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Ex Parte (via ECFS)

November 7, 2014

Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

***Re: Connect America Fund*, WC Docket 10-90; *Lifeline and Link Up Reform and Modernization*, WC Docket No. 11-42**

Dear Ms. Dortch,

On Wednesday, November 4, Hank Hultquist, Cathy Carpino and I, of AT&T Services, Inc., met with Carol Mattey, Ryan Palmer, Alex Minard, Katie King, and Heidi Lankau, of the Wireline Competition Bureau, to discuss the need to reform the Commission's eligible telecommunications carrier (ETC) regime when the Commission implements Connect America Fund Phase II (CAF II) later this year.

We explained that AT&T, like other prospective participants, should be able to evaluate the CAF II opportunity simply by comparing its estimated cost to deploy broadband-capable networks to comply with the CAF II broadband obligations to the amount of CAF II support that the Commission will offer. Based on this straightforward analysis, carriers should be able to make their decision about whether to participate in CAF II. However, unless the Commission modifies its current ETC regime, a carrier also will have to factor in the cost of complying with non-broadband-related obligations, including participating in the Lifeline program and offering voice on a standalone basis throughout the carrier's ETC service area. As we have explained elsewhere, the cost to comply with these obligations is significant.[1]

We reiterated our support for the Commission reinterpreting section 214(e)(1) of the Act to limit ETC designations and associated obligations only to those areas where a carrier actually receives high-cost support. For existing price cap carrier ETCs, this means that those carriers' ETC service areas would encompass only the high-cost areas where the price cap carrier elects to receive (or to continue receiving) high-cost

[1] Comments of AT&T, WC Docket No. 10-90 et al., at n.81 & 32-33 (filed Aug. 8, 2014) (describing the substantial costs associated with continuing to provide standalone voice and participating in the Lifeline program).

support.[2] In the course of this conversation, we also discussed various unfounded concerns about the availability of voice service in areas where the price cap carrier is no longer an ETC. A carrier that is not an ETC cannot receive high-cost universal service support but it is by no means free to cease offering POTS. The authorization to cease offering a current telecommunications service is only provided through the section 214 discontinuance process and it is that process that will ensure that no consumers lose access to voice service. Before a carrier could discontinue interstate telecommunications services, the Commission would have to seek comment and ultimately be satisfied that the carrier seeking discontinuance is offering replacement services and/or there are alternative providers offering service in the same area.

We also discussed the importance of separating Lifeline from the high-cost ETC designation and dispensing with the current requirement that high-cost recipients offer voice service on a standalone basis. There is no logical connection between the provision of discounts on voice service required by Lifeline and the broadband deployment obligations of CAF II. Meeting the nation's broadband needs should be "job one" and because Lifeline participation can be burdensome, continuing to link the two programs only makes it harder for carriers to make an economic case for accepting CAF II. We explained that if the Commission maintains the standalone voice requirement in areas where a provider receives CAF support, it should clarify that ETCs are permitted to satisfy any one of their service obligations, including their voice obligation, using a "group, partnership or consortia."[3] The Commission concluded that such arrangements are acceptable in the Rural Broadband Experiments proceeding and AT&T asked that the Commission clarify in its order adopting CAF II final rules that any CAF ETC could use a group or consortium to provide the required services, even if this means that a non-ETC (e.g., a wireless affiliate of the ETC) may be offering voice telephony service to some customers. Even if the Commission concludes, as it should, that CAF recipients are not required to offer standalone voice service, the consortium clarification that we requested will still be valuable to all CAF participants (price cap carrier and competitors alike). Although not discussed in the meeting, it also is important for the Commission to clarify that a CAF recipient may satisfy its voice service obligations using an information service (and that this information service may be provided by a member of the ETC's group or consortium).

Finally, we discussed the Commission's suggestion to award frozen support to price cap carriers to continue offering voice service as an ETC in CAF II and RAF areas where there is no CAF II or RAF recipient after the completion of the competitive bidding process. We reiterated our belief that such support is not necessary because of the presence of unsubsidized voice providers, but if the Commission proceeds with the proposal, we emphasized the necessity of making this offer voluntary. If a carrier elects to accept funding to provide voice service in some or all of those areas, it would retain its ETC designation wherever it continues to receive CAF support. If a carrier declines the offer, its ETC designation would automatically sunset in such areas. By making this offer voluntary, the Commission will sidestep challenges to the sufficiency of the support. As noted above, the cost to continue providing standalone voice service in these areas is very high (about $3.5 billion/year in just the CAF II areas based on the CostQuest Broadband Access Tool), far in excess of what carriers like AT&T

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[2] *See id.* at 19.

[3] *Technology Transitions et al.*, GN Docket No. 13-5 et al., Order et al., 29 FCC Rcd 1433, ¶ 122 (2014).

currently receive in frozen support. AT&T will supplement the record by filing updated cost figures based on the Commission's latest version of its Connect America Model. If the Commission were to compel price cap carriers to continue providing voice service as an ETC in these areas for a significantly smaller amount of support than what the Commission's own model shows is the cost of doing so, it would fall far short of satisfying its statutory requirement to have sufficient support mechanisms and it is guaranteeing itself a court challenge.

Please do not hesitate to contact me at (202) 457-2041 should you have any questions about the discussion outlined above.

Sincerely,

/s/ Mary L. Henze

Mary L. Henze

cc: Carol Mattey
Ryan Palmer
Alex Minard
Katie King
Heidi Lankau