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Telecom, Media & Tech Insider
STIFEL NICOLAUS

Rebecca Arbogast
202 778 1978
rarbogast@stifel.com

David Kaut
202 778 4341
dpkaut@stifel.com

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FCC National Broadband Plan Taking Shape

Plan to Offer Blueprint for FCC Rulemakings and Proposed Actions by Congress, Others

- **THE BASICS: TIMING, OBJECTIVES.** The Federal Communications Commission's National Broadband Plan is heading into the home stretch. The plan is due to Congress on March 17, with FCC commissioners scheduled to vote on broadband goals, but not the plan itself, on March 16. The plan is to provide a framework and benchmarks for achieving universal broadband, with a focus on deployment, affordability, adoption, and innovative uses.

- **FCC IMPLEMENTATION PROCEEDINGS.** The FCC will look to implement proposals (and sort out options) under its jurisdiction through numerous rulemakings starting in the weeks (and months) after March 17. We expect the plan, which is likely to run hundreds of pages, will yield much data, ambitious aspirations (100 mbps for 100 million homes), and policy direction, but considerable existing internal agency analysis may be contained in the notices kicking off the rulemakings. The agency will likely push to complete many proceedings with orders over 12 to 18 months.

- **PROPOSALS FOR CONGRESS, AGENCIES, STATES/LOCALITIES.** On some issues, the FCC will seek action by Congress, other federal agencies, states/localities, and others to implement its recommendations. We believe major FCC legislative proposals would be difficult to enact during this Congress, given industry and lawmaker divisions.

- **USF, SPECTRUM KEY ON DEPLOYMENT.** The FCC has orchestrated a roll-out that is providing some illumination of issues leading up to the plan's release, including on universal service, spectrum, and public safety. Two goals — reforming the $8 billion universal service fund (as well as related intercarrier compensation, which includes implicit ILEC/RLEC subsidies) and making more spectrum available for wireless broadband — appear to be critical to FCC efforts to spur deployment in unserved areas and boosting speeds and competition where broadband service already exists.

- **BROADBAND ADOPTION, NATIONAL PURPOSES, AND THE ECOSYSTEM.** The plan will also emphasize increasing broadband adoption and using broadband to address certain "national purposes," such as education, energy, and health care. These initiatives create the potential for driving up broadband use that could boost the entire "ecosystem," and could create discrete pockets of opportunity; for example, for companies managing data implicated in medical records, or providing online materials for schools.

- **INDUSTRY OPPORTUNITIES, OVERHANG.** The plan is just a plan, and there is a long distance between proposals and final decisions, and between aspirations and actualities. That said, we see possible upside for firms providing equipment for broadband network deployment, including routers, towers, and fiber; for Google and application providers benefiting from increased adoption; for opportunistic spectrum plays, including by MSS providers and NextWave; for wireless carriers that need more spectrum; for Sprint if intercarrier (and other) charges cut; for CLECs that may get some *targeted* network access help *eventually* (even if plan is cryptic); and for those companies able to find innovate ways to use broadband to improve health care, education, and energy performance, including those managing large amounts of data. Those with potential downside include Cisco and Motorola on the video set-top box gateway, RLECs and wireless "CETCs" on intercarrier rates and USF, respectively; and broadcasters if a planned voluntary spectrum repurposing becomes mandatory. The Bells (and to a lesser extent, cable) could gain from full USF/intercarrier reform, though gains could be offset by related issues that may not be squarely tackled by the plan, including special access and net neutrality.

- **ISSUE SNAPSHOT.** See pp. 2-3 for summaries of key issues and our sense of the FCC's thrust and implications.

All relevant disclosures and certifications appear on p. 4 of this report.

