple play against the cable or telephone company is a common mistake that has been made by small competing providers, both public and private. The large incumbents are adept at playing the game of bundling and promotions,

\(^{15}\) We recommend that market research be conducted by the utility to provide data on how willing residents and businesses would be to switch to a new service provider at various price levels.
and driving up net revenue per user. Their marketing follows a similar script: We have the fastest Internet, the best cable lineup, and the best quality telephone.

If new entrants, such as a utility broadband provider, focus only on the services offered by incumbents, they stand at a significant disadvantage—because incumbents’ costs are much lower for direct Internet access, cable programming, telephone system access, technical support, and customer support. Examples of the programming cost advantage are shown in the figures below, but these are understated—Comcast’s cost advantage has continued to increase since these charts were created.

Figure 13: Programming Expense as a Percentage of Cable Revenue—Comcast vs. Utility Competitor
Indeed, while you may wish to offer cable video services as a way to gain market share, it’s important to note, in light of the massive cost advantages held by the incumbents, that it will be challenging to make much margin on this product.

New broadband entrants need to embrace differentiated services and a new playbook if they hope to achieve success in the market. Incumbents have established business models built around bundled triple-play services and many tiers of broadband access. If utilities simply market a me-too offering that emulates incumbents, they will suffer from the competitive forces arrayed against them. Rather, utilities can offer the premium products enabled by fiber optics (such as 1 Gbps service) and differentiate and brand themselves as singular and incomparable locally.

Instead of chasing carrier pricing and marketing, we recommend that utilities that build fiber-to-the-premises networks play to their great strength—the fiber infrastructure—by offering a
symmetrical Gigabit data connection and other very high bandwidth options as their primary upsell options.

Utilities should consider offering this gold-standard service because incumbents cannot match it for residents and small businesses in your service territory.

Focusing on an unparalleled data connection and enabling alternative video programming and other applications would also aggressively move your utility ahead of the “unbundling” curve and would eliminate a major source of pricing pressure on the business. This is not to say however that a more traditional video package is not required—at least in the short-term.

Finally, focusing on a Gigabit service would position your utility to benefit from the substantial buzz created by Google Fiber’s current expansion in multiple cities around the United States. Unlike a me-too offering that matches carrier standard services, a utility Gigabit service would align the utility with what is perceived as the state-of-the-art offerings that are available in only limited communities nationwide.

Revenues from Business Consumers

The potential market for businesses is an attractive one, in that business customers focus on data services, in which utility fiber-to-the-premises networks specialize. In addition, the fee structure for services such as Metro Ethernet to larger enterprise customers can be considerably higher. However, while enterprise opportunities are important and will be a critical opportunity, there are substantially lower numbers of customers in this market, depending on the makeup of your service territory. The majority of the small business market is retail, and many of these will likely settle for a low-end data connection. For medium to large businesses, there is frequently more competition to serve that market segment than small business and residential segments, and much of the market tends to be locked into three- to five-year contract obligations with existing carriers.

Revenues from Anchor Institutions, Including Government and Utility Services

Governments buy a lot of connectivity services—to support internal operations, public safety functions, and a range of other applications. Typically, localities lease circuits from a telecommunications company at rates that sometimes represent extraordinary profit for the

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provider. Worse, the circuits are usually relatively low-bandwidth connections, because the retail costs of very high bandwidth services make those connections simply unaffordable.

A utility fiber optic network can deliver substantially better services to government buyers at comparable or modestly-increased costs. In this way, your local public institutions could become one of your most important customers

Capacity requirements for government operations have grown exponentially over the past 15 years, and there is nothing to suggest that the pace of growth will abate over the next 15 years. In addition, most government operations and community anchors are already overtaxed in terms of their broadband capacity—meaning that they already require much more bandwidth today, let alone tomorrow. In practical terms, that means that your utility has a business opportunity—to deliver a cost-effective alternative—and to enable governments to deliver the capacity they need to adequately support their internal operations and those of community anchors.

Indeed, the full range of community anchor institutions are big buyers of connectivity among and between each other, and to the Internet. And like government operations, community anchor institutions have seen—and are likely to continue to see—their bandwidth needs grow exponentially.

**Revenues from Schools and Libraries, Supported by E-Rate**

A very significant potential revenue stream enabled by a utility-owned fiber network is one that hinges on a September 2010 Federal Communications Commission (FCC) order. In that decision, the FCC for the first time made non-regulated non-profit and public networks eligible for the E-rate subsidy under the Universal Service Fund.

This is by no means a free lunch for network operators; the requirements for becoming an E-rate provider, including participation in a competitive procurement process and extensive paperwork, are necessarily strict. But there are simply enormous positive financial implications for governments that choose to become E-rate providers. Serving schools and libraries means realizing the benefits of E-rate subsidies that can range as high as 90 percent depending on the level of poverty in your community.

If your schools and libraries were to complete the competitive process and award your network a contract—meaning that your network provided the best service at the best price—you would have the confidence of guaranteed revenues that are independent of the fiscal position of your local government. Depending on how much E-rate subsidy you qualify for, the bulk of the funding could come from sources other than your government. This funding could go a long way toward covering your operating costs, and possibly even some of the cost of servicing the
debt that you undertake to build the network. In other words, the E-rate subsidy could help to make your network more self-sustaining and less dependent on government or other external funding.

The Multiplier Effect

Both in terms of avoiding costs and increasing revenues, public and coop-owned networks deliver one additional benefit: They keep money in your community. Whereas circuits leased from a large national provider require the delivery of a big monthly check to a potentially far-away corporate entity, monthly fees paid to a government-owned network stay in the community—to be spent on other government services, and to be multiplied when locally employed network employees go out to eat or spend money at other local businesses.

This is true of E-rate subsidies, too. The schools and libraries that benefit from E-rate never touch the actual money that subsidizes their connectivity—it usually goes directly from USAC, the administrator of the program, to the phone or cable company that provides services. So if your schools and libraries have been utilizing E-rate through a provider that is headquartered in New York or Houston or some other city far from you, the benefit of the flow of money in your community never happens—it goes directly to that other city. When the E-rate subsidy becomes a revenue source for your own locally owned and operated network, however, that money comes into your utility. That has benefits for the bottom line of your network, and also has an extended impact based on a multiplier effect.

The Importance of Customer Service in Driving Revenue Goals

Because it will be almost impossible for a utility to match the incumbents’ likely aggressive pricing response to competition, we believe that broadband utilities’ take rates will be driven by differentiation, particularly that of advanced, singular higher end and Gigabit services that the market seems increasingly interested in, that Google Fiber is driving demand for, and—crucially—that the traditional cable and phone incumbents are unable to provide over their existing infrastructure.

Beyond that distinction, however, utility networks also have another potentially powerful form of differentiation. In our experience, community-based networks are able to increase take rates through differentiation based on localism—appealing to consumers to invest in their own communities by buying services from a local, publicly owned network, even if those services may be more costly than the incumbent’s offerings.

The success of the publicly owned Greenlight FTTP network in the City of Wilson, North Carolina illustrates this point. Launched with a target take rate of 30 percent, Greenlight has reached 35 percent penetration over six years by offering a high-quality product and delivering a consistent
marketing message about investing in the community. For example, the network’s website features a prominent headline—“Support Your Community, Switch to Greenlight”—and lists, among its reasons to switch, “[k]eep your money in the local economy, instead of sending it away to national providers.”

If your utility’s marketing efforts can differentiate your network in a similar manner and capture some percentage of consumers based on the appeal of localism, this approach offers an advantage the incumbents cannot replicate.

In perhaps the most important form of differentiation, you may be able to increase take rates and thus revenues (even in the face of aggressive competitive pricing by incumbents) through a very robust customer service presence.

The power of high-quality customer service is due in part to the national incumbents’ incredibly poor reputations in that regard. Incumbents routinely score abysmally in surveys of customer satisfaction. As a practice, they reduce or eliminate their local presence whenever possible, have limited or no local offices, and are widely known for long wait times on their telephone help lines.

In our experience, responsiveness in customer service has served as the single most powerful factor in enabling smaller, competing networks to gain market share against the incumbents. We know of a small regional FTTP provider in the Midwest whose customers have been targeted by Comcast with introductory pricing that it simply cannot match. That service provider has successfully dealt with that competition through absolutely top-shelf customer service—building customer loyalty that is unprecedented and that we do not believe could be achieved by Comcast.

From the very first minute this provider entered the local market, it has protected its brand, its customer relationships, and its reputation. During its construction phases, for example, it has been careful to ensure that its crews minimize traffic disruptions. It has focused on projecting an image of a company that cares about the local community. It has a presence in the community. It not only has a local call center for trouble reports, but it offers the kind of

18 See, for example, data compiled by the American Customer Satisfaction Index. Comcast and its competitors have consistently ranked near the bottom of American companies: http://www.theacsi.org/index.php?option=com_content&view=article&id=149&catid=&Itemid=214&c=all&sort=Y 2013; Comcast ranked lowest among competing companies in 2013: http://www.theacsi.org/index.php?option=com_content&view=article&id=149&catid=&Itemid=214&c=Comcast&i =Internet+Service+Providers (both links accessed March 10, 2015).
customer service that will escalate a dissatisfied customer’s call directly to the company’s vice president, whose desk sits in a local office.

This small provider approaches its market with an acute awareness that customer service is one of the only areas in which it can differentiate itself from the incumbents—and it has withstood significant competitive challenges by operating with that in mind every day.

Based on our knowledge of the utility environment, customer service is frequently of prime importance to utilities and we thus assume that outstanding service—from the time of construction through service delivery and billing—will serve to enable revenues.
Chapter 7: Risks of Broadband Initiatives

There is risk involved in pursuing a broadband initiative, just as there is with any major capital project or expansion of utility operations. Many of these risks impact municipal utilities more than other entities such as coops, in part because of industry-driven challenges to public projects.

This chapter briefly introduces a range of potential risk factors and challenges that utility leaders should consider as part of their planning process:

- Legislative and regulatory risks
- Political risks
- Legal risks
- Market and competitive risks
- Operational risks
- Financial risks

This is by no means a comprehensive list of risks—it is merely a starting point for understanding the key challenges of building and running a successful network and should not automatically dissuade utilities from pursuing broadband projects. Rather, by understanding what risks and challenges your network may face, you can factor them into evaluating what type of network, ownership, or business model will be most appropriate for your utility.

Political, Legislative, and Legal Risks

The political, legislative and legal risks of attempting to deploy any communications infrastructure with a public component—regardless of the model—are significant. Political risk has been shown to be particularly large for very big investment projects like the construction of communications infrastructure across a town, county, or state. This is because such projects are especially visible and sometimes involve the use of public funds or public debt—which can make the project a lightning rod for opposition among competing elected officials or interest groups. Moreover, these projects are prone to controversy because of potential cost overruns, schedule delays, and benefit shortfalls.

Political challenges to local broadband projects often come from incumbent providers. The intensity of political opposition sometimes relates to the scope of the project proposed. A full fiber-to-the-premises network intended to provide residential voice, video, and data services to area citizens will often face more aggressive opposition than an institutional network designed to serve only community anchor institutions like schools and libraries.
Historically, efforts to deploy competing fiber-to-the-premises networks with some element of public ownership or financing have attracted significant local incumbent opposition. This opposition has manifested itself through efforts to sway local policymakers to vote against the venture, by forcing public referendums, and by leveraging the influence of incumbent trade associations to introduce new or amended legislation to block the effort. Interestingly, opposition to a local broadband effort may rise in proportion to the level of service a network proposes to offer. A middle-mile project, for example, might attract only local opposition and attention; a full fiber-to-the-premises model, on the other hand, might attract the attention of the national communications industry and related industries. That is because the competition enabled by a high-capacity FTTP infrastructure would be perceived as a direct challenge to the interests of incumbent players in the current market structure.

