Federal Communications Commission
Washington, D.C. 20554

November 24, 2014

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

Re: WC Docket Nos. 10-90, 14-58

Dear Ms. Dortch:

With this letter, the Bureau formally submits into the record a staff analysis of historical costs experienced by rate-of-return carriers eligible for HCLS. The historical analysis and a detailed description of the Bureau's methodology can be found at http://www.fcc.gov/wcb/Historical Analysis.zip.

The Bureau created a data set including all rate-of-return carriers that submitted cost studies in each of the annual National Exchange Carrier Association's cost study results filings from its October 1, 2014 HCLS filing for the 2013 report year through its October 1, 2005 HCLS filing for the 2004 report year.[1] There are 646 study areas meeting this criterion. The Bureau's analysis of the data set shows, first, that the 376 study areas with study area costs per loop (SACPL) in excess of 150 percent of the national average cost per loop (NACPL) in the 2014 filing (reimbursed for 75 percent of their unseparated loop costs in excess of that benchmark) experienced in the aggregate a 36 percent increase in costs over that period. In contrast, the 85 study areas with costs per loop between 115 and 150 percent (reimbursed for 65 percent of unseparated loop costs above 115 percent) had only a four percent increase in costs, while the 185 study areas with loop costs below 115 percent of the NACPL (no HCLS) saw a 14 percent decrease in costs.

[1] The Bureau excluded from the data set average schedule carriers and any carriers that are no longer eligible for HCLS because they converted to price cap regulation since 2005 or are rate-of-return affiliates of price cap carriers. In addition, NECA reports data for any exchange subject to the parent trap rule separately from the remainder of it study area; the exchanges subject to the parent trap rule have been excluded from this analysis.

SAC Group	Count	2004 Reported Unseparated Revenue Req.	2013 Reported Unseparated Revenue Req.	% Change Report Years 2004 to 2013
Group 1: SACPL > 150% of NACPL	376	1,285,359,202	1,741,682,496	36%
Group 2: SACPL Between 115% & 150% NACPL	85	444,948,265	464,002,782	4%
Group 3: SACPL < 115% NACPL	185	647,146,557	557,013,524	-14%

Second, the Bureau's historical analysis shows that for the 2004 report, only 67 of the 646 study areas received no support because their SACPLs were below the 115 percent benchmark. By the 2013 report, 185 of the 646 study areas received no support because their SACPLs were below the 115 percent benchmark. This represents an increase of 118 study areas, or 18 percent of the group, that lost support due to increases in the NACPL.

On October 20, 2014, NTCA – The Rural Broadband Association (NTCA) submitted results showing the effects of the Commission's proposal to address the manner in which HCLS is calculated compared with the effects of NTCA's suggested modification for the Commission's proposal for a sample of eight study areas.[2] The Bureau has expanded that analysis by applying it to all rate-of-return study areas, not only the eight study areas in NTCA's sample. The Bureau's analysis can be found at http://www.fcc.gov/wcb/HCLSProposalsPublic.xlsx.[3]

In summary, the Bureau found the following with respect to the Commission's Proposal and NTCA's proposed modification to the proposal:

2015 Forecast	No Rule Change	Commission's Proposal in FNPRM	NTCA's Proposed Modification
Number of Study Areas Receiving Support	744	781	770
Projected Number of Study Areas that No Longer Will Receive HCLS	37	0	11
Max Support Lost (%) (Compared to No Rule Change Baseline)	N/A	7	3

[2] Letter from Michael R. Romano, NTCA, to Marlene H. Dortch, Commission Secretary, WC Docket No. 10-90, et al., Attachment (filed Oct. 20, 2014).

[3] Using NECA's October filing data, the Bureau calculated support payments for each SAC (excluding those with fixed per-line support payments due to the parent trap rule) under the current rules, the Commission's proposal, and NTCA's proposed methodology. The Bureau's calculations for support under existing rules were nearly identical to those in NECA's annual filing. The Bureau's calculations for support under the Commission's proposal and NTCA's proposed methodology differed only slightly from those calculated by NTCA.

As shown above, under NTCA's proposed modification, 11 study areas would lose all HCLS support: Oxford county Telephone (ME), North Penn Telephone Co. (PA), Citizens Telephone Co. (GA), Progressive Rural Telephone Co-op (GA), Citizens Telephone Co. (NC), Service Telephone Co. (NC), West Tennessee Telephone (TN), Carr Telephone Co. (MI), Winn Telephone Co. (MI), Cascade Communications (IA), and Benton Cooperative Telephone Co. (MN).

Finally, the Commission may consider State Broadband Initiative data from December 2013 as part of this proceeding.

Respectfully submitted,

/S/

Mark Walker
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Wireline Competition Bureau