



Appendix to the Special Notice

Pricing Concepts

*Special Notice D15PS00295 – Nationwide Public
Safety Broadband Network (NPSBN)*

04/27/2015

Document Overview

The following summarizes the information that FirstNet may include in a subsequent Request for Proposal (RFP). Pricing submissions are not requested and will not be considered in response to this Special Notice (hereinafter referred to as notice), however, FirstNet requests feedback from interested parties, including States, tribes, territories, public safety stakeholders, and market participants on the pricing concepts as outlined below. This feedback may potentially inform determinations regarding FirstNet’s ultimate evaluation methodology in a subsequent RFP.

1 Background

1.1 Available Financial Resources

The deployment, on-going operations, and recapitalization of the National Public Safety Broadband Network (NPSBN or network) will require significant financial resources and capabilities. FirstNet has several types of financial resources available to potential offerors. These financial resources are defined as:

1. **BUDGET AUTHORITY:** Under provisions in the Middle Class Tax Relief and Job Creation Act of 2012 (the Act), FirstNet has been allocated up to \$7 billion in Budget Authority, derived from Federal Communications Commission (FCC) spectrum auction proceeds. Offerors may request FirstNet contribute up to \$6.5 billion of government funding as a contribution to the up front development of the NPSBN project during the base period of a subsequent award. Funding contributions from FirstNet will only be payable upon successful achievement, by the offeror, of the defined initial operating capability (IOC)/final operating capability (FOC) milestones, (see Appendix C-8, IOC/FOC Target Timeline). Additionally, FirstNet seeks comment on whether to include separate milestones in a subsequent RFP that would allow FirstNet to contribute government funding during the base period of performance for defined planning purposes.
2. **PUBLIC SAFETY REVENUE:** FirstNet is authorized to charge user fees to Public Safety Entities (as defined in the Act and interpreted through FirstNet’s public notices) using the network. This serves as a significant portion of potential financial resources. Public Safety Revenue will also include fees for use of the FirstNet nationwide core network that is charged to states that assume responsibility for deployment and continued operation of the Radio Access Network (RAN) in their states. As part of this pricing objective that may be included in a subsequent RFP, the offeror should assume that it will have access to, and will manage the billing and collection of, Public Safety Revenue generated by the NPSBN user fees described herein.
3. **EXCESS NETWORK CAPACITY:** FirstNet is authorized to realize the value of excess network capacity which is unused by Public Safety Entities (Excess Network Capacity) through a covered leasing agreement (CLA), as defined in the Act and interpreted in FirstNet’s public notices. As part of the pricing objective that may be included in a subsequent RFP, the offeror should assume that it will have access to, and the ability to derive revenue from, all such Excess Network Capacity.

As further detailed in Figure 1 FirstNet’s Equation for Financial Sustainability below, these financial resources – when combined with infrastructure and operational synergies enabled by FirstNet and the offeror(s) – are anticipated to deliver a financially sustaining business model as required under the Act.