Legislative risk refers to potential changes in law that can cripple a public broadband project. In our experience, it is not uncommon for self-interested incumbents to lobby for legislative change that would prohibit or hamper competitive broadband efforts, sometimes including those already underway. In some states, existing laws create challenges for local public broadband initiatives by requiring localities to work under constraints do not apply to private companies. Such constraints can include pricing restrictions, service limitations, and process requirements.

In some states, there also exist limitations on the right of electric coops to enter the broadband business.19

The majority of these state laws are not flat-out bans on public or coop projects. Rather, the laws create certain barriers and hurdles—and they come in different forms, so there are no hard-and-fast rules about how to approach them.

The FCC recently ruled to preempt state laws in North Carolina and Tennessee that impose restrictions on municipal broadband providers’ geographic service area.20 This ruling provides some protection to municipal providers in these states, but it does not extend beyond North Carolina or Tennessee and it is not a guaranteed safeguard against adversarial political and/or legislative action.


We strongly recommend you seek legal counsel that can evaluate the relevant laws in your state.\(^{21}\) It is useful to pursue such guidance before ending any network planning attempts, as there may remain an opportunity to pursue local broadband goals. For example, the law that impacts municipal utilities or coops may relate only to public-facing retail networks, meaning that there is still the option to build and run an institutional or anchor-focused network. The law in a state may prohibit only telecommunications services (phone), meaning one would still have the flexibility to provide data (Internet) service. Conduct a thorough analysis with qualified legal advice to understand the relevant laws and then proceed accordingly.

**Marketplace, Operational, and Financial Risks**

The key to ensuring a project’s long-term sustainability is the ability to contain its marketplace, operational, and financial risks. Market or competitive risk is the risk of withstanding the likely responses of a competitor through a planned technology improvement, invention, acquisition, price reduction, or similar action. In simple terms, this is the risk that a new broadband project—like any new business venture—will not be able to attract enough customers or earn enough revenue to continue operating.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. There are other risks that are potential consequences of operational risk events. For example, reputational risk (damage to an organization through loss of its reputation or standing) can arise as a consequence of operational failures—as well as from other events. Being aware of this risk may lead the planners of a utility broadband project to favor an approach that brings all aspects of network operations in house—or the awareness of this risk may have exactly the opposite effect. A utility with extensive network operations experience may want to handle network operations with internal staff and processes; one that does not have that type of institutional experience, or that does not have adequate staff resources to take on additional tasks, might decide that the better approach would be to contract for services with a vendor.

Tied in with these other risks are financial risks—the risk that a broadband enterprise will not have adequate cash flow to meet its financial obligations. This risk goes hand-in-hand with market and competitive risks. For example, if a network fails to attract sufficient customers, the result will be insufficient cash to meet operational and debt service requirement. A broadband

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\(^{21}\) For detailed notes on the different state laws impacting local broadband networks, including references to the individual state codes, see “State Statutory Barriers to Public Broadband Initiatives,” Baller Herbst Law Group. [http://www.baller.com/comm_broadband.html#barriers](http://www.baller.com/comm_broadband.html#barriers) (accessed March 10, 2015).
network that attracts plenty of customers might still run into financial trouble if, for example, it has cost overruns in its construction or inefficient operations.

As is the case with the other risks described above, a project’s marketplace, operational, and financial risks will vary with the scope of the project. A middle-mile project, for example, has a much lower market or competitive risk than a fiber-to-the-premises model. In the middle-mile fiber project a utility may be able to obtain contracts prior to making a major investment to connect, whereas with a fiber-to-the-premises initiative, a substantial investment is required before signing up a single customer.
Chapter 8: The Benefits of Broadband for Your Utility Operations and AMI

The availability of robust fiber in the core of the network and deep into the distribution system can greatly benefit an electric utility and support the overall business case for fiber-to-the-premises and other fiber strategies. Though utility applications are not sufficient on a stand-alone basis to support a business case for fiber-to-the-premises, a fiber project has significant benefits for utility operations. In addition, by allowing two-way communication and the transmission of real-time information between members/consumers and utilities, fiber-based Smart Grid technologies enable utilities to better manage the power grid as an integrated system and adjust supply to changing demand. At the same time, the technologies allow end-users to make more informed decisions about energy consumption. This is particularly effective where prices vary depending upon demand.

Generally, electric utilities have an increasing need for robust communications capabilities at distribution and transmission assets including substations, field devices, and customer premises. Utilities are thus well served by deployment of fiber to substations, motor-operated switches, distributed generation sites, data collection points, and other locations.

Among utilities’ fiber-enabled applications are SCADA, Smart Grid, other automation applications, and security.

**SCADA**

To address supervisory control and data acquisition (SCADA) and distribution automation (DA) needs, many utilities have implemented fiber connections to distribution and transmission substations. Fiber offers higher reliability, lower latency, and more robust connections than radio-based or leased-line options. It also offers the ability to support high-capacity needs such as high-definition photos, imagining, and video monitoring.

**Smart Grid and Other Automation Applications**

Electric utilities have explored and implemented power line carrier (PLC), point-to-point radio, meshed radio, and other technologies to address initial needs for Smart Grid applications and other distribution and customer automation applications such as:

- Advanced metering infrastructure (AMI)
- Automatic meter reading (AMR)
- Load management (LM)
- Outage management (OM)
• Demand-side management (DSM)

Power line carrier and radio alternatives have served many of these applications. For many Smart Grid and customer applications, an advanced broadband connection such as fiber-to-the-premises is not required. In addition, for customer applications such as AMI, effectiveness (performance and cost) requires connection of all customer meters in a given geographical area. Even the inability to connect to 10 percent of meters in a geographical area reduces automated metering infrastructure benefits. However, leveraging fiber connectivity can greatly enhance the performance of the application.

Every AMI system requires a data concentration point. With PLC systems this occurs at the distribution substation. With mesh radio this is at a collector that supports a cluster of 100 to 300 meters. Fiber backhaul provides a utility-controlled circuit with higher reliability, lower latency, and higher capacity than leased alternatives. This will allow for improved performance of outage events, voltage alarms, and other events.

Fiber connections, however, are not just for data concentrators. Fiber offers superior performance for:

• **Remote switching.** Fiber provides a high deterministic, low latency, highly secure, and responsive connection.

• **Recloser monitoring and reconfiguration.** An AMI system can offering monitoring of a recloser but does not have the capacity support download of settings or reconfiguration files. Fiber also provider a low-latency connection allowing a utility to use reclosers as monitoring point for a conservation voltage reduction (CVR) strategy

• **Distributed generation.** Fiber provides a real-time low latency connection that allows proactive monitoring of distributed generation connected to the grid. The connection is not only important for monitoring delivery of energy, but for disconnecting the distributed generator during distribution system outages to prevent backfeed—critical for crew safety.

• **Consumer automation:** Some consumers; residential, farms, and small business have become more proactive in smart grid applications and may benefit from a fiber connection at their premises. These applications include:
  
  o  Consumer-added green power sources (solar, wind)
  o  Customer interaction with utility
  o  Smart thermostats, appliances, and in-home control devices
  o  Real-time and green pricing signals
  o  Plug-in hybrid electric cars (charging and grid energy storage)
Security

Industry security requirements, including those set by the National Energy Regulatory Commission (NERC), are expanding in terms of increased and more stringent requirements—as well as in terms of which utilities are required to adhere to them. When compared to leasing options, the use of utility-owned and maintained fiber increases the security and control the utility has over sensitive consumer and system data.
Chapter 9: The Benefits of Broadband for Your Community

As with any significant investment, a broadband initiative requires detailed financial analysis and a calculation of the potential return on investment. Financial considerations are obviously critical for any significant infrastructure investment. However, cash flow may not be your only metric for evaluating the feasibility or the importance of a broadband infrastructure program. Many utilities define their success metrics more broadly and include the benefits “beyond the balance sheet”—the intangible societal reward that broadband offers the entire community and might deliver to your members.

This chapter provides a general discussion of a range of direct and indirect benefits that may arise from a utility broadband initiative. These benefits include economic development and improved educational and health care outcomes.

Economic Development

Local infrastructure has long played a central role in business development. In previous eras, whether a town was included on a railroad network impacted which businesses would choose to locate there and how the local economy would develop. Today, access to major roads or highways still plays a central role to commercial development. Now these same principles hold true for broadband.22 As William Lehr of MIT summarized in a 2012 paper on broadband infrastructure, “a growing body of empirical evidence attests to the significant contribution of broadband to economic growth, productivity improvements, and job creation.”23

Today, most businesses consider broadband an important local resource.24 Growing evidence shows that broadband availability and affordability is now a significant factor for businesses, putting it on par with transportation infrastructure and a skilled local workforce.25 Companies

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that are the largest area employers, particularly if they are the branch of a larger national or international firm, typically have very advanced broadband and telecommunication needs. Though broadband is a central part of any package to attract or retain businesses, it does not in and of itself guarantee success in economic development—nor did rail or highway access in previous centuries. Rather, communities where there is an absence of sufficient broadband service will be at a significant disadvantage for attracting and retaining businesses and will likely have difficulty encouraging the development of new local businesses.

Bristol, VA was one of the first communities to launch a utility-owned broadband network. The enhanced connectivity the network can offer has been a central component to several local economic development success stories. Large firms like Northrup Grumman and CGI (an international IT and business process service firm) located facilities in the Bristol area, creating a total of 700 jobs, 30 percent of which went to local residents. Alpha Natural Resources, after a merger with another company, decided to retain their headquarters in Bristol because of the local broadband resources available, keeping hundreds of jobs in the region. While Bristol’s OptiNet service uses a full retail model serving residences and businesses, targeted connectivity to support individual large-scale businesses and commercial industrial park sites can also be part of the mission of more utility-focused or institutional community broadband projects.

Larger businesses and firms specializing in digital media are the most obvious beneficiaries of high bandwidth, but improved broadband access can also be a boon to small and home-based businesses. These are the businesses whose bandwidth demands may resemble those of residential households more so than large industrial businesses and who currently subscribe to traditional business-class services. LUS Fiber, the local utility operating the utility fiber project in Lafayette, LA, created a series of online videos with customer testimonials featuring local small businesses. In one video a local web designer notes how he work more productively as a result of the network’s fast speeds and symmetrical upload capacity. In another, the general manager of a local hotel explains how the high-speed and reliable broadband access as an important marketing point for attracting guests on business travel and hosting conventions. A local photographer explains how, thanks to symmetrical upload speeds, he can now share

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*Broadband Communities Magazine, August/September 2012, 40-42.*


photos with clients more quickly; “what I used to do overnight, I do over lunch.”

It can be difficult to quantify benefits such as these, but enabling small businesses to expand and operate more efficiently represents a considerable “off the balance sheet” benefit for the local economy.

Additional economic development benefits can accrue when the network is built out to the entire community. For example, residents with fast and reliable access can telecommute, the feasibility of which is contingent on a home broadband connection that can support work-related online applications like accessing a VPN, transferring large data files, and participating in high-quality video conferencing. Access to broadband capable of supporting these uses allows rural communities to retain telecommuting residents who have to commute or are otherwise only in the region temporarily. Similarly, robust home connectivity also empowers companies that utilize virtual workplaces such as virtual calling centers. For example, DirecTV chose Bristol, VA as the location for a virtual call center because of the utility’s broadband network. Powell, WY, although rural and isolated, has a fiber-to-the-premise network. This infrastructure has attracted employers such as Alpine Access, a virtual call center management firm, to hire Powell residents for their business.

And a locally owned broadband utility keeps local resources in the community, brings money into a community, and enables money to stay there. The benefits of keeping broadband spending local has a multiplier effect; your utility gets the benefit of the dollar itself, and the local community gets the benefit of that dollar being spent over and over locally.

