LINCOLN OFFICE
SUITE 500
301 SOUTH 13TH STREET
LINCOLN, NEBRASKA 68508-2578
TELEPHONE 402-437-8500
FAX 402-437-8558

OMAHA OFFICE
SUITE 525
10250 REGENCY CIRCLE
OMAHA, NEBRASKA 68114-3754
TELEPHONE 402-898-7400
FAX 402-898-7401

WOODS & AITKEN
L L P

THOMAS J. MOORMAN
DIRECT: (202) 944-9502
EMAIL: TMOORMAN@WOODSAITKEN.COM
WWW.WOODSAITKEN.COM
*ADMITTED TO PRACTICE ONLY IN THE DISTRICT OF COLUMBIA*

PLEASE RESPOND TO WASHINGTON ADDRESS

DENVER OFFICE
SUITE 525
8055 EAST TUFTS AVENUE
DENVER, COLORADO 80237-2835
TELEPHONE 303-606-6700
FAX 303-606-6701

WASHINGTON OFFICE
SUITE 310
5151 WISCONSIN AVENUE, N.W.
WASHINGTON, D.C. 20016-4124
TELEPHONE 202-944-9500
FAX 202-944-9501

January 30, 2015

***REDACTED – FOR PUBLIC INSPECTION***

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

**Re: WC Docket No. 10-90: Submission of Notice of Ex Parte Presentation**

Dear Ms. Dortch:

Pursuant to the Third Supplemental Protective Order, WC Docket No. 10-90, DA 12-1995, released December 11, 2012, attached for filing are two copies of the redacted version of the Highly Confidential Version of the Notice of Ex Parte of the Nebraska Companies that has been filed today with the Commission.

Please contact the undersigned should you have any questions.

Respectfully submitted,

Thomas J. Moorman

Thomas J. Moorman

Attachments

LINCOLN OFFICE
SUITE 500
301 SOUTH 13TH STREET
LINCOLN, NEBRASKA 68508-2578
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FAX 402-437-8558

OMAHA OFFICE
SUITE 525
10250 REGENCY CIRCLE
OMAHA, NEBRASKA 68114-3754
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January 30, 2015

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

**Re: WC Docket No. 10-90: Submission of Notice of Ex Parte Presentation**

Dear Ms. Dortch:

On January 28, 2015, Ken Pfister of Great Plains Communications, Wendy Thompson Fast of the Consolidated Companies, Harold Furchtgott-Roth of Furchtgott-Roth Economic Enterprises,[1] and Cheryl L. Parrino of Parrino Strategic Consulting Group met with Commissioner O'Reilly and his Wireline Legal Advisor, Amy Bender. Mr. Pfister, Ms. Fast, Mr. Furchtgott-Roth and Ms. Parrino attended the meeting on behalf of the Nebraska Companies.[2]

The meeting was held to discuss the Nebraska Companies' positions on various issues associated with rate of return carrier universal service reform using the attached presentation

[1] Mr. Furchtgott-Roth left each of the meetings when confidential materials were discussed.

[2] The Nebraska Companies are: Arlington Telephone Company, Blair Telephone Company, Clarks Telecommunications Co., Consolidated Telephone Company, Consolidated Telco, Inc., Consolidated Telecom, Inc., The Curtis Telephone Company, Eastern Nebraska Telephone Company, Great Plains Communications, Inc., Hamilton Telephone Company, Hershey Cooperative Telephone Company, Inc., K & M Telephone Company, Inc., The Nebraska Central Telephone Company, Northeast Nebraska Telephone Company and Rock County Telephone Company.

entitled "Universal Service Reforms for ROR Carriers." During the meeting, there was brief discussion of two additional attachments – the "Nebraska Companies' Proposed Rate-of-Return USF Framework, Options and Transitions" and "A Blueprint for Reforming Rate-of-Return USF" -- that would be presented to various Commission Staff on January 29, 2015. The presentations at this meeting were consistent with the attached documents which were distributed at each of the meetings. The Nebraska Companies note that nothing in the proposals contained in the presentation materials was intended to suggest a mandatory migration to model-based Universal Service Fund support for a rate of return carrier.