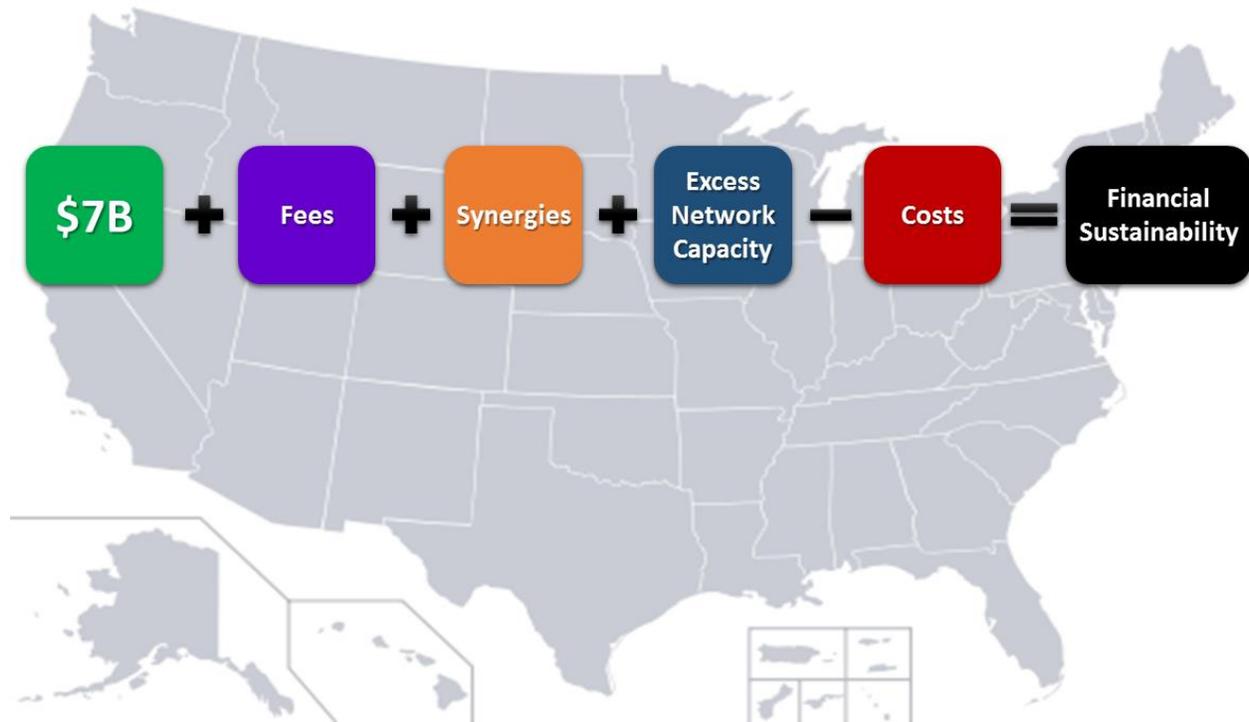


Figure 1 FirstNet's Equation for Financial Sustainability

1.2 FirstNet Operational Sustainability

As stated herein and within the Act and other applicable Federal laws and regulations, FirstNet must be sustainable on an ongoing basis. FirstNet's sustainability requires that a potential offeror's proposed pricing solution must ensure that FirstNet maintains cash in excess of obligations for every year throughout the life of a subsequent award.

1.3 The FirstNet Opportunity

FirstNet can contribute significant value in the form of Budget Authority, Excess Network Capacity value, and Public Safety Revenues. FirstNet expects offerors to utilize these value blocks, and in combination with synergies realized in deployment and operation, provide a NPSBN that meets FirstNet's stated objectives as set forth in the draft Statement of Objectives included as part of the notice. The characteristics of this opportunity are illustrated in Figure 2 The FirstNet Opportunity and described below:

1. **PUBLIC SAFETY ADDRESSABLE MARKET AND POTENTIAL REVENUE OPPORTUNITY:** FirstNet estimates that the addressable market size may range from 4 million to 13 million users, or greater. This estimate is based on the Public Safety Entity definition contained in the Act and further interpreted by FirstNet's public notices. The potential revenue derived from Public Safety users should be valued in an offeror's proposed solution to any subsequent RFP, shown in Figure 2 The FirstNet Opportunity.
2. **INFRASTRUCTURE AND OPERATIONAL SYNERGIES BROUGHT BY OFFERORS:** FirstNet anticipates that given the largely incremental nature of a Band 14 deployment on existing infrastructure, significant cost reductions can be achieved compared to a stand-alone

deployment. FirstNet posits that on-going capital and operational expenses can be minimized by leveraging existing infrastructure (i.e., tower sites, colocation space, transport and backhaul facilities, etc.) and capabilities (distribution, marketing, customer care, back office systems, etc.). For example, the incremental cost to increase existing backhaul is anticipated to be much lower than the cost to enable a new connection at that site. This is depicted in Figure 2 The FirstNet Opportunity.

3. **SIGNIFICANT VALUE OF EXCESS NETWORK CAPACITY:** FirstNet anticipates providing significant value to the offeror from use of Excess Network Capacity. The value is derived from 1) access immediately upon award to largely unencumbered nationwide 700 MHz Excess Network Capacity and 2) avoidance of a large lump sum payment commonly associated with auctions or secondary market transactions. This results in faster network deployment, earlier revenue generation, and lower costs. FirstNet anticipates that these benefits will be reflected in offerors’ proposed solutions in response to any subsequent RFP, and is shown in Figure 2 The FirstNet Opportunity.