Indeed, Norwood Light Broadband, the municipal fiber network operator in Norwood, Massachusetts, makes that point directly to its potential customers. Visitors to the town’s “Entering Norwood” website see the value proposition spelled out for them:

“Do you own a house or business in Norwood? Do you have children that go to school in Norwood? Your money will do a lot more good keeping it in town instead of lining the pockets of multi-billion dollar conglomerates like Verizon & Comcast. When you write out a check to the Town of Norwood, your money stays in town working for you.”

33 Christopher Mitchell, Broadband At the Speed of Light, p. 15
**Educational Outcomes**

Meeting the bandwidth demands of 21\textsuperscript{st} century schools is usually one of the central goals of a utility fiber broadband project. School districts in communities with utility fiber networks often already meet, or even exceed, emerging recommendations for school bandwidth capacity.\textsuperscript{36} Connecting schools to a public network also offers the benefit of potentially tapping into funding from the federal E-rate program that subsidizes the cost of telecommunications services for schools and libraries. E-rate support could provide a helpful revenue stream to support the operation of a utility network.

A significant number of the nation’s schools suffer from inadequate Internet access and insufficient bandwidth, which precludes creative and expansive online learning or collaborative work. A 2010 FCC survey of schools receiving support from the Universal Service Fund’s E-rate program found that nearly 80 percent of respondents reported that their broadband connections do not fully meet their needs.\textsuperscript{37} Outdated local telecommunications infrastructure is one reason why schools are struggling to meet their broadband needs. Many schools still rely on limited copper wire-based connections that, while considered advanced in the 1990s, are now inadequate. Cost is another factor: the same 2010 FCC survey of schools indicated that even if better bandwidth options were available, high costs could serve as a barrier to adoption.\textsuperscript{38}

The main driver of bandwidth demand is not a specific application or new product. Rather, it is the fact that more classrooms are online and those classrooms each have more and more connected devices. In addition, a growing number of states are administering student academic achievement testing online.

**Healthcare Outcomes: The Benefits of Telemedicine**

High-speed broadband can also improve healthcare outcomes and reduce a range of healthcare costs. Nationally, the need for bandwidth by clinics and hospitals is growing dramatically and is fundamental to state and local interests. Telemedicine and telehealth do not refer to a single technology or medical application. Instead, they capture a wide array of broadband-enabled

\textsuperscript{36} The State Educational Technology Directors Association (SETDA), an organization which recommends future bandwidth targets for schools, released an influential 2012 report on ultra-high-speed broadband access to US K-12 schools. SETDA recommends that, for every 1,000 combined students and staff, there should be 100 mbps of bandwidth available by the 2014/15 school year, a target which should rise to 1,000 mbps (1 Gigabit per second) by 2017/18. Christine Fox, et al., \textit{The Broadband Imperative: Recommendations to Address K–12 Education Infrastructure Needs}, [Washington D.C.: State Educational Technology Directors Association, May 2012], \url{http://www.setda.org/web/guest/broadbandimperative} (accessed March 13, 2015).


\textsuperscript{38} “2010 E-Rate Program and Broadband Usage Survey: Report,” Federal Communications Commission.
healthcare services, including electronic sharing of medical records, remote monitoring of patients’ chronic diseases, and communicating via videoconference with medical personnel in distant locations. Combined, these innovations are “transforming medical care by changing the way care is delivered and how people access medical services.”

Indeed, the FCC has noted that telemedicine may be the “greatest driver” for higher bandwidth in the United States.

Telemedicine’s benefits will only be realized with adequate bandwidth to support the applications and services both for institutions such as hospitals as well as patient households. Broadband capabilities in the United States are not yet sufficient to support the full range of telemedicine applications. In fact, of the 1,006 physicians responding to a 2011 survey by the UnitedHealth Group, 21 percent reported that broadband capability was a barrier in their use of telemedicine. The FCC reports that health care facilities’ broadband needs regularly exceed 100 Mbps. As Table 7, from the FCC’s National Broadband Plan, demonstrates, medical applications such as image transfer require 100 Mbps, a number which will multiply by the number of simultaneous users of that application.

<table>
<thead>
<tr>
<th>HER</th>
<th>Remote Monitoring</th>
<th>Basic E-mail + Web Browsing</th>
<th>SD Video Conferencing</th>
<th>HD Video Conferencing</th>
<th>Image Transfer (PACS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.025 Mbps</td>
<td>0.5 Mbps</td>
<td>1.0 Mbps</td>
<td>2.0 Mbps</td>
<td>&gt;10 Mbps</td>
<td>100 Mbps</td>
</tr>
</tbody>
</table>

Source: Federal Communications Commission

Table 7: Bandwidth Required to Achieve Full Functionality of Health IT Applications

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41 United Health: Center for Health Reform & Modernization, Modernizing Rural Health Care: Coverage Quality and Innovation, 46.

Bandwidth requirements vary by application. Some telehealth activities are “asynchronous” and can be realized without real-time services. These include a variety of “store-and-forward” activities—including medical monitoring, e-mailing between patients and providers, and sharing medical images. Other activities require real-time or “synchronous” communications which include physician office visits conducted via videoconference, specialist visits that require high-definition video (e.g., dermatology), and real-time medical imaging in time-sensitive cases. This latter category is significantly more bandwidth-intensive.

Even store-and-forward telehealth applications can impose significant bandwidth demands—particularly when multiplied across a network with hundreds or thousands of providers. Medical images such as X-rays are often digitally stored in large files; an MRI scan may consume many gigabytes of data, and files up to a terabyte have been seen with some medical studies. While store-and-forward applications require lower bandwidth than videoconferencing, for many fields—like tele-radiology and tele-dermatology—bandwidth needs are still high in order to ensure that high-quality images are transmitted properly. Moreover, a more robust network dramatically reduces the time needed to share such files. For instance, it would take six minutes to transmit a 45 MB MRI file over a 1 Mbps connection (assuming no competing traffic), whereas it would take only five seconds to transmit the same file over a 72 Mbps connection.43

Real-time telehealth applications such as video and audio conferencing require greater network capacity because they are particularly sensitive to latency (delay in delivery of data packets), jitter (variations in latency over time), and packet-loss.44 For instance, a typical conversation cannot be transmitted with latencies greater than 300 milliseconds. Conferencing applications also require stable rates of latency. Data buffers cannot function with excessive jitter, which compromises the quality of a video or audio feed. High levels of packet loss or packets arriving out of order can also cause visible disruptions in an audio or video feed.

Bandwidth needs are especially high for emergency telehealth applications, such as remote video conferencing during crises. Emergency applications cannot be scheduled around network availability. Consequently, the network must be designed to accommodate the greatest level of potential use. Continuous telemetry of critically ill patients likewise demands a reliable network.45 The same applies to tele-stroke applications, where treating physicians must be able

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44 *Rural Health Care Support Mechanism*, WC Docket No. 02-60, Appendix B, para 12, notes 42, 43.
to closely and accurately observe movements and facial expressions. Linda Oliver, Attorney
Advisor to the FCC, explains that a rural hospital may be able to prevent premature stroke
damage by transmitting a CT scan of a patient’s head to a neurologist offsite—but only if the
preventative medicine is administered “in a timely fashion.” Transmitting such a scan could
take 25 minutes via a copper based T-1 connection—with serious health consequences.  

<table>
<thead>
<tr>
<th>Health Care Use or Service</th>
<th>Minimum Bandwidth (Mbps)</th>
<th>Typical Bandwidth (Mbps)</th>
<th>Optimal Bandwidth (Mbps)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
<td>Avg</td>
<td>High</td>
</tr>
<tr>
<td>Video Conferencing (non-HD)</td>
<td>0.4</td>
<td>1.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Video Conferencing (HD)</td>
<td>1.0</td>
<td>1.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Administrative Use</td>
<td>0.4</td>
<td>1.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Cardiovascular/Echo cardiology</td>
<td>1.0</td>
<td>3.4</td>
<td>9.5</td>
</tr>
<tr>
<td>Dentistry</td>
<td>0.4</td>
<td>1.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Dermatology</td>
<td>0.4</td>
<td>1.3</td>
<td>2.0</td>
</tr>
<tr>
<td>Dialysis/ESRD</td>
<td>1.0</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Electronic Medical Records</td>
<td>1.0</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Emergency Rm/Trauma Care</td>
<td>0.4</td>
<td>6.9</td>
<td>27.0</td>
</tr>
<tr>
<td>Gastroenterology</td>
<td>1.0</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Obstetrics/Gynecology</td>
<td>1.0</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Orthopedics</td>
<td>0.4</td>
<td>1.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Pathology</td>
<td>1.0</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Physical Therapy</td>
<td>0.4</td>
<td>1.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Primary Care</td>
<td>0.4</td>
<td>1.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Psychiatry &amp; Counseling</td>
<td>0.4</td>
<td>1.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Radiology - MRI/CAT</td>
<td>1.0</td>
<td>4.6</td>
<td>10.0</td>
</tr>
<tr>
<td>Radiology - X-ray</td>
<td>1.0</td>
<td>3.1</td>
<td>10.0</td>
</tr>
<tr>
<td>Rehabilitation</td>
<td>1.0</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Remote Monitoring</td>
<td>1.0</td>
<td>3.5</td>
<td>10.0</td>
</tr>
<tr>
<td>Specialist Care</td>
<td>0.4</td>
<td>5.5</td>
<td>23.0</td>
</tr>
<tr>
<td>Speech Therapy</td>
<td>0.4</td>
<td>1.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Training/Education</td>
<td>0.4</td>
<td>1.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Ultrasound</td>
<td>1.0</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Average</td>
<td>0.7</td>
<td>2.1</td>
<td>4.9</td>
</tr>
</tbody>
</table>

Table 8: Estimated Bandwidth Needs for Telehealth Services

46 Rural Health Care Support Mechanism, WC Docket No. 02-60, Appendix B, para. 14, note 49.
47 Universal Service Administrative Company, “Health Care Provider Broadband Needs Assessment Summary,”
Letter to Wireline Competition Bureau, Federal Communications Commission. Docket WC 02-60, Appendix A, April
Broadband needs for telemedicine are projected to grow exponentially, in part because bandwidth needs are cumulative. As an initial matter, telemedicine needs must be layered on top of existing on-site bandwidth requirements, like e-mail, billing, and accessing patient records.\textsuperscript{48} Moreover, “telemedicine is dynamically changing with new technologies and expanding applications.”\textsuperscript{49} Consequently, “the growth curve for broadband needs associated with telemedicine is difficult to overstate.”\textsuperscript{50}

\textsuperscript{48} \textit{Rural Health Care Support Mechanism}, WC Docket No. 02-60, Report and Order, Appendix B, para. 20.
\textsuperscript{49} \textit{Rural Health Care Support Mechanism}, WC Docket No. 02-60, Report and Order, Appendix B, para. 10, note 31.
\textsuperscript{50} \textit{Rural Health Care Support Mechanism}, WC Docket No. 02-60, Report and Order, Appendix B, para. 10, note 33.
Chapter 10: Broadband Funding Programs

An important consideration for utilities who want to pursue network construction is project funding mechanisms. Unlike the revenue sources we discussed in Chapter 6: Understanding the Breadth of Revenue Sources, funding programs are usually one-time or non-recurring sources of money. This chapter presents strategies to identify funding sources for utility broadband projects, including federal E-rate subsidies, the U.S. Department of Agriculture’s Rural Utilities Service (RUS) loan and grant programs, other federal grant programs, and other current and potential funding sources. A detailed overview of current federal funding opportunities is included in Appendix A: Additional Funding Opportunities.

Overview

As of this writing in winter 2015, it is not a particularly good time to be looking for broadband grant funding, either public or private. For a range of reasons—including virtual paralysis in Congress and the challenging economic environment—resources are particularly low at the moment.

Programs that existed just a few years ago do not now. The broadband funding in the American Recovery and Reinvestment Act of 2009—the Broadband Technology Opportunities Program (BTOP) and the Broadband Initiatives Program (BIP)—were very much one-time programs. Despite the programs’ success stories there appears to be no appetite in Congress right now to reauthorize comparable programs.