This letter is being filed pursuant to Section 1.1206(b) of the Commission's rules.

Sincerely,

Thomas J. Moorman

Thomas J. Moorman
Counsel to the
Nebraska Companies

Attachments

cc: Commissioner O'Rielly (via email)
Amy Bender (via email)

REDACTED FOR PUBLIC INSPECTION

# Universal Service Reforms for ROR Carriers

## On Behalf of the Nebraska Companies


Ken Pfister, Great Plains Communications

Wendy Thompson Fast, Consolidated Companies

Harold Furchtgott-Roth, Furchtgott-Roth Economic Enterprises

Cheryl L. Parrino, Parrino Strategic Consulting


Arlington Telephone Company, Blair Telephone Company, Clarks Telecommunications Co., Consolidated Telephone Company, Consolidated Telco, Inc., Consolidated Telecom, Inc., The Curtis Telephone Company, Eastern Nebraska Telephone Company, Great Plains Communications, Inc., Hamilton Telephone Company, Hershey Cooperative Telephone Company, Inc., K & M Telephone Company, Inc., The Nebraska Central Telephone Company, Northeast Nebraska Telephone Company, and Rock County Telephone Company.

# ROR Carriers Serve the Most Sparsely Populated Areas of the Nation

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ROR carriers serve more land area than PC carriers

Yet, ROR carriers have a fraction of the number of customers

Source: CAM v4.2

# The Much Lower Density of ROR Companies' Service Areas Means They Are Higher Cost

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Source: CAM v4.2
Calculations were done on a CBG basis.

# The Presence of Cable Competition Confirms that PC Areas are Lower Cost

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Source: CAM v4.2

# The Business Strategies of ROR and PC Carriers Have Been Different

- Unlike PC carriers, who for the most part only extended facilities if there was a business case, most ROR carriers have deployed 4/1 M to high-cost areas, even extremely high-cost areas
  - ROR carriers are committed to deploy broadband to most or all customers
- In 2011, the FCC recognized that ROR carriers had deployed considerable broadband in their networks
  - **REDACTED FOR PUBLIC INSPECTION** – Confidential Information – Subject to Third Supplemental Protective Order in WC Docket No. 10-90 Before the Federal Communications Commission

# Reforms Should Recognize Differences Between Service Areas and Companies

- Ongoing USF is essential to RoR carriers
  - ROR carriers do not have the revenue opportunities that PC carriers have
  - If funding is insufficient or unpredictable, voice service will be threatened
  - In many, if not most, ROR service areas, ongoing support is necessary because the fewer the number of locations in a given area, the greater the need for ongoing support
- Auctions are inappropriate and not sound policy in ROR areas
  - ROR carriers have demonstrated that they will serve high-cost customers under a "reasonable request" standard
  - The model constrains the amount of funding available
  - The challenge process will eliminate support in areas with a viable competitor
  - Historical FCC spectrum auctions transferred a public asset to the private sector
    - FCC USF auctions are entirely different and have different affects on market efficiency

# Historical Differences in Funding and Carrier Motivations Should be Considered

- Funding should be retained in areas only capable of 4/1 M because USF is necessary to make the investment financially viable
  - ROR carriers extended facilities based on historical service commitments and on the understanding that USF would be available
  - Carriers have secured debt or equity financing for 4/1 M facilities
  - Funding is necessary to maintain voice and broadband service in these areas
  - Support will not be available if there is a qualified competitor
- Budget constraints don't allow full funding, so the build-out times must be extended
  - In extremely rural locations, the cost differential between 4/1 M and 10/1 M is significant

# The Alternative Technology Cutoff Should Not be Applied to ROR Areas

- There needs to be a different means of balancing the budget in ROR areas than the ATC
- Some customers who currently have broadband would no longer be served due to lack of funding
- Some companies have a high proportion of their customers over the ATC
- Some companies have already deployed facilities

| Broadband Speed | % of Customers |
|---|---|
| None | 3.5% |
| Less than 4/1 M | 8.5% |
| 4/1 M to 10/1 M | 7.9% |
| 10/1 and Over | 80.1% |