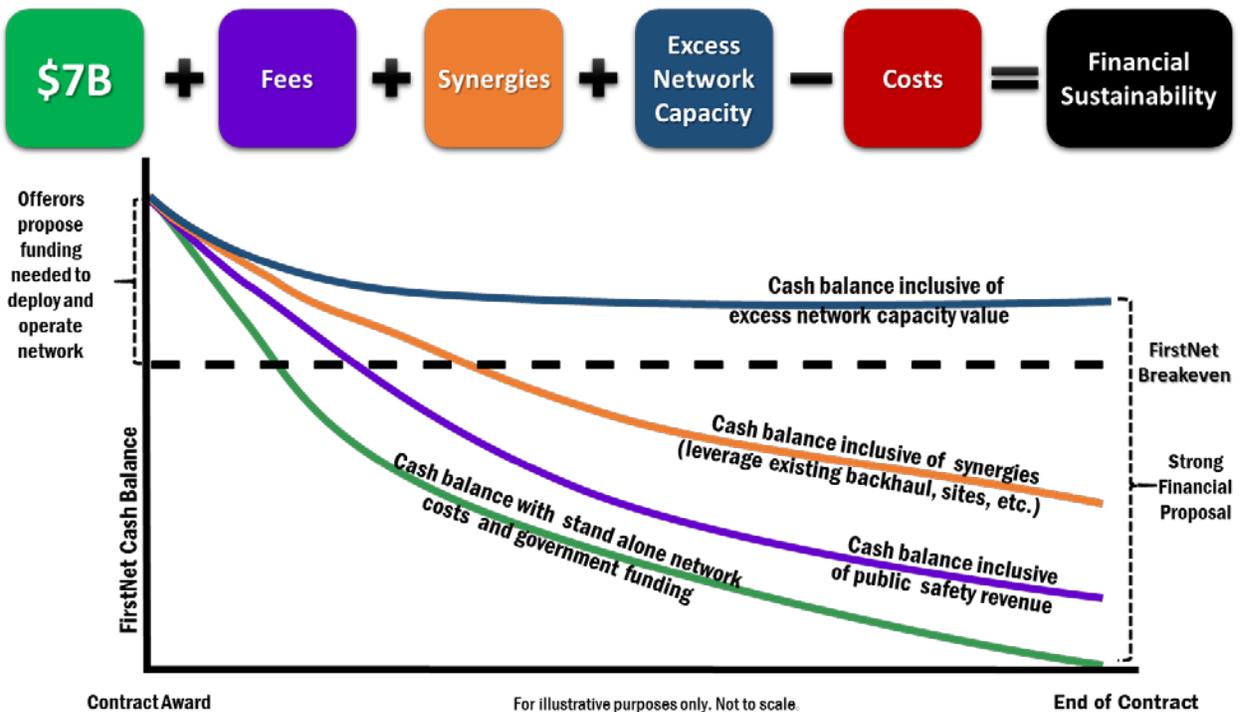


Figure 2 The FirstNet Opportunity

2 Proposed Acquisition Approach

2.1 Offer Scope

FirstNet requests feedback on two potential categories that define potential offers and the associated scope of work, as shown in Figure 3 Proposed Acquisition Approach. These categories can be led by a single entity or a consortium of entities.

1. **NATIONWIDE CORE RADIO ACCESS NETWORK AND SUBSCRIBER ADOPTION FOR ALL STATES (Category One):** Category One encompasses a single nationwide approach whereby an offeror would be responsible for the provision of all necessary functions to deploy and operate a nationwide solution in accordance with FirstNet’s objectives. This category would allow potential offerors to submit a comprehensive solution for all in-scope functions for 56 states and territories, as set out in this Section 2.1 Offer Scope.

The scope of this single nationwide approach would include all functions as identified in Section 4.2, Definition of the High Level Functions, of the notice. High level functions are:

- Core
- Applications ecosystem
- RAN
- CLA
- Deployables
- Satellite
- Devices
- Subscriber adoption
- Customer lifecycle management

2. **REGIONAL RAN AND CLA (Category Two):** This category would allow potential offerors to submit a proposed solution for one or more State RAN(s) and CLA(s), which would be integrated with a nationwide core network and other RAN(s) to create a comprehensive nationwide solution. Category Two encompasses the RAN(s) and CLA(s) applicable functions for a State or region, and does not necessarily include all other functions identified in Section 4.2, Definition of the High Level Functions, of the notice. The high level functions included in Category Two are:

- RAN
- CLA

FirstNet requests feedback as to whether satellites and deployables should also be included as an applicable function in Category Two as noted in Section 4.3 FirstNet’s Proposed Approaches – Prior to State RAN Decision Process, of the notice.