That said, the projects that received funding under those programs offer important lessons for utilities that seek to implement broadband initiatives. In New Mexico, for example, Kit Carson Electric Cooperative received $63.7 million in combined grant and loan funding from the USDA’s Broadband Initiative Program to build a 2,400-mile last-mile fiber network. The “Enchanted Light Fiber Optic High Speed Internet” project, which is expected to be completed in 2015, was initially designed to “connect approximately 20,500 households, 3,600 businesses, 183 ‘critical community institutions’ and two American Indian pueblos.” The new fiber services will supplement Kit Carson’s current telecommunications offerings—dial-up and limited DSL service—for many of the coop’s nearly 30,000 members.

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The challenging political atmosphere in Washington and the recent election mean that very little legislation—particularly on the appropriations side—has been successful. In fact, all federal spending is being met with levels of suspicion that is unprecedented in our experience. In addition, with respect to foundations, grant sources are much lighter than just a few years ago, largely because of the deterioration of the economy and foundation endowments.

We recommend that interested utilities closely monitor developments with regard to the Farm Bill, which has traditionally been a vehicle by which rural broadband program are funded; it is likely to continue to be so, after the one-time shift to the American Recovery and Reinvestment Act (ARRA). We have reason to hope that future iterations of the Farm Bill will include significant broadband funding, and that the current lack of such is a temporary sign of the times that will, presumably, change.

To help focus your future efforts in identifying funding options, we researched relevant federal funding opportunities; we highlight in this section your most likely near-term funding opportunities.

First, there is a relatively modest but very attractive grant opportunity, the Distance Learning and Telemedicine program. It is an important opportunity and is highly competitive—but we feel it is worth dedication of resources because it is weighted on the grant side, rather than focused on loans, which would be much more costly.

Second, we include here details about the Universal Service Fund, which represents an ongoing source of funding for rural telecommunications infrastructure, and which has seen recent changes that could have an effect on broadband availability in many communities.

Finally, we note the availability of rural broadband and electric loans.

**Distance Learning and Telemedicine Program Grants**

The Distance Learning and Telemedicine (DLT)\(^\text{54}\) program has historically provided both grants and loans, but appropriations have been limited to grants in recent years. Grants of $50,000 to $500,000 are given for equipment, rather than broadband facilities or service; however, this may provide a good way for utilities to leverage a new broadband network (e.g., by helping finance video conferencing systems and medical units). As such, this could be a good supplement to other funding options.

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Funds can be awarded to both public and private entities (including corporations or partnerships, tribes, state or local units of government, consortia, and private for-profit or not-for-profit corporations), assuming they provide the requisite services.

Grantees must provide education or medical care via telecommunications. Eligible entities must either directly operate a rural community facility or deliver distance learning or telemedicine services to entities that operate a rural community facility or to residents of rural areas. Among the grant scoring categories are innovativeness, benefits and needs (including economic need), and availability of matching funds.

**Universal Service Fund**

The Universal Service Fund, a creation of the Telecommunications Act of 1996, has traditionally been, along with RUS loans, the most significant source of telecommunications funding for rural America. There are four key programs within Universal Service.  

**Lifeline Program**

The Lifeline program for low-income citizens has traditionally included two key programs: Lifeline and Link Up, which subsidize the telephone service and initial connection charges, respectively, for low-income Americans.

In brief summary, Lifeline has provided low-income households with a $9.25 per month subsidy on phone service, so long as they were purchasing service from participating telecommunications carriers. In the past year, Lifeline has been modestly reformed by the FCC. For purposes of broadband, the most significant change has been that the $9.25 subsidy can now be applied to bundled phone and Internet service, and is no longer limited to standalone phone service. While this change seems very modest, it is actually quite significant. The enabling legislation itself appears to be the barrier to allowing the subsidy to be used for standalone Internet service—hence the importance of the ability to bundle phone and Internet and still realize the benefit of the subsidy.

**High Cost and Connect America Funds**

The Universal Service High-Cost program, which was the largest part of the Universal Service Fund (well in excess of $4 billion per year on an ongoing basis), traditionally funded eligible

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57 “Universal Service Program for High Cost Areas,” Federal Communications Commission.  
Telecommunications carriers (ETCs) to build and operate telecommunications (telephone) facilities in rural unserved areas. This program was famously complex and inefficient.

In 2011, the High Cost fund began a gradual transitioned into a new program, the Connect America Fund, which subsidizes the construction of broadband (data) facilities, rather than exclusively telephone services as in the past. Over time, the shift from telephone to data service will accelerate, assuming that the FCC’s current strategy is not changed.

Rural Broadband Experiments

In 2014, the FCC allocated $100 million in funding for a pilot program called the Rural Broadband Experiments. The program sought to gauge interest in building to rural areas, and gather cost and other data associated with this construction. Carriers competed nationwide for the funds through a competitive bidding process conducted in October, 2014. The funds are to be dispersed over a ten year period.

Winning bidders are required to obtain ETC designation, meet specific build-out requirements, and report their progress on an ongoing basis. The Commission anticipated using bids received through the experiments to determine whether additional funding should be allocated for a similar program in the future. As of this writing, the FCC has announced winning bids and has closed the window for additional funding this round. The program has not been officially extended for additional years or funding.

Schools and Libraries (E-rate) Program

The Schools and Libraries Universal Service program—typically referred to as the E-rate program—subsidizes the provision of broadband and telecommunications services to eligible K-12 schools and public libraries. It also covers such entities as Head Start programs, which is significant in many communities across the state.

Under this program, a range of providers can compete to provide services to schools and libraries. Through a structured program administered by the Universal Service Administrative Company (USAC), schools and libraries post their requests for proposals (RFP) and select the

best bid, then cooperatively with the service provider apply to USAC for the subsidy amount. The funding flows directly from USAC to the provider.

Because of reforms to the E-rate program that were undertaken by the FCC in 2010 and implemented in 2011, entities that are not regulated telecommunications carriers now qualify as eligible providers. Thus, this program is potentially of significant importance to utilities that can serve schools and libraries that are eligible for the subsidy. At the very least, utilities have the opportunity to compete to provide the best possible, most cost-effective services to subsidy-eligible entities. The program also provides for subsidy of construction of some lateral connections to schools and libraries, which could present an opportunity to expand the reach of utility fiber optics.

The FCC adopted the Second E-Rate Modernization Order in late 2014, which sought to make the program more accessible to a wider range of schools and libraries and increased funding by an additional $1.5 billion.62

**Healthcare Connect Fund Program**

Public and non-profit rural health care providers (HCP), which face an increasing need for dedicated high-speed connections to support tele-health applications, have a new source of federal funding: the Healthcare Connect Fund (HCF) Program.63 The HCF represents the first time the FCC has created a simple funding mechanism for broadband services and equipment. The HCF will provide a 65 percent subsidy for broadband service to health care providers/facilities. While the focus is on serving rural facilities, teaching hospitals and urban/suburban facilities will be eligible if they are part of an in-state consortium that includes rural facilities.

The FCC has capped funding for all Rural Health Care (RHC) programs, including HCF, at $400 million per year on a first-come, first-served basis. A portion, $150 million, will be made available to applicants wishing to utilize funds to build their own networks (with limitations).

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RUS Broadband Loan Program

The other most extensive, long-term funding of rural broadband and telecommunications facilities construction has been the Rural Utilities Service (RUS) rural broadband loan program, which is funded through the Farm Bill and administered through the RUS. The program has financed, at competitive rates, broadband networks in rural areas throughout the United States. It gets a range of different kinds of reviews. The interest rates are generally considered to be extremely competitive, but the programs are quite famously very labor and paperwork intensive.

As rural utilities know, RUS also operates an electric loan program which will fund construction of communications plant to serve the electric utilities internal operations, AMI, and other functions. This is a very well-funded, well managed program that can be part of a broader strategy of interrelated smart grid and broadband planning.

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Chapter 11: Fiber to the Premises (FTTP) Network Considerations

FTTP provides an always-on, extremely high-capacity data connection to every connected home and business. FTTP extends fiber from the Internet backbone all the way to the home or business—typically terminating the fiber at a customer premises device installed inside the building. That device then provides connectivity to computers, TVs, and other user equipment in the home over copper lines, coaxial cable, or wireless (WiFi) connections.

The central equipment in an FTTP network is housed at the operator’s central office (CO). From the CO, fiber optics extend to each customer premises, often with some type of intermediate device located near the customer’s building to split or aggregate connections, depending on the specific technology chosen.

We anticipate that most utilities will focus initially on backbone infrastructure, but may consider an FTTP offering in the future. Because the segments of a network are interrelated and network backbone infrastructure drives the capacity of FTTP, we include here some details of the FTTP network architecture a utility may deploy. As you make decisions about the infrastructure you may want to install, consider your future plans and how your backbone and/or middle-mile infrastructure might enable future growth.

There are two options for network architecture—Passive Optical Network (PON) and Active Ethernet. Here we outline at a high level different FTTP network options, including the possibility of a hybrid.

With PON, a single strand of fiber is shared by multiple users from a central office or substation to a passive, non-powered component called a splitter near the customer location. Once the shared fiber strand reaches a splitter, a single dedicated fiber strand then runs from the splitter to a customer premises. This shared infrastructure reduces construction costs and enables lower fiber count—a typical approach includes 50 percent excess for spare capacity in distribution.

A range of technologies can be deployed, such as gigabit-capable (GPON), 10-gigabit-capable (10GPON), and wavelength division multiplexing (WDM-PON). Standard GPON networks employ a 16- or 32- or 64-way splitter to distribute connectivity to customers. The distributed tap is asymmetrical and drops off one customer at a time. GPON networks are inherently asymmetrical, meaning that downloads speeds and upload speeds are not the same – download speeds are faster, typically twice the upload speeds, but many operators provide less than a 1:2 ratio in their service offerings.
There is also a version of PON called Distributed Tap networking. Distributed Tap uses the same electronics as a PON but instead of splitting even power levels to multiple locations from the PON cabinet, it is a linear topology that distributes the signal linearly. Distributed Tap is especially well-suited to rural environments, where it distributes the PON signal at each tap, down a road.

Unlike in a PON network, Active Ethernet does not use the same fiber strand for multiple customers. Instead, a dedicated fiber strand runs from a point on the provider network (such as a neighborhood cabinet with active electronics) directly to each customer. Active Ethernet is generally more costly to deploy than GPON – in part due to the necessary electronics, and the need for electricity to power the cabinets in the field.

Active Ethernet is best suited for serving “power” users, such as banks, institutions, and large companies. Active Ethernet is also well-suited to very small FTTP deployments, because PON networks generally require a scale of a few thousand customers to become cost-effective.

To reduce cost but still meet customer needs, utilities can deploy a hybrid network that uses both PON and Active Ethernet technology. This is a particularly attractive option for utilities.
that may have a handful of power customers in their service area. You can provide these premium customers with Active Ethernet service while deploying GPON (or 10GPON) for your remaining residential customers. Most residential customers will be well served by a GPON (or 10GPON) network.

Figure 16: Active Ethernet and PON Hybrid Architecture

If a utility anticipates deploying FTTP in the future, one fiber strand on the backbone for every 16 potential customers will support a future GPON, 10 GPON, or WDM-PON deployment. Deploying active neighborhood cabinets will allow each strand of fiber on the backbone to serve a greater number of end users, but it is also costly and complex to maintain powered cabinets in the field. A single powered cabinet that is fed by only 4 strands from the backbone network could connect more than a thousand Active Ethernet FTTP customers.