Data is for Consolidated Tele NE

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Source: A-CAM v 1.0

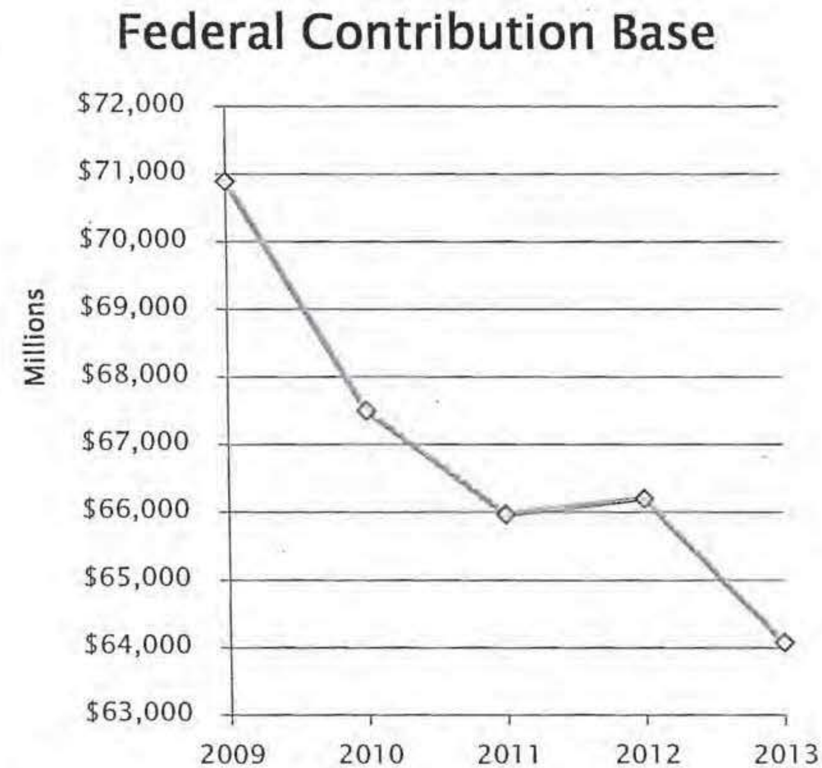
- $52.50 Benchmark
- $531.00 ATC to meet ROR budget
- Cable Unserved = True
- Fixed Wireless Unserved = False

# Fixed Wireless is Not Comparable to Wireline Broadband

- Fixed wireless is not easily scalable, has major capacity limitations, can be attenuated by weather and obstacles and is subject to interference
  - Many fixed wireless carriers don't provide voice service
  - Fixed wireless providers object to a 10 M speed standard and Chairman Wheeler's proposed speed target of 25 M would be even more unattainable
- Because ROR service areas are smaller than PC areas, eliminating support based on the "presence" of fixed wireless can substantially impact a ROR carrier's willingness to make investments

# Contributions Reform is Needed

- Without reform, the contributions base will be seriously insufficient
- The base must be broadened and inequities eliminated
  - Broadband should be part of the funding base to pay for the infrastructure needed to provide the service
  - ROR broadband customers pay USF surcharges, but PC and cable customers don't




Nebraska's state fund has seen similar contribution base decreases

# States Continue to Have a Stake in Providing Broadband to Their Customers

- The Law specifies that states have a role in supporting universal service
- The insufficient federal budget makes a state financial role especially necessary
- FCC should ensure that states continue to have a viable contribution base in any contribution reform initiatives
  - Each jurisdiction's base should be consistent with its funding obligations
  - About half the states have high-cost funds totaling $1.5 B in state support
  - Over the last 6 years, Nebraska ROR companies have received on average $23 M annually in NUSF