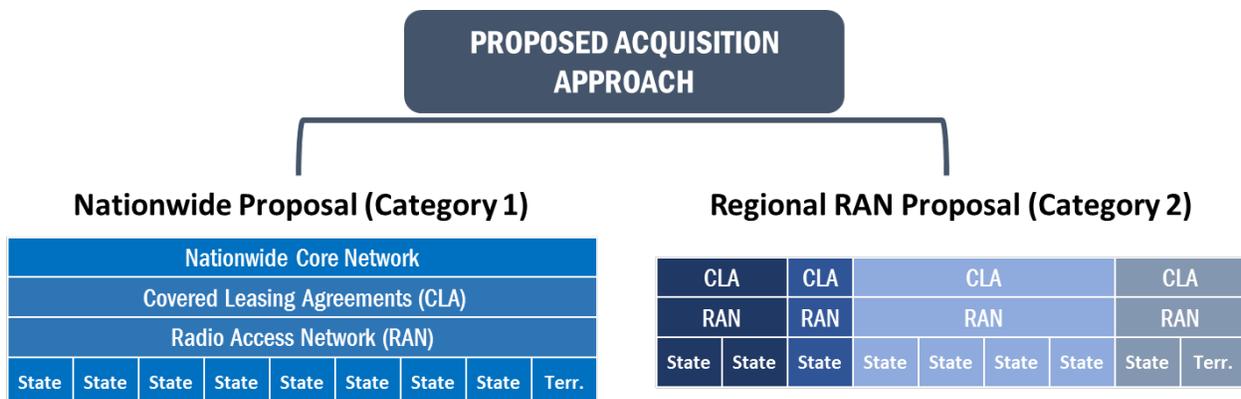


Figure 3 Proposed Acquisition Approach

2.1.1 Pricing Concept for Category One

A potential offeror interested in Category One would be required to deploy and operate the NPSBN with coverage, capacity and operating functionality as identified within its proposed solution and in compliance with technical and operating objectives specified within a subsequent RFP. All offerors should leverage the Operational Architecture provided in the notice and provide feedback as instructed therein. As noted in 1.1 Available Financial Resources, the potential offeror may request up to \$6.5 billion of government funding from FirstNet’s Budget Authority as a contribution to the up-front deployment and on-going operations of the network. The offeror could receive Public Safety Revenue and commercial revenue derived from use of Excess Network Capacity.

As part of Category One, the potential offeror would be required to propose fixed quarterly payments to FirstNet based on the value of the FirstNet opportunity as depicted in Figure 2 The FirstNet Opportunity. The proposed payments to FirstNet may differ in each fiscal quarter, but would be fixed and established based on the offeror’s proposed solution throughout the life of any subsequent award to include the base period and all option periods. The offeror’s proposed fixed payments to FirstNet should be at a level that reflects the potential offeror’s valuation of Excess Network Capacity, anticipated Public Safety Revenue, and any other value it may receive. It is anticipated that all such fixed payments combined with any retained Budget Authority will, at a minimum, cover all of FirstNet’s costs (which are to be determined).

In this category, the aggregate of the potential offeror’s proposed level of government funding from FirstNet’s Budget Authority and the fixed payments to FirstNet would represent the potential offeror’s proposed pricing solution.

2.1.2 Pricing Concept for Category Two

Potential offerors interested in Category Two for one or more states would be required to propose a pricing solution identifying information in relation to the proposed capital and operational costs associated with the RAN deployment and operation in that State(s), and offsetting those costs with the offeror’s valuation of Excess Network Capacity. Additionally, it is anticipated that proposals submitted by offerors under Category Two would include the cost of all network integration.

As part of this category, the potential offeror would be required to propose fixed quarterly payments and/or Budget Authority drawdowns based on the value of the FirstNet opportunity as depicted in Figure 2 The FirstNet Opportunity. The proposed payments may differ in each fiscal quarter, but would be fixed and established based on the offeror’s proposed solution throughout the life of any subsequent award to include the base period and all option periods. The potential offeror’s fixed payments and/or Budget Authority drawdowns should be at a level that reflects the potential offeror’s valuation of Excess Network Capacity and any other value it may receive for each relevant State or territory contained in Category Two.

2.1.2.1 Public Safety Adoption Mechanisms

FirstNet’s primary mission is adoption and use of the NPSBN by Public Safety Entities. Based on FirstNet’s market research, competitive pricing for devices and services along with high network quality and availability are key drivers of adoption. FirstNet seeks alignment between these key drivers, its mission and the offeror’s business model such that offerors are incentivized to maximize Public Safety

usage of the NPSBN. FirstNet intends to advance these objectives by encouraging offerors, through contractual and other mechanisms, two of which are proposed below.

First, potential offerors may be expected to include most favored customer pricing provisions, as referenced in Section 4.5.1, Most Favored Customer Pricing Consideration for Public Safety Subscribers, of the notice, to ensure that Public Safety Entities receive the most competitive end-user service pricing.

Second, as part of any subsequent RFP, FirstNet anticipates creating public safety usage targets for each State or region that offerors will be required to meet, and will be enforced with disincentive fees. These targets may include cumulative number of billable connections by Public Safety Entities and/or targets for use of the network by Public Safety Entities.

FirstNet requests feedback on these potential public safety adoption mechanisms to achieve FirstNet's overall mission, and solicits alternative or additional mechanisms to ensure FirstNet's mission success.