Utilities who install underground fiber have the option to install enough fiber to meet their foreseeable needs, but also install empty spare conduit along the backbone route. An expensive part of constructing underground fiber networks is the installation of the conduit, and this option allows you to pull a larger fiber cable into the spare conduit. You can then migrate the existing customers to the new, larger fiber cable and eventually remove the original cable, which will create a new spare conduit for future expansion needs. Should you take that approach, be sure to install large enough manholes to accommodate much larger splice cases than you initially deploy.
Appendix A: Additional Funding Opportunities

Here we summarize a number of ongoing federal broadband funding programs that could help fund broadband deployment by utilities. The nature of support varies widely, with some programs providing low-interest loans and others providing grants or tax credits. In some instances, support has declined significantly in recent years as the federal budget has tightened. Some programs are narrowly tailored to specific types of investments (e.g., educational or health care), while other programs have broad mandates that can be used to support virtually any broadband improvements.

This provides background on some of the most promising broadband funding opportunities. (We recommend subscribing for alerts of upcoming funding deadlines through www.grants.gov.) The programs include the following—each of which is described in further detail below:

- **Department of Agriculture – Expansion of 911 Access; Telecommunications Loan Program**
- **Department of Agriculture – RUS – Rural Broadband Loan Program (through Farm Bill)**
- **Department of Agriculture – RUS – Community-Oriented Connectivity Broadband Grant Program (“Community Connect”)**
- **Department of Agriculture – RUS – Public Television Digital Transition Grants**
- **Department of Agriculture – RUS – Telecommunications Infrastructure Loans**
- **FEMA – Homeland Security Grant Program (HSGP)**
  - *State Homeland Security Program (SHSP)*
- **FCC – Rural Health Care Pilot Program (now transitioning to Health Infrastructure Program)**
- **FCC – Universal Service Administrative Company (USAC) (through Universal Service Fund)**
  - *FCC – Universal Service Fund, Connect America Fund*
  - *Rural Health Care Fund*
  - *Rural Health Care Pilot Program*
  - *E-Rate Program – USF Schools and Libraries Program*
- **New Markets Tax Credits**
Telecommunications Loan Program – Expansion of 911 Access

USDA cautions that this program is limited to loans to provide 911 service. Areas with existing 911 capability will not be prioritized.

Entities Funded: Adopted in March 2012, the program can provide loans to any entity eligible to borrow from the Rural Utility Service (RUS), including state or local governments, tribes and emergency communications equipment providers (if the state is prohibited from acquiring debt).

Nature of Award: Loan

FY 2014 Resources: This is a loan program and thus not subject to appropriations.

Typical Award Size: Loan (either cost of money – roughly 3.15 percent for 20 years beginning June 2014 – or 4 percent loan). “Typical” award size is unknown, though RUS will not consider applications for less than $50,000.

Cost-Share Requirement: N/A (loan)

Applicable Deadlines: The rule was finalized in March 2012. Applications are accepted through the RUS Telecommunications Infrastructure Loan Program and can be submitted throughout the year (and will be reviewed and processed on a first-come, first-served basis).

Program Mission: The program is intended to “provide[ ] rural first responders with the tools they need to maintain mission-critical voice and broadband service during times of emergency or during natural disasters.” The new rule explicitly codifies the Secretary of Agriculture’s authority to make loans in five areas of eligibility to expand or improve 911 access and integrated emergency-communications systems in rural areas for the Telecommunications Loan Program.

Projects Funded: The program appears to have broad application to emergency-communication improvements. For instance, it could provide support for projects that help responders precisely locate rural wireless 911 calls, contact 911 via text message, or send emergency responders photos or videos of crime scenes or accidents. The new regulation would also give the Rural Utility Service the ability to finance wireless upgrades for public safety and security. USDA staff, however, report that the program is fairly narrowly tailored to 911 and could not extend to construction of a broadband system, despite arguable benefits for emergency communications.
Restrictions: The loan program is limited to “rural areas” (defined as an area that is not located within a city with a population greater than 20,000 or an urban area contiguous to city with a population greater than 50,000) (7 CFR 1735(2)). Awards are made based on existing emergency communications capability (7 CFR 1735.12). Awards are also limited to providing 911 service (though could extend to upgrading 911 to digital service).

Key Links:

Program Contact:
- David Villano (202-720-9554 or david.villano@wdc.usda.gov)
Rural Broadband Loan Program (through the Farm Bill)

The Rural Broadband Loan Program has historically been the RUS program with the greatest promise for competitive broadband. The application process is not onerous and there is some flexibility in what loans can cover. Unfortunately, with the recent enactment of the Agricultural Act of 2014 (Farm Bill), changes to the Rural Broadband Loan Program will have to be implemented. RUS is not accepting loan applications for federal assistance under the Broadband Program pending these changes.

Entities Funded: Entities eligible to receive loans include corporations, limited liability companies, cooperative or mutual organizations, Indian tribes, and state or local government. Individuals or partnerships are not eligible.

Nature of Award: Awards are in the form of Treasury-rate loans, four-percent loans, and loan guarantees. Loans are for the term of the life of the facility (thus, 18-20 years for standard-wire broadband). Money is dispersed as construction is completed, with monthly advances against the following month’s contract. Once awarded, funding covers capital costs and can retroactively cover pre-application expenses (e.g., project design); however, applicants must take a “leap of faith” in preparing these details during the application process.

FY 2014 Resources: $34.5 million has been allocated for the program in FY 2014, though loans cannot be made until a rulemaking is complete (anticipated near the close of FY2014). RUS staff would seek to have the FY2014 allocations “roll forward” at that time.

Typical Grant Award: Congress approves an annual appropriation (loan subsidy) and a specific loan level (lending authority) for the program. As of 2011, the Rural Broadband Loan Program had provided $1.8 billion in awards across 2,800 communities. Awards range from $100,000 (minimum) to $100 million (maximum), with an average award of $640,000. (See 76 Fed. Reg. 13771 for details on previous awards.)

Cost-Share Requirement: N/A (loan)

Applicable Deadlines: With the enactment of the Agricultural Act of 2014 (Farm Bill), changes to the Rural Broadband Loan Program will have to be implemented. RUS is not accepting loan applications for federal assistance under the Broadband Program pending these changes, which staff suggested would be complete by the end of 2014 (though may be extended pending the “close out” of ARRA projects).

Program Mission: The Rural Broadband Loan Program has a broad mission. It is designed “[t]o provide loans for funding, on a technology neutral basis, for the costs of construction,
improvement, and acquisition of facilities and equipment to provide broadband service to eligible rural communities.”

Projects Funded: The program funds costs of construction, improvement, and acquisition of facilities and equipment to provide broadband service to eligible rural areas. Thus, loans are not limited by anticipated end uses.

Restrictions: Loans are limited to eligible rural communities (i.e., an area with less than 20,000 inhabitants and not adjacent to an urbanized area with more than 50,000 inhabitants). An eligible service area must be completely contained within a rural area, at least 25 percent of the households in the area must be underserved, no part of the service area can have more than three incumbent service providers (note that an area may have two competing broadband service providers), and no part of the funded service area can overlap with the service area of current RUS borrowers and grantees or be included in a pending application before RUS. It is likely that portions of a service territory would qualify, although the service territory may not qualify in its entirety. Incumbent service providers are broadband providers that RUS identifies as directly providing broadband service to at least five percent of the households within a service area.

Other Requirements: Applicants must complete build-out within three years, demonstrate ability to provide the service at the Agency’s “broadband lending speed” (5Mbps up and down), and demonstrate an equity position of at least 10 percent of the loan amount. (76 Fed Reg 13779) Note that awards are only partially based on project design, but pay particular attention to the business plan and pro forma. Thus, applicants must invest resources preparing these supporting documents. Loans are given to those projects that demonstrate the greatest likelihood of repayment (as demonstrated by the business plan). RUS will give greatest priority to applicants that propose to offer broadband to the greatest proportion of households that have no incumbent service provider.

Key Links:
- Presentation on the Broadband Loan Program: http://www.rurdev.usda.gov/supportdocuments/FarmBillRegulationPresentation.pdf

Agency Contact:
- Ken Kuchno (202-690-4673); Kenneth.kuchno@wdc.usda.gov
Community-Oriented Connectivity Broadband Grant Program
(“Community Connect”)

Priority for Community Connect grants is given to areas demonstrating “economic necessity” (which tends to favor the south). The application process is rigorous and competitive (with awards given to only 10 percent of applicants) and once awarded, program requirements are demanding (e.g., requiring last-mile service for all households in the service area). Awards are fairly modest.

**Entities Funded:** Awards can be given to both public and private entities. Eligible applicants for broadband grants include incorporated organizations, Indian tribes or tribal organizations, state or local units of government, or cooperatives, private corporations, and limited-liability companies organized on a for profit or not-for-profit basis. Individuals or partnerships are not eligible.

**Nature of Award:** Grant with modest (15 percent) match requirement.

**FY 2014 Resources:** For FY2014, $13 million was available for Community Connect Grants. Funding is provided through annual appropriations in the Distance Learning and Telemedicine account within the Department of Agriculture appropriations bill. The program is funded at about $15 million annually.

**Typical Grant Award:** Awards range considerably in size, ranging from $100,000 to $3 million.

**Cost-Share Requirement:** Applicants must make a matching contribution of at least 15 percent of the total award. This match can be made with “in kind” contributions, but cannot be made with federal funds.

**Applicable Deadlines:** Applications for the 2015 Fiscal Year Community Connect program were due February 17, 2015. Applications submitted after this date will not be considered. Conversations with program staff confirm that there is a 45 to 60-day application window (typically in the spring) with awards given in September. FY 2014 NOFA was published in May and will likely be released at the same time in 2015. Updates on application deadlines are available through [www.grants.gov](http://www.grants.gov).

**Program Mission:** Community Connect has a broad program mission of helping “rural residents tap into the enormous potential of the Internet.”

**Projects Funded:** Community Connect funds approximately 15 projects annually (from an application pool of 150). Eligible projects must offer basic broadband transmission service to both residential and business customers within the proposed service area. Examples of eligible projects include deploying broadband transmission service to critical community facilities, rural
residents, and rural businesses; constructing, acquiring or expanding a community center (but only five percent of grant or $100,000 can be used for this purpose); or building broadband infrastructure and establishing a community center with at least 10 computer access points, which offer free public access to broadband for two years.

**Restrictions:** While Community Connect has a fairly broad mission, funding is geographically limited to a contiguous area with a population less than 20,000 that does not currently have Broadband Transmission Service (defined as 3 Mbps up and down, as reflected in the FCC National Broadband Map). Grants cannot duplicate any existing broadband services, nor can applicants charge for services to any critical community facilities for at least two years from the grant award. Priority is given to areas that demonstrate “economic necessity.” The grant process is very selective, with awards given to only 10 percent of applicants.

**Other Requirements:** Grant requirements are fairly onerous, as recipients must agree to provide last-mile services throughout the entire service area (i.e., “basic transmission service to residential and business customers”).

**Key Links:**

**Agency Contact:**
- Long Chen and Janet Malaki (202-690-4673) ([community.connect@wdc.usda.gov](mailto:community.connect@wdc.usda.gov))
- Kenneth Kuchno (202-690-4673)
Distance Learning and Telemedicine (DLT)

While the program has historically provided both grants and loans, appropriations have been limited to grants in recent years. Grants are given for equipment, rather than broadband service; however, this may provide a good way for a utility to leverage a new broadband network (e.g., by helping finance video conferencing systems and home medical units). As such, this could be a good supplement to other funding options. Applicants have a fairly high likelihood (50 percent) of receiving an award.

Entities Funded: Funds can be awarded to both public and private entities (including corporations or partnerships, tribes, state or local units of government, consortia, and private for-profit or not-for-profit corporations), assuming they provide the requisite services. Individuals are not eligible. Grantees must provide education and medical care via telecommunications. Eligible entities must either directly operate a rural community facility or deliver distance learning or telemedicine services to entities that operate a rural community facility or to residents of rural areas.

Nature of Award: While DLT historically provided both grants and loans, recent appropriations have been limited to grants (no loan applications were accepted in FY2014).