FCC National Broadband Plan Snapshot

Issue	*Likely Thrust of Plan*	*Industry Implications*
Universal Service Fund & Intercarrier Compensation (and the PSTN-IP Transition?)	On USF, FCC looking to squeeze out inefficiencies, shift voice support to broadband, create a mobility fund, use Lifeline support to boost adoption, and expand the contribution base. On intercarrier compensation, FCC looking to drive down and unify disparate rates, with some efforts to mitigate ILEC/RLEC pain. Implementation likely staged over 10 years, and specifics particularly important in this area. FCC may seek legislation to clarify authority on broadband USF and intrastate access charges, and to fund rural broadband deployment. There's also some related interest in prodding the ongoing PSTN-to-IP network transition, possibly with a target/deadline for completion in a decade or so.	RLECs at risk if FCC cuts access charges, and resistance to USF hikes also a problem. Some revenue offsets likely, including possible favorable tax treatment, increased consumer charges, and some additional USF (ultimately). Wireless CETCs at much risk. As net payers, Bells and Sprint could benefit, with some tradeoffs (Bells would lose access revenue, Sprint wouldn't; both would lose CETC money). AT&T has jumped on bandwagon for PSTN-IP deadline. CLECs also have exposure to access charge cuts.
Mobile Broadband and Spectrum	**Spectrum Push:** Mobile broadband a big focus, with spectrum key. FCC recommending freeing up additional 500 MHz of public and private spectrum for commercial wireless (adding to existing 530 MHz) to address exploding demand for mobile broadband.	Demand still likely to outpace supply, creating incentive for more fiber builds and putting pressure on those without deep spectrum holdings.
	Broadcast Spectrum: Still in FCC sights, with proposal they voluntarily turn over spectrum in return for proceeds from auction.	Likely a long process, but eventually could provide (final?) cash infusion to some licensees.
	700 MHz D Block and Public Safety: To be auctioned for commercial use, with \$12-\$16 billion recommended in federal funding to build public safety network, and remainder of 700 MHz band subject to roaming and priority access.	If obligations modest, could trigger bidding war, with Verizon, AT&T, T-Mobile, and perhaps others going after spectrum. Implications for handset vendors and opportunities for those building out public safety network, assuming Congress dedicates funds.
	MSS-ATC: Licensees given increased flexibility aimed at encouraging terrestrial (i.e., wireless broadband) build-out, and some possible future sticks paired with that carrot if they don't.	Gives the six MSS companies another lease on life if satellite component sufficiently marginalized.
	WCS: Licensees pushed to build out or transfer licenses, but FCC needs to resolve outstanding Sirius XM terrestrial repeaters issue.	AT&T and NextWave WCS license holders stand to use it or lose it with build-out extension coming due this summer; Sirius XM exposed on interference issue.
	AWS 3: Spectrum issue is whether to auction 20 MHz unpaired, as sought by M2Z and fought by T-Mobile, or wait to pair with reclaimed government spectrum.	40 MHz auction could be disruptive if paired with 20 MHz of government spectrum and FCC imposes eligibility restrictions.
Infrastructure Access Pole Attachments, Ducts, Conduits, and Rights of Way	FCC looking to reduce costs and delays for broadband providers needing pole attachments and access to conduits, ducts, and public rights of way (ROW). FCC could seek a unified rate for pole attachments — ILEC rates the highest, cable's the lowest, and CLECs' in middle. FCC could also look to regulate "make ready" costs/process to ease broadband provider access to poles, ducts, conduits and ROW; seek a streamlined dispute resolution mechanism; and seek legislation to mandate a national infrastructure framework.	Direction good for telco broadband providers and fiber/equipment suppliers. Bells/ILECs have most to gain if pole rates cut. CLECs and wireless also have some potential upside, particularly on make-ready issues. Cable has some risk FCC may raise its rates to help offset telco rate cuts, but that could be seen as hurting broadband. Utilities and some states/localities have concerns.
Broadband Adoption	Beyond USF Lifeline support and possible steps to spur competition, FCC looking at proposals for an independent foundation and public/private partnerships focused on adoption, as well as for a tax deduction for employers who help low-income employees and for ways to boost digital literacy.	Generally helpful for broadband service providers and equipment makers as well as broader Internet ecosystem.

Source: Stifel Nicolaus Telecom, Media & Tech Regulatory Research and assessments, including of FCC staff presentations at open meetings.