# Conclusions

- Universal service policies should reflect the differences between ROR and PC companies' motivations and service areas
  - Model support should be available for areas currently served by 4/1 M broadband
  - Auctions are inappropriate and not sound policy in these high-cost areas
  - On-going support is needed, especially in extremely rural areas
  - Fixed wireless is not a viable substitute for wireline broadband
  - The budget should be balanced without defunding the highest-cost customers
- Reform contributions so broadband supports FUSF and to ensure that states still have a viable contribution base

**Nebraska Companies' Proposed Rate-of-Return USF Framework, Options and Transitions**

In recent filings, the below identified Nebraska rural companies ("Nebraska Companies")[1] have introduced a rate-of-return ("ROR") federal universal service fund ("USF") reform framework in response to the request for comment contained in the *Further Notice of Proposed Rulemaking* ("*FNPRM*") as included within the June 10, 2014 action by the Federal Communications Commission ("FCC").[2] This document will summarize and update this framework to assist parties in evaluating the Nebraska Companies' recommendations. These proposals attempt to implement a balanced approach to USF reform for all ROR carriers, recognizing the FCC has limited the total ROR budget to no more than $2 billion annually, including Connect America Fund ("CAF") support for intercarrier compensation reductions ordered in the *USF/ICC Transformation Order*.[3]

As with any movement to a new recovery mechanism for ROR carriers, such as that being addressed in the *FNRPM*, the Nebraska Companies recognize that interim steps are reasonable and should provide for a rational transition to the permanent ROR CAF mechanism the Commission ultimately adopts. Under the framework, therefore, ROR carriers[4] will be able to opt into model-based support *after* the FCC finalizes the Connect America Cost Model for such carriers (the "ROR CAM"). The ROR CAM would be an interim CAF-based mechanism until the long-term ROR CAF is established. Meanwhile, companies that wish to continue to receive High Cost Loop Support ("HCLS") and Interstate Common Line Support ("ICLS") (sometimes referred to herein as "legacy support") continue to partially receive such support during the transition.

This document describes the ROR methodologies for the following aspects of the transition to the use of the permanent ROR CAF by all companies: (1) optional CAM-based

---

[1] The Nebraska Companies are: Arlington Telephone Company, Blair Telephone Company, Clarks Telecommunications Co., Consolidated Telephone Company, Consolidated Telco, Inc., Consolidated Telecom, Inc., The Curtis Telephone Company, Eastern Nebraska Telephone Company, Great Plains Communications, Inc., Hamilton Telephone Company, Hershey Cooperative Telephone Company, Inc., K & M Telephone Company, Inc., The Nebraska Central Telephone Company, Northeast Nebraska Telephone Company and Rock County Telephone Company.

[2] *See In the Matter of Connect America Fund, Universal Service Reform — Mobility Fund, ETC Annual Reports and Certifications, Establishing Just and Reasonable Rates for Local Exchange Carriers, Developing an Unified Intercarrier Compensation Regime, Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking*, WC Docket Nos. 10-90, 14-58, 07-135, WT Docket No. 10-208, CC Docket No. 01-92, FCC 14-54, released June 10, 2014 (the "*FNPRM*").

[3] *See In the Matter of Connect America Fund, et al., Report and Order and Further Notice of Proposed Rulemaking*, WC Docket No. 10-90, *et al.*, 26 FCC Rcd 17663 (2011) at ¶ 126.

[4] The terms "ROR companies" and "ROR carriers" are used interchangeably.

support; (2) legacy support; (3) transition to permanent ROR CAF support; and (4) implementation of the budget adjustment calculation. Finally, the Nebraska Companies propose a timeline for implementing this framework. As discussed herein, the Nebraska Companies' framework has a number of inter-dependent parts that, as an integrated whole, allows the Commission to "adopt a stand-alone broadband funding mechanism for rate-of-return carriers."[5] Accordingly, the Nebraska Companies retain their rights to reassess their support for this framework should any modifications be made to it.