FY 2014 Resources: Funding has declined in recent years (and has been eliminated for DLT loans). The program provided $30 million in FY2010, $25 million in FY2011, $15 million in FY2013, and $19.3 million in FY2014.

Typical Grant Award: Grant awards range from $50,000 (minimum) to $500,000 (maximum). Roughly 50 percent of applicants are awarded grants.

Cost-Share Requirement: The grant program requires a 15 percent match. Such matches may be made through “in kind” contributions, but cannot be made with federal funds. Applications that provide a greater contribution may be scored more favorably.

Applicable Deadlines: The grant period typically opens between February and June. FY2014 applications were due July 7, 2014.

Program Mission: Grants are available for projects that “meet the educational and health care needs of rural America.”

Projects Funded: Grants can be used for equipment, but not broadband service. Eligible projects vary and can include capital assets (e.g., interactive video equipment, data terminal equipment, inside wiring, etc.), instructional programming that is a capital asset, technical
assistance and instruction. Loans have historically been awarded for projects that establish links between teachers and students or medical professionals in the same facility, site development of buildings, construction or purchase of land, acquisition of telecommunications transmission facilities, or distance learning broadcasting. Grants can provide operating costs for the first two years of a program. Note that although there is nominally a loan program “on the books,” Congress has not provided appropriations in recent years. Grants are made for projects where the benefit is primarily delivered to end users that are not at the same location as the source of the education or health-care service.

Restrictions: RUS borrowers are not eligible for DLT loans. Demonstration projects are not eligible for DLT funds. Projects must be in a rural area as defined by 7 CFR 1703.126(a)(2) (available online at http://cfr.vlex.com/vid/1703-126-criteria-scoring-grant-applications-19918213). Eligible projects must receive at least 20 (of 45) points using these criteria.

Key Links:
- Basic background: http://www.rurdev.usda.gov/UTP_DLT.html

Agency Contact:
- General information (202-720-1051 or dltinfo@wdc.usda.gov).
- Sam Morgan (202-205-3733 or sam.morgan@wdc.usda.gov)
Telecommunications Infrastructure Loans

USDA provides loans to support broadband in rural communities. Loans are limited to telephone companies serving rural areas within cities of fewer than 5,000 inhabitants. Other, more generous grants and subsidies may be available.

Entities Funded: The Department of Agriculture provides Telecommunications Infrastructure Loans to entities providing telephone service in rural areas; public bodies providing telephone service in rural areas as of 1949; cooperative, nonprofit, limited dividend or mutual associations. All borrowers must be incorporated or a limited liability company.

Nature of Award: All awards are in the form of low-interest loans and include: cost-of-money loans (3.15 percent for a 20-year term beginning June 2014), guaranteed loans (interest rates are Treasury rate plus 1/8 percent; historically between .15 and 4.2 percent), and hardship loans (5 percent interest).

FY 2014 Resources: Upwards of $13 billion has been lent since the program’s inception and $690 million was budgeted for FY 2014.

Typical Award: $50,000 is the minimum loan award. The maximum is unclear, though as of June 2011, Triangle Telecom has received $136 million over the course of a decade.

Cost-Share Requirement: N/A (loan)

Applicable Deadlines: Applications can be submitted year-round.

Program Mission: The Telecommunications Infrastructure program makes “long-term direct and guaranteed loans to ... finance[e] the improvement, expansion, construction, acquisition, and operation of telephone lines, facilities, or systems to furnish and improve Telecommunications service in rural areas.” The loans are intended to provide advanced telecommunications networks for rural areas, especially broadband networks designed to accommodate distance learning, telework and telemedicine.

Projects Funded: Loans can be used to finance telecommunications in rural areas for improvements, expansions, construction, acquisitions and refinancing.

Restrictions: Loans are limited to rural areas, narrowly defined as areas within a city of fewer than 5,000 inhabitants.

Key Links:
• General information: http://www.rurdev.usda.gov/utp_infrastructure.html
FEMA – Homeland Security Grant Program (HSGP)

The Homeland Security Grant Program supports three interconnected grants (totaling $1.04 billion in FY2014) that are intended to enhance national preparedness capabilities. Of these, the State Homeland Security Program (“SHSP”) holds the greatest promise, though it is not likely to be a substantial funding source (as grants are allocated to counties based on population and appropriations have declined dramatically in recent years).

State Homeland Security Program (SHSP)

Entities Funded: The SHSP provides funding to all 50 states.

Nature of Award: Grant.

FY 2014 Resources: While funding remains substantial, it has declined considerably in recent years. Funding in fiscal year 2011 ($526,874,100) was 50 percent of funding the previous year – and has been reduced still further. In 2014, $401,346,000 was available (note that this represents an increase in funding from 2013).

Typical Grant Award: Each State and territory receives a minimum allocation under SHSP using legislative thresholds established in the Homeland Security Act of 2002. These legislative minimums account for 35 percent of total resources. Grants are allocated to individual counties using a population-driven formula.

Cost-Share Requirement: None

Applicable Deadlines: In FY 2014, applications were due in May and grants announced in July.

Program Mission: SHSP is intended to support the implementation of State Homeland Security Strategies to address the identified planning, organization, equipment, training and exercise needs at the state and local levels to prevent, protect against, respond to, and recover from acts of terrorism and other catastrophic events.

Projects Funded: Grantees are expected to consider National areas for improvement identified in the 2013 National Preparedness Report, which include cybersecurity, recovery-focused core capabilities, the integration of individuals with access and functional needs, enhancing the

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65 The three grant programs include: the State Homeland Security Program (SHSP), Urban Areas Security Initiative (UASI) and Operation Stonegarden (OPSG). Only the first two are described herein.
resilience of infrastructure systems, and maturing the role of public-private partnerships. Broadband deployment is consistent with several of these priorities.

Restrictions: States must spend at least 25 percent of SHSP funds toward law-enforcement, terrorism-prevention-oriented planning, organization, training, exercise, and equipment. Broadband deployment could satisfy these requirements. The period of performance is two years.

Key Links:
- Frequently Asked Questions addressing all HSGP programs: [http://www.fema.gov/media-library-data/1395150571234-0b433243a3e4c6cd0a5346e807a591c0/FY_2014_HSGP_FAQs_Final.pdf](http://www.fema.gov/media-library-data/1395150571234-0b433243a3e4c6cd0a5346e807a591c0/FY_2014_HSGP_FAQs_Final.pdf)

Agency Contact:
Additional guidance and information can be obtained by contacting the FEMA Call Center at (866) 927-5646 or via e-mail to ASK-GMD@dhs.gov.
FEMA – Emergency Management Performance Grants (EMPG)

*Emergency Management Performance Grants (EMPG) appear to extend to broadband deployment. Allocations are population-based and unlikely to be a substantial funding source for some, but it may be worth exploring with the state Emergency Management Agency (EMA).*

**Entities Funded:** FEMA awards EMPG funds directly to all 50 states. A single state application is accepted from the State Administrative Agency (SAA) or the State’s EMA on behalf of state and local emergency management agencies.

**Nature of Award:** Grant.

**FY 2014 Resources:** In FY2014, $350.1 million was awarded nationwide, based on population.

**Typical Grant Award:** Grants are distributed based on population.

**Cost-Share Requirement:** The EMPG Program has a 50-percent federal and 50-percent state cost-match requirement. The state match can be made with in-kind contributions, but cannot be met with other federal funds.

**Applicable Deadlines:** FY2014 applications were due April 9, 2014.

**Program Mission:** Emergency Management Performance Grants are given to intra- and inter-state emergency management systems that encourage partnerships across all levels of government and with non-governmental organizations. Grants are given “for the purpose of providing a system of emergency preparedness for the protection of life and property in the United States from all hazards and to vest responsibility for emergency preparedness jointly in the federal government and the states and their political subdivisions.”

**Projects Funded:** Broadband is identified as an eligible project: “Emergency communications activities include the purchase of interoperable communications equipment and technologies such as voice-over-internet protocol bridging or gateway devices or equipment to support the build out of wireless broadband networks.”

**Restrictions:** Grants must be expended during a 24-month period of performance.

**Key Links:**

**Agency Contact:**
- Gary Harrity ([gharrity@mema.state.md.us](mailto:gharrity@mema.state.md.us))
Federal Communications Commission – Universal Service Administrative Company (USAC)

Universal Service Fund, Connect America Fund

The Connect America Fund (CAF) may provide a funding opportunity to support broadband; however, FCC staff note that funds are likely to be directed to price-cap carriers. Recipients must be designated an Eligible Telecommunications Carrier. To qualify, a proposed service area would have to be deemed unserved (i.e., no providers offer broadband at speeds of 3 Mbps down/768 Kbps up).

Entities Funded: Funding is limited to “Eligible Telecommunications Carriers” (ETCs), which can include price-cap carriers and rate-of-return companies. However, a utility could theoretically qualify as an ETC and provision its own network. In most states, designation of the ETC would be made by the state PUC. A map depicting currently designated underserved census blocks is available online: http://www.fcc.gov/maps/connect-america-fund-phase-i-round-two.

ETCs can include both price-cap companies and rate-of-return companies. Price-cap carriers include about 20 larger companies (e.g., AT&T, Frontier, Verizon). Rate-of-return companies are reimbursed based on actual cost, rather than a cost model. A list of price-cap carriers who currently receive support is also available online at:

http://www.usac.org/about/tools/fcc/filings/2014/q3.aspx (see HC01 for listing by state).

Nature of Award: The CAF provides subsidies in unserved (likely – but not necessarily – rural) areas. These subsidies are based on the cost of providing service.

FY 2014 Resources: The CAF is funded at $24.5-billion over five years (and will have an average annual budget of $4.5-billion), with recipients of first-round funding announced in April 2012. This budget includes a $300 million nationwide award as one-time support for mobile voice and broadband services in unserved areas and $100 million nationwide for “alternative technology” (e.g., satellite) in remote areas. Note that these funds are in addition to other FCC Universal Service Fund programs. Thus, CAF does not impact funding for other USF programs (e.g., E-Rate and Rural Health Care). The CAF is the program formerly known as the “high-cost” program.

Currently, wireless carriers (e.g., US Cellular) in high-cost areas are reimbursed (through the USF) based on the amount of money provided to wireline incumbents to serve the same area. This approach is inappropriate, however, because wireline and wireless providers use different network architecture (and thus have different costs). The CAF phases out this approach, and
replaces it with a reverse auction for the cost of providing ongoing wireless support through the CAF. The CAF was challenged in court, but upheld by the Tenth Circuit in May 2014.

**Typical Grant Award:** Awards are determined using “incentive-based, market-driven policies, including competitive bidding.” Actual award amounts are location-specific, but cannot exceed $3,000 per line in a single area. The maximum award value is based on the actual cost (“cost model”) of serving a particular area (taking into account terrain, population density, and other factors). The FCC would then offer that money to Eligible Telecommunications Carriers (generally designated by the state PUC) to serve these areas. If the incumbent carrier declines to extend coverage, the FCC would hold a reverse auction to determine who could serve the area at the lowest cost. Eligible Telecommunications Carriers would thus compete to provide service.

**Cost-Share Requirement:** There is no cost-share requirement.

**Applicable Deadlines:** Recipients and support amounts of the first round of Phase I funding were announced in April 2012. The Phase II funding process is underway and funds are expected to be released in 2014 (though FCC staff report that timing is delayed). Price-cap carriers that receive support must complete a state or self-use certification letter and FCC Form 481 annually on July 1 to qualify. Additional deadlines for carriers receiving support are enumerated on the USAC website (http://www.usac.org/_res/documents/hc/pdf/handouts/hc-filing-deadlines.pdf).

**Program Mission:** The Connect America Fund is intended “to extend broadband infrastructure to the millions of Americans who currently have no access to broadband.” The FCC has announced a goal of expanding high-speed Internet access to over 7 million Americans living in rural areas over six years.