FCC National Broadband Plan Snapshot

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Video Set-Top Devices	FCC would like to promote low-cost "gateway" for cable, telco, DBS systems with standardized interfaces that would allow interactive video devices to work across platforms. A key process/timing issue will be whether FCC would start with a preliminary inquiry (NOI) or go straight to a rulemaking (NPRM). In the meantime, FCC also looking to fix CableCard effort that separated boxes from security but failed to jump-start retail market, and new issues emerging, such as TiVo fears that cable switched digital video a threat.	Cable industry, which profits from rental box revenue stream, backs CableCard review and broad inquiry. But cable, Cisco, Motorola, DirecTV, Dish, Verizon, and BBT (privately held) concerned an FCC gateway rulemaking and standards pursuit would be disruptive and could freeze market for years. CEA (consumer electronics group), Google, TiVo, others seek gateway NPRM.
Privacy	FCC looks interested in harmonizing privacy rules across broadband/communications platforms while possibly leaving Website privacy issues to FTC, with agency coordination.	On privacy, would keep Bells, cable, wireless, clearly in FCC bucket, with Google and other Web providers under FTC oversight.
National Purposes	FCC required to seek innovative broadband uses that advance various national purposes. FCC staff have flagged some areas and options, including: • **Healthcare.** Transform rural health care program with broadband subsidies, clarify regulatory duties/process, and generally promote electronic healthcare. • **Education.** Upgrade USF E-rate, push for removal of hurdles to online learning, and seek electronic records. • **Energy.** Seek to integrate broadband into smart grids, including by giving utilities access to public safety network and weighing smart grid needs in new spectrum uses. • **Government/Civic.** Explore greater use of cloud computing, federal buildings as anchor broadband tenants in localities, and digital platforms to release gov't data. • **Public Safety, Homeland Security.** Seek next-generation 911 & alerting systems, improve cybersecurity, and protect critical infrastructure (also see D Block, p. 2). • **Economic Opportunity.** Push for removing tax and regulatory barriers to telework, making government a telework leader, and fostering IT training for small businesses.	FCC sees this as an area of particular promise, given potential ripple effects throughout the public and private sectors. Just with healthcare, FCC says broadband/electronic upgrades could produce $700 billion in savings over 15-25 years. We recognize there will be questions as to how much real change will come out of the FCC ideas, some of which could be seen as academic and cheerleading. But the FCC's intensive review, ideas/proposals, and broadband "evangelism" could help spark new understanding and actions that stimulate the entire Internet and info-tech ecosystem. Sectors that could benefit over time are companies developing network components and the data and content managers involved in healthcare, education and energy provided over broadband networks, including, for example, e-books, standardized medical records, and smart grid technology.
Broadband Reclassification?	FCC doesn't seem likely to propose reclassifying broadband Internet access from a Title I information service to a more heavily regulated Title II telecom service, though that could change if a court guts the FCC's Title I authority.	Bells/ILECs, cable, and wireless broadband providers adamantly opposed to Title II move, even with 'forbearance,' and warn other Internet services could be affected.
Wholesale Access? UNEs/Unbundling, Special Access	Plan unlikely to propose sweeping UNE discounts (or even any specific policy changes), though FCC reviewing wholesale approach and could still consider targeted proposals post-plan, including some greater CLEC access to Bell lines serving small business, copper loop retirement oversight, and Sec. 271 Bell enforcement. Big issue is will FCC seek to constrain Bell special access rates/practices in enterprise and transport/backhaul markets. Unclear what, if anything, plan will propose on special access, given concerns about prejudging ongoing proceeding aimed at collecting data, but some discussion of issues/problems possible.	Improved wholesale access would be a victory for CLECs and a setback for Bells/ILECs. Independent wireless — particularly Sprint, which is also an enterprise competitor — could benefit from FCC curbs on special access, a $17B+ market and one of few wireline telco growth areas. Bells can be expected to push back hard and challenge FCC regulatory moves in court, with D.C. Circuit often sympathetic to their concerns in this general area.

Select Other Issues and Possible Proposals

- **Transparency for Consumers:** To ensure consumers see differences between average and advertised broadband speeds, establish ratings so consumers can see their broadband performance, and work with NTIA on a national broadband data map.
- **Intellectual Property:** FCC plans unclear; Hollywood wants ISPs allowed to thwart content piracy, even under net neutrality.
- **Accessibility:** To promote broadband/communications access for persons with disabilities through various avenues.
- **Tribal Lands:** To facilitate USF use, spur deployment to anchor institutions on reservations, and improve data and coordination.

Source: Stifel Nicolaus Telecom, Media & Tech Regulatory Research and assessments, including of FCC staff presentations at open meetings.

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