## 1. Optional CAM-Based Support

### A. Process to Establish the ROR CAM

Through workshops, preferably virtual workshops, with periodic publishing of illustrative results, the Nebraska Companies envision the FCC will establish the ROR CAM[6] by tailoring the CAM model currently applicable to interstate Price Cap ("PC") regulated carriers.[7] After this workshop process is complete,[8] ROR companies will be able to either choose to remain on legacy support or receive CAM-based support. The entire budget plus available reserves will be distributed among ROR CAM electing companies and legacy support electing companies. There will be an annual opt-in window for ROR CAM in Years 1, 2 and 3, which will be 90 days before the beginning of the initial year, and 30 days before Years 2 and 3 of the interim period. To encourage conversion to ROR CAM-based support, companies can make the election to receive CAM-based support on a study area-by-study area basis. Companies opting for CAM support will remain on that support for ten years, at which time ROR CAM-electing companies will receive permanent CAF.

[5] *FNPRM* at ¶ 269.

[6] In the *FNPRM*, the Commission requested comments on "what specific changes should be implemented in the model before using it to calculate the offer of model-based support for rate-of-return carriers that voluntarily elect to receive model-based support." *FNPRM* at ¶ 290 (footnote omitted).

[7] *See Wireline Competition Bureau Announces Availability of Version 4.2 of the Connect America Phase II Cost Model and the First Version of an Alternative Cost Model Being Developed for Potential Use in Rate-of-Return Areas, Public Notice,* WC Docket No. 10-90, DA 14-1884, released December 22, 2014. The Nebraska Companies anticipate that other changes to the PC CAM may be proposed based on, for example, the reconciliation process required between Study Areas and Census Blocks. The group reserves its rights to address any changes in the PC CAM that may be made during the process used by the Commission to establish the ROR CAM.

[8] For purposes of this paper, the Nebraska Companies will not use actual years but rather Year 1, 2 and so on to reflect sequential 12-month periods beginning on the date that the FCC allows ROR carriers to begin receiving federal USF through the ROR CAM. It is expected that Year 1 will begin on January 1, 2016, although the time lines may change as necessary.

The Nebraska Companies note that, under their proposal, the ROR CAM will be run utilizing the PC funding threshold of $52.50 per location but no Alternative Technology Cutoff ("ATC") as a ceiling.[9] The ATC should not be applied to ROR carriers because it would be unreasonable for a ROR company's customer to be exposed to the risk of a reduction in the quality or availability of existing broadband service from a lack of either USF or CAF support to the ROR company. Further, all census blocks with costs above the funding threshold will receive support, including those that currently have broadband facilities capable of providing 4/1 Mbps service.

### B. Build-out Requirements for Companies Opting for ROR CAM Support

Companies opting for CAM-based support will be required to build out to at least 95% of customer locations with the remaining 5% of customer locations being served based on the existing "reasonable request" standard. Unlike PC carriers, ROR companies would not return 5% of support as they will continue to be required to serve all customers.[10] The timeframe for build out by ROR companies should be longer than the timeframe recently ordered for PC carriers, in recognition of the cost differences between most ROR and PC areas. Accordingly, the Nebraska Companies recommend that ROR carriers be allowed at least 10 years after receipt of CAM support to achieve build out.[11]

### C. Transition to CAM-Based Support

In order to lessen the demands on the ROR budget, in the first year after a company opts for CAM-based support, the company's support will be comprised of 50% ROR CAM support and 50% legacy support.[12] In ensuing years, support will be 100% ROR CAM-based support. In both the first year and subsequent years, a company's support will be subject to adjustments to meet the ROR budget as provided for in Section 4, below.[13]

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[9] The framework proposes an alternative method for balancing the budget, as described in Section 4, below.

[10] Consistent with Section 214(e) of the Communications Act of 1934, as amended, the eligibility for ROR CAM-based support would be the same Eligible Telecommunications Carrier status applicable for ROR company legacy support.

[11] Subject to the use of the standard waiver requirements, a waiver of the established time requirement is a reasonable approach. Because ROR budget constraints will reduce levels of support available, ROR carriers will not receive the necessary level of support identified by the ROR CAM to serve all of the rural areas throughout the service territory and a waiver of the established time requirement is a reasonable approach.