**Projects Funded:** Grants are awarded to projects that “(1) preserve and advance universal availability of voice service; (2) ensure universal availability of modern networks capable of providing voice and broadband service to homes, businesses, and community anchor institutions [within the threshold of support]; (3) ensure universal availability of modern networks capable of providing advanced mobile voice and broadband service; (4) ensure that rates for broadband services and rates for voice services are reasonably comparable in all regions of the nation; and (5) minimize the universal service contribution burden on consumers and businesses.” There is also at least $100 million set aside annually for a “remote areas fund” to support alternative technology platforms (e.g., satellite and unlicensed wireless services). Funding under the CAF extends to any technology, as long as it meets minimum-service requirements (i.e., 4 Mbps downstream and 1 Mbps upstream). Nonetheless, fiber is generally
most cost-effective. ETCs must provide to every entity that falls within the established threshold level of support in the unserved area.

**Restrictions:** The CAF is limited to unserved areas where there would not be deployment absent federal support. Thus, CAF areas are high-cost areas to serve. Funding is not necessarily limited to rural areas; however, unserved areas are likely to be rural. An area is considered served if at least one provider offers broadband at speeds of 3 Mbps down/ 768 Kbps up.

Funding is limited to price-cap carriers that deploy broadband to their customers. Broadband is defined to include services with speeds of at least 4 Mbps downstream and 1 Mbps upstream (although FCC is taking comment on increasing requisite speeds to at least 10 Mbps downstream and 1 Mbps upstream). Such speeds are deemed necessary to support “robust, scalable broadband” that is needed to enable the use of “common applications such as distance learning, remote health monitoring, VoIP, two-way high-quality video conferencing, Web browsing, and email.” Grants are not available in areas where unsubsidized competitors are already providing broadband that satisfies this definition.

To qualify, an ETC must deliver broadband at the requisite speed (4 Mbps downstream and 1 Mbps upstream), impose no limitations on access, charge reasonable rates, and satisfy build-out obligations.

**Other Requirements:** Eligible carriers must commit to interim build-out requirements in three years and final requirements in five years.

**Key Links:**
- FCC website with links to various documents: [http://www.fcc.gov/encyclopedia/connecting-america](http://www.fcc.gov/encyclopedia/connecting-america)

**Agency Contacts:**
- Elizabeth Pertsevoi, Senior Program Analyst ([epertsevoi@usac.org](mailto:epertsevoi@usac.org) or 202-263-1643)
- Patrick Halley, Legal Advisor ([Patrick.Halley@fcc.gov](mailto:Patrick.Halley@fcc.gov) or 202-418-7550)
Universal Service Fund, Rural Broadband Experiments

The Rural Broadband Experiments (RBE) was announced in 2014. A nationwide bidding process was created for carriers to compete for $100 million in potential funding to serve rural America.

Entities Funded: Funding is limited to “Eligible Telecommunications Carriers” (ETCs), which can include price-cap carriers and rate-of-return companies, but an entity can seek ETC designation as part of their application for RBE funding. Further, like with the Connect America Fund, a utility could theoretically qualify as an ETC and provision its own network. In most states, designation of the ETC would be made by the state PUC.

Nature of Award: The RBE provides subsidies in rural areas that are not currently served by an unsubsidized competitor. These subsidies are driven by the bidding process conducted in November, 2014. These funds may or may not be available in 2015, and the funding allocated in 2014 may not be indicative of additional future funding if the program does continue.

FY2014 Resources: The program was broken into three categories: $75 million to test construction of networks offering service plans providing 25 Mbps downloads and 5 Mbps uploads for the same or lower amounts of support than will be offered to carriers in the Phase II program of the Connect America Fund; $15 million to test interest in delivering service at 10/1 speeds in high-cost areas; and $10 million for 10/1 service in areas that are extremely costly to serve.

Typical Grant Award: Final winning projects and award amounts have not yet been published.

Cost-Share Requirement: There is no cost-share requirement.

Applicable Deadlines: The filing window for bidders closed on November 7, 2014. The bid selection process is underway, and winning bidders are expected to be able to begin their projects as early as spring, 2015.

Program Mission: The Rural Broadband Experiments is intended to further the goal of providing universal service in rural areas.

Projects Funded: Winning bidders have not yet been announced, but the application process drew nearly 200 applicants who proposed nearly 600 projects for a total of approximately $885 million in projects.

Restrictions: The RBE is restricted to locations in rural communities that are not served by an unsubsidized competitor that offers voice and Internet access delivering at least 3 Mbps downstream/768 kbps upstream. Eligible projects are limited to areas within the existing
territory of a price cap carrier as designated by the FCC. Projects attempting to serve locations within the territory of an existing rate-of-return carrier are not eligible for support.

Key Links:
- Rural Broadband Experiments Filing Instructions (October 23, 2014): http://transition.fcc.gov/wcb/Form%205610%20Filing%20Instructions.pdf

Agency Contact:
- Ian Forbes, Attorney Advisor, Telecommunications Access Policy Division, Wireline Competition Bureau (Ian.Forbes@fcc.gov or 202-418-0091)
- Heidi Lankau, Attorney Advisor, Telecommunications Access Policy Division, Wireline Competition Bureau (Heidi.Lankau@fcc.gov or 202-418-2876)

Universal Service Fund, Rural Health Care Program

The Rural Health Care Program (RHC) provides funding to eligible health care providers (HCPs) for telecommunications and broadband services necessary for the provision of health care. RHC is comprised of three programs: the Healthcare Connect Fund, the Telecommunications Program, and the Rural Health Care Pilot Program. Of these, the Healthcare Connect Fund (HCF) seems most promising. While none of these programs support comprehensive broadband deployment, they may provide useful resources to support eligible health care providers. Although the Rural Health Care Program has an annual cap for funding, the program has never reached the cap, and often has millions of dollars that go uncommitted. Applicants who submit their funding requests early have a high likelihood of obtaining the maximum financial benefit. In the Telecommunications Program, funding is calculated based on the urban-rural differential for the cost of service. In the Healthcare Connect Fund Program, funding is provided at a flat 65 percent rate for all eligible services.
Healthcare Connect Fund

The Healthcare Connect Fund (HCF) provides support for high-capacity broadband connectivity to eligible health care providers (HCPs) and encourages the formation of state and regional broadband HCP networks. Through the HCF Program, eligible HCPs can obtain a discount on eligible expenses, including broadband connectivity and equipment necessary to make the broadband functional. For HCPs that apply as consortia, the HCF Program will also provide support for upfront charges associated with service provider deployment of new or upgraded facilities to provide requested services, dark or lit fiber leases or IRUs, and self-construction where demonstrated to be the most cost-effective option.

Entities Funded: HCF applies to eligible rural healthcare providers, and those non-rural providers that are members of a consortium consisting of majority rural (more than 50 percent) HCP sites. To receive discounts in any of the rural health care programs, health care providers must be public and not-for-profit. “Health care provider” is defined by statute as hospitals, rural health clinics, local health departments, community health centers or health centers providing health care to migrant workers and post-secondary educational institutions offering health care instruction, teaching hospitals, and medical schools. Ineligible HCP sites (i.e., those that are not public and not-for-profit) may still participate in a consortium and take advantage of bulk-buying, but must pay their fair share (they will not get a discount from USAC). Individual providers can determine whether they are located in a rural area through a look-up tool on USAC’s website: http://www.usac.org/rhc/telecommunications/tools/Rural/search/search.asp.

Nature of Award: There are two principal sub-programs in the Rural Health Care Program, and the award amount depends on which program the applicant chooses to participate in. The HCF program provides a subsidy (65 percent) to eligible institutions for telecommunications and Internet services. For HCF consortia applicants, this subsidy extends to fiber and expenses related to network design, engineering, operations, installation, and construction of the network. In the Telecommunications program, the subsidy is based on the urban-rural differential cost of services.

FY 2014 Resources: Funding is stable as resources are not subject to appropriations. The Rural Health Care Program was authorized in the 1996 Telecommunications Act and FCC and is funded through the Universal Service Fund. Up to $400 million is available annually for all component programs (although only a fraction of this is dispersed); there is a $150 million annual cap on upfront payments for HCF. Note that this program is distinct from and unaffected by the Connected Areas Fund (CAF).
**Typical Grant Award:** In the HCF Program, all eligible HCP facilities receive a discount of 65 percent on eligible expenses. The Telecommunications Program funds the urban rural rate differential for telecommunications services.

**Cost-Share Requirement:** In the Healthcare Connect Fund Program, eligible providers can receive a 65 percent discount from the fund on all eligible expenses and are required to contribute the remaining 35 percent to participate. In the Telecommunications Program, eligible providers are required to pay the remaining costs after the subsidy (calculated by the urban-rural differential) has been credited.

**Applicable Deadlines:** The Rural Health Care Program funding year runs from July 1 through June 30 of the following year. Although funding requests may be submitted through the last day of the funding year, applicants are encouraged to submit funding requests during the initial funding request filing period, which runs from March 1 through May 30. All funding requests filed within the initial "filing period" will be treated as though simultaneously filed. Funding requests filed after the initial filing period will be treated on a rolling, first-come, first-served basis, and may be filed until the end of the funding year. Prior to submitting a funding request, applicants are required to allow 28 days for competitive bidding before selecting a service provider.

**Program Mission:** The Rural Health Care Program is intended to reduce the disparity in cost between rural and urban telecommunications and Internet services used for the provision of health care at eligible facilities. The Healthcare Connect Fund expands provider access to broadband services, particularly in rural areas, and encourages the formation of state and regional broadband networks linking health care providers.

**Projects Funded:** HCF supports any advanced telecommunications or information service that enables HCPs to post their own data, interact with stored data, generate new data, or communicate, by providing connectivity over private dedicated networks or the public Internet for the provision of health information technology. Coverage extends to cloud-based connectivity services; last-mile, middle-mile and backbone services; fiber (and maintenance costs); Internet2 and connections to research and education networks; network equipment; and network design, engineering, operations, installation, and construction of the network.

**Restrictions:** To receive funding through the Telecommunications Program, facilities must be located in a rural area. Non-rural HCP facilities may receive funding through the Healthcare Connect Fund Program if they participate in a majority rural consortium. To determine if the HCP facility is located in a rural area, see the Eligible Rural Areas search tools on the Rural Health Care Program Website:

Key Links:
- General background: http://www.usac.org/rhc

Agency Contact:
- Paloma Costa, Manager of Outreach for Rural Health Care Program, Universal Service Administrative Company (pcosta@usac.org or 202-772-6274)
- Chin Yoo (chin.yoo@fcc.gov) and Linda Oliver (linda.oliver@fcc.gov)
Rural Health Care Pilot Program (now transitioning to Healthcare Connect Fund)

The Rural Health Care Pilot program was funded by the FCC at a not-to-exceed cap of $417 million. This program provided 85 percent of the costs for eligible construction, equipment, leased services, etc. of new regional or statewide networks to serve public and non-profit health care providers in areas of the country where broadband is unavailable or insufficient. As of June 2014, the Pilot Program has successfully distributed over $238 million dollars to 50 projects with an affiliated 3,800 health care providers. The Pilot Program is limited to consortia that were selected in the Rural Health Care Pilot Program Selection Order, so opportunities to participate may be limited.

Entities Funded: The Rural Health Care Pilot Program has funded 50 projects around the country with an affiliated 3,800 health care providers. This includes construction, leased services, IRUs and equipment. The Pilot Program is limited to consortia that were selected in the Rural Health Care Pilot Program Selection Order. However, eligible health care providers not represented in the selected consortia applications may pursue ways to be included in their networks which are eligible for Pilot Program funding, if funding in a project is still available. Potential recipients under the Healthcare Connect Fund include acute-care facilities that provide services traditionally provided at hospitals, and renal dialysis centers and facilities and administrative offices and data centers that do not share the same building as the clinical offices of a health care provider but that perform support functions critical for the provision of health care.

Nature of Award: Subsidy to reduce the cost of service in rural areas.