[12] The electing ROR Carrier's HCLS and ICLS will be the annualized amount that it received in the calendar year preceding the election.

[13] When exogenous and/or force majeure events render application of the ROR CACM to a ROR carrier improper, that ROR company would be able to seek from the Commission a waiver of the ROR CACM results. In these instances, the Commission would apply the traditional waiver standard under 47 C.F.R. 1.3, including the "public interest" standard arising from *Northeast*

### D. Streamlined Challenge Process for Carriers Electing ROR CAM Support

A ROR-specific challenge process for determining the existence of unsubsidized competitors would be streamlined for carriers opting to receive CAM-based support. Census blocks will be ineligible for CAM-based support where either a business case can be made absent support or where it can reasonably be assumed that comparable broadband service such as cable/video-based broadband competition is available. All other census blocks will be presumed to be non-competitive; thus, CAM-based support will be available. The Nebraska Companies anticipate that this streamlined challenge process will eliminate frivolous challenges, recognize the limited resources of smaller carriers, increase the likelihood of carriers opting for CAM-based support, and result in better deployment of scalable broadband service.

An entity challenging (the "Challenger") the presumption that out-of town areas are not competitive will have the burden of proof to demonstrate that it provides service *throughout* a given census block at a speed of 4/1 Mbps broadband service currently and is technically capable of delivering 10/1 Mbps service based on the scalability of its planned network. Further, the Challenger must adhere to the standards described in the FCC *Price Cap Phase II Challenge Process Order* with the further guidance provided by the FCC in its June 20, 2014 Public Notice.[14] Once the results of the ROR CAM have been made and accepted by a company, no reduction in support based on the actions of a competing provider will be permitted for the investment's economic life.

## 2. Legacy Support

Pending the establishment of a permanent ROR CAF, the FCC would permit companies to remain on legacy support. This group of companies would continue to receive frozen legacy HCLS and ICLS support subject to a legacy expense adjustment in certain circumstances and a budget reduction calculation to meet the ROR budget as provided for in Section 4, below.

---

*Cellular Telephone Co. v. FCC*, 897 F.2d 1164, 1166 (D.C. Cir. 1990) (*accord FNPRM* at ¶ 79, n.165), and the hardship, equity, or more effective implementation of overall policy standards acknowledged to be appropriate in *WAIT Radio v. FCC*, 418 F.2d 1153, 1159 (D.C. Cir. 1969).

[14] Those conditions include offering qualified broadband service (including speeds, minimum usage allowance, latency and price) and voice service (at a reasonable comparable price) throughout the entire census block. *See In the Matter of Connect America* Fund, *Report and* Order, WC Docket No. 10-90, 28 FCC Rcd 7211 (Wireline Comp. Bur. 2013) (the "*Price Cap Challenge Process Order*") and *Wireline Competition Bureau Provides Guidance Regarding Phase II Challenge Process, Public Notice,* WC Docket No. 10-90, DA 14-864, released June 20, 2014; *see also In the Matter of the Connect America Fund, Report and Order*, WC Docket No. 10-90, DA 13-2115, released October 31, 2013 (establishing service standards applicable to PC carriers).

The Nebraska Companies propose to annually compare CAM operating expenses with company-specific operating expenses[15] reported in the most recent Annual USF Data Collection. USF expense recovery would be reduced for those companies whose expenses are found to be excessive compared to CAM operating expenses.[16] Affected companies would have the opportunity to seek a waiver from the FCC to reduce the impact of this legacy expense adjustment. The legacy expense adjustment would only apply to cost companies, since average schedule companies' support is not dependent on their expenses. To give companies the opportunity to make operating adjustments, the percentage by which a company's actual expenses can exceed CAM operating expenses, the "Expense Overage Percentage," will be phased in over four years as follows:

| Year | Expense Overage Percentage |
|---|---|
| 1 | 100% |
| 2 | 75% |
| 3 | 50% |
| Thereafter | 25% |

Excessive Legacy Operating Expenses would be calculated as follows: [17]

**Excessive Legacy Operating Expenses**

=Allowable Expenses – Actual Expenses

=ROR CAM Expenses * (1+Expense Overage Percentage) – Actual Expenses

Unlike companies opting for ROR CAM support, companies remaining on legacy support will not have a specific build-out requirement, but rather will continue to remain subject to the FCC's "reasonable request" policy until the permanent ROR CAF support is established and the FCC addresses possible changes to the policy.