FY 2014 Resources: Funding is through the Universal Service Fund (i.e., surcharges on telephone bills), rather than Congressional appropriations. As such, funding is stable and capped at $400 million/year.

Typical Grant Award: The Healthcare Connect fund provides a flat 65 percent subsidy for all eligible services. This includes monthly recurring costs for access to broadband services, construction, equipment etc. These funds are distinct from – and unaffected by – the new Connect America Fund.

Cost-Share Requirement: The Healthcare Connect fund provides a flat 65 percent subsidy for all eligible services. Health care providers are responsible for the additional 35 percent.

Projects Funded: The Pilot Program covered both traditional telecommunications and broadband. The Rural Healthcare Program provides for ATM, Centrex, DSL, e-mail, Ethernet, fiber, fractional T1, frame relay, internet access charges, ISDN, mileage-related charges, monthly internet access charges, MPLS, NRS, OC-1 or OC-3, redundant circuit, satellite service, telephone service, T1, T3 or DS3. The program would provide support for the construction of state or regional broadband health care networks that can, for example, connect rural and urban health-care providers; facilitate the transmission of real-time video, pictures, and graphics; bridge the silos that presently isolate relevant patient data; and make communications resources more robust and resilient. Broadband infrastructure projects could include either new facilities or upgrades to existing facilities. In addition, funding could be used to support up to 85 percent of the cost of connecting health-care networks to Internet2 or National LambdaRail (NLR), both of which are non-profit, nationwide backbone providers.

Restrictions: Providers receiving resources from the current Telecommunications Program (to subsidize rates paid by rural health care providers for telecommunications services to eliminate the rural/urban price difference for such services within each state) would not be eligible to receive support under this program for the same service. Health care providers that did not receive funding under the current Rural Health Care Pilot Program could apply, assuming that they met the general eligibility criteria for the program. Funding is limited to rural areas for individual applicants. Consortia can have non-rural participants as part of their network.

Key Links:
- General background: [www.usac.org/rhc](http://www.usac.org/rhc)

Agency Contact:
- Paloma Costa, Manager of Outreach for Rural Health Care Program, Universal Service Administrative Company ([pcosta@usac.org](mailto:pcosta@usac.org) or 202-772-6274)

E-Rate Program – USF Schools and Libraries Program ("E-Rate")

The E-Rate program provides support to schools and libraries by partially funding the cost of broadband services (and, in some cases, the cost of construction of fiber laterals), representing an important revenue source for communications providers such as utilities.

Entities Funded: Funding is provided to eligible schools, school districts and libraries (either individually or as part of a consortium). Funds are distributed to both public and private schools, as long as they provide primary or secondary education, operate as a non-profit...
business, and do not have an endowment exceeding $50 million. Eligible libraries must be eligible for assistance from a state library administrative agency under the 1996 Library Services and Technology Act. Generally, libraries are eligible if their budget is separate from a school and they do not operate as a for-profit business. Applicants can determine whether a school or library has filed a Form 470 to initiate the application process by searching the website (submitted forms can be searched by year and zip code at: http://www.slforms.universalservice.org/Form470Expert/Search_FundYear_Select.aspx).

**Nature of Award:** Funding is provided through the Universal Service Fund in the form of a subsidy on the eligible facility’s telecommunications expenses. The size of the subsidy varies, as elaborated below and may cover both Internet service and infrastructure.

**FY 2014 Resources:** Funding is stable as resources are not subject to appropriations. E-rate program funding is based on demand up to an annual cap of about $3.9 billion (modified annually to account for inflation)—a $1.5 billion increase from the original $2.4 billion amount. Note that the E-Rate program is a distinct program from the Connect America Fund; as such, resources are unaffected by the CAF. Resources for any given school or library are determined based on levels of rurality and poverty in the relevant district.

**Typical Grant Award:** E-Rate provides a discount on eligible services, with the size of the discount (ranging from 20 to 90 percent) dependent on the level of poverty and the urban/rural status of the population served. The funding level can be determined from the matrix available on the E-Rate website (http://www.usac.org/_res/documents/sl/pdf/samples/Discount-Matrix.pdf). The primary measure for determining Schools and Libraries support discounts is the percentage of students eligible for free and reduced lunches under the National School Lunch Program (NSLP), calculated by individual school. For instance, if 70 percent of the students at the relevant school are eligible for NSLP, E-Rate will reimburse 80 percent of the costs for eligible services.

**Cost-Share Requirement:** E-Rate discounts range from 20 to 90 percent, with higher discounts for higher poverty and more rural schools and libraries. Schools and libraries are always responsible for paying at least some part of the cost of service.

**Applicable Deadlines:** The application process typically begins in July (Form 470) and continues throughout the year. The second stage (Form 471 application) follows the posting of Form 470. A flowchart depicting the general process (without dates) is available online at: (http://www.usac.org/_res/documents/sl/pdf/handouts/Applicant-Process.pdf).

**Program Mission:** The program is intended to reduce the disparity between rural and urban broadband services. The program is intended to ensure that schools and libraries have access to affordable telecommunications and information services.
Projects Funded: The Schools and Libraries Program is designed to support connectivity - the conduit or pipeline for communications using telecommunications services and/or the Internet. Funding is requested from providers under four categories of service: telecommunications services, Internet access, internal connections, and basic maintenance of internal connections. Eligible services include both equipment (fiber) and access. (USAC maintains a complete description of eligible services (available online at: http://www.usac.org/_res/documents/sl/pdf/ESL_archive/EligibleServicesList-2014.pdf).

The E-Rate helpline notes that eligible applicants are virtually assured funding to assist with Priority 1 projects (i.e., telecommunications, telecommunications services and Internet access services).

Restrictions: Facilities need not be located in rural areas, though funding levels will increase based on poverty and rural status.

Key Links:
- To submit questions about the program: http://www.usac.org/about/tools/contact-us.aspx
- General background: http://www.usac.org/sl/
- Training sessions are provided to potential applications in the fall (http://www.usac.org/sl/about/outreach/default.aspx for schedule and links).

Agency Contact:
- The E-Rate helpline is extremely helpful. Contact 1-888-203-8100 with questions.
U.S. Treasury– New Markets Tax Credit

The New Markets Tax Credit (NMTC) may provide a source of revenue for broadband investments; however, to qualify, the applicant must identify a Community Development Entity that has an available NMTC allocation and is willing to invest in the project. Moreover, projects must be located in low-income communities (defined below). Even if the applicant can identify a qualifying CDE and a low-income community, the credits are very competitive. Recipients of NMTC financing typically receive favorable terms and conditions on a loan from a CDE (e.g., allowing them to offset up to 39 percent of the cost of the project investment over seven years). Notably, while broadband is consistent with the program mission, only one broadband project appears to have received NMTC funding. The government has expressed an interest in shifting the focus away from real estate, however, which may make broadband projects more desirable going forward.

Entities Funded: The NMTC program permits individual and corporate taxpayers to receive a credit against federal income taxes for making Qualified Equity Investments (QEIs) in Community Development Entities (CDEs), which serve as investment intermediaries. CDEs then use the proceeds that they raise from QEIs to make Qualified Low-Income Community Investments into businesses in qualified communities. CDEs are typically nonprofits, government entities, and others who provide subsidized financing, whose primary mission is to benefit low-income households. Thus, a utility could receive the credit as a CDE, raise cash representing the value of the credit from investors, and then pass the investment to a developer who would receive a loan with below-market terms and conditions to deploy broadband in a low-income community. The CDE must first apply to the Community Development Financial Institutions Fund within the Department of Treasury for allocation awards. Efforts are made to support rural communities, with nearly 20 percent of NMTC investments going to rural communities through the course of the program.

Nature of Award: The program provides an NMTC allocation to qualifying CDEs. Once a CDE receives an allocation, it can secure investors to make Qualified Equity Investments (QEIs) in exchange for the credit. The investors claim a 39 percent tax credit over seven years, 5 percent annually for the first three years and 6 percent in years four to seven. Having secured this investment, CDEs can then offer preferential rates and terms to developers in low-income communities.

FY 2014 Resources: Since the program’s inception (in 2000), there have been more than 800 awards providing roughly $40 billion in tax credit allocation authority. $3.5 billion was available
in 2013, though authorization expired at the end of the year. Allocations vary annually (and are currently suspended pending reauthorization).

**Typical Grant Award:** Under IRC §45D(a)(2), NMTC investors claim a 39 percent tax credit over seven years, five percent annually for the first three years and six percent in years four to seven. Thus, if a CDE receives a $2 million NMTC allocation, an investor can claim a NMTC equal to 39 percent of $2 million (or $780,000). In essence, an investor in the NMTC program gets 39 cents in tax credits during the seven-year credit period for every dollar invested and designated as a QEI. These benefits, in turn, are transferred to developers who receive loans with below market-rate terms and conditions for their activities. Through 2013, there have been 11 NMTC allocation rounds. In 2011 (the most recent year for which such data is available) the average award was $51.8 million (with awards ranging from $20 to 100 million). CDE demand for NMTC allocations far outstrips the availability of credits. Between 2003 and 2013, CDEs requested nearly $282 billion in allocation authority, while the CDFI Fund only awarded $36.6 billion in NMTC allocation. Allocation demand has averaged more than seven times the availability of the credits. In 2013, 70 CDEs out of a pool of 314 applicants were awarded $3.6 billion in allocations (thus $1.41-billion in tax credits – $3.6b*.39). Annual allocations have ranged from $2 to $5-billion since the program’s inception.

**Cost-Share Requirement:** There is not technically a cost-share, though the tax credit merely offsets expenses (so recipients are still responsible for 61 percent of project costs).

**Applicable Deadlines:** The NMTC is not a permanent part of the Internal Revenue Code. The NMTC program has been extended four times (2007, 2009, 2011, and 2013), with the most recent NMTC extension expiring on December 31, 2013. Extension legislation has been introduced in the House (H.R. 4365) and Senate (S. 1133) and applications are currently being accepted with the assumption that the program will be reauthorized.

The funding window for new applicants is initiated with a Notice of Allocation Authority in the Federal Register (published last in July 2013) and collected for several months. The credit then applies for a 7-year cycle, which begins on the date the Qualifying Equity Investment is initially made. Although the Fund has not yet received Congressional allocation authority for calendar year 2014 or 2015, applications are nonetheless being accepted for 2014 allocations with the expectation that Congress will extend the program.

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66 Note that, due to the lack of congressional authorization, the NOAA was amended and republished in March 2014.
Program Mission: The NMTC provides tax incentives to induce private sector, market-driven investments in businesses and real-estate developments in economically distressed communities.

Projects Funded: While “substantially all” (85 percent or more) of a CDE’s investments must be targeted to the low-income service area identified by the CDE, there is significant flexibility in the types of businesses and development activities that NMTC investments support – including community facilities such as child care or health care facilities and charter schools, manufacturing facilities, for-profit and nonprofit businesses, and home-ownership projects. In 2011, an NMTC award was used to support a broadband project in rural Alaska.

Restrictions: The NMTC is only given to projects that benefit “a low-income community” (LIC), defined as any population census tract where the poverty rate for such tract is at least 20 percent or in the case of a tract not located within a metropolitan area, median family income for such tract does not exceed 80 percent of statewide median family income, or in the case of a tract located within a metropolitan area, the median family income for such tract does not exceed 80 percent of the greater of statewide median family income or the metropolitan area median family income. At least 85 percent of the investment must be made in a low-income community.

Key Links:
- Fact Sheet: http://www.cdfifund.gov/docs/factsheets/CDFI_NMTC.pdf

Agency Contact:
- New Market Tax Credit Coalition (Paul Anderson) (paul@rapoza.org or 202-393-5225)

If utilities undertake strategies requiring extensive financing, the various forms of RUS loans may not be more advantageous than public bonds, especially given that there is no grant component. We recommend that utilities assessing their broadband options take a look at RUS loan opportunities and compare them to alternative loan structures.