[15] Operating Expenses include General and Administrative expenses, Plant Specific expenses, and Plant Non-Specific expense excluding Depreciation.

[16] No pre-existing capital investments made by ROR companies would be disallowed, as companies that made investments under then-existing FCC rules should be able to reasonably recover those costs and companies may have incurred debt, e.g., such as from Rural Utilities Service loans, to make those investments.

[17] For example, assume that a company's actual operating expense is $5,000 and the ROR CAM shows the study area to have modeled operating expense of $3,000. If the Expense Overage Percentage is 50%, the Excessive Legacy Operating Expenses = $3,000 * (1+ 50%) - $5,000 = ($500). A negative amount indicates excessive operating expenses and represents the reduction in that company's legacy support for that year.

## 3. Transition to Permanent ROR CAF Support

At the start of Year 1, the FCC would open a proceeding to establish a permanent ROR CAF and determine the process for converting *all* ROR carriers to this mechanism. The proceeding will be completed in Year 3 for implementation the following year.

In addition, the Nebraska Companies strongly believe that permanent ROR CAF support should include ongoing support for most if not all ROR areas. Given that ROR carriers serve some of the least-dense and highest-cost areas of the nation, it will be necessary that USF support be ongoing in order to help ensure that network investments and the cost of operating and maintaining such networks continue over the long term.

### A. Transition for Companies Remaining on Legacy Support

Carriers receiving legacy support at the end of Year 3 will transition to the permanent ROR CAF over a four-year period. The Nebraska Companies anticipate that a company having its study area(s) remain on legacy support presumably will do so because the ROR CAM produces less support than the legacy mechanisms. By providing three years of frozen legacy support plus four years to transition to long-term CAF, these study areas should be able to meet their debt obligations and adjust operations to future cash flows. Companies with company-specific conditions which would make such a transition unreasonable may seek a waiver from the FCC.

### B. Transition for ROR Companies Electing ROR CAM

Carriers electing ROR CAM would transition to the permanent ROR CAF after the 10-year build-out period.

## 4. Implementation of the Budget Adjustment Calculation

Even after excessive legacy expenses are adjusted, the Nebraska Companies anticipate that the ROR budget will be exceeded as companies transition to a permanent ROR CAF. Thus, a methodology must be in place that fairly and equitably reduces all companies' support to meet the budget. The following formula would be applied annually to adjust support for all carriers rather than utilizing an ATC:[18]

$$\textit{Funding Gap per Location} = \frac{[\textit{Universal Service Demand} - (\textit{RoR Budget} + \textit{Available Reserves} - \textit{CAF ICC})]}{\textit{ROR Locations}}$$

$$\textit{Study Area Adjustment} = \textit{Funding Gap per Location} * \textit{Study Area's Locations}$$

[18] The budget adjustment would apply to all companies regardless of whether the company opted for ROR CAM support or the company remained on legacy support.

The maximum annual reduction for a given ROR company would be 50%, regardless of whether that company is receiving ROR CAM or legacy support. For a company receiving legacy support, the Study Area Adjustment would be determined based on its support level once excessive legacy expenses are adjusted. While the Nebraska Companies believe the ROR budget level is inadequate to meet demand, adjusting each company's support by the same amount per location is an equitable approach to ensure that all companies contribute to meeting the budget.

## 5. The Transition Timeline

The following timeline presents the complete eight-year transition for all ROR companies under this framework:

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 | Year 11 and Thereafter |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FCC Activity | Proceeding to establish permanent ROR CAF Support | | | | | | | | | | |
| Optional ROR CAM Support | 50% frozen & 50% ROR CAM support* | 100% ROR CAM Support* | | | | | | | | | |
| Legacy Support Transition | Frozen Support = Legacy Capital Expenditure Support plus Constrained Operating Expenses | | | 80% Frozen Support + 20% ROR CAF Support | 60% Frozen Support + 40% ROR CAF Support | 40% Frozen Support + 60% ROR CAF Support | 20% Frozen Support + 80% ROR CAF Support | 100% ROR CAF Support | 100% ROR CAF Support | 100% ROR CAF Support | 100% ROR CAF Support |

*Companies may opt for model support in years 1, 2 or 3. Prior to opting for model support companies will follow the legacy support transition. In the first year of election, companies will receive 50% frozen support and 50% ROR CAM support.

REDACTED FOR PUBLIC INSPECTION

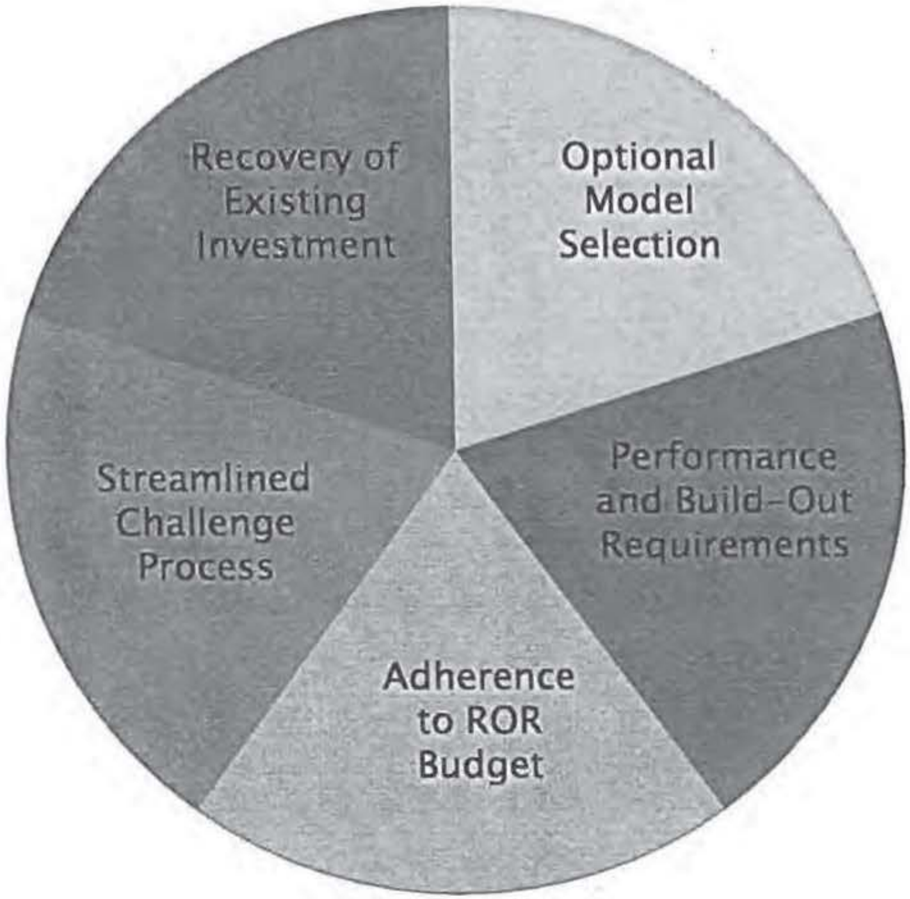
# A Blueprint for Reforming Rate-of-Return USF

## On Behalf of the Nebraska Companies*


Ken Pfister, Great Plains Communications
Wendy Thompson Fast, Consolidated Companies
Cheryl L. Parrino, Parrino Strategic Consulting
Thomas Moorman, Woods & Aitken
Scott Schultheis, Reynolds Schultheis Consulting
Jeff Reynolds, Reynolds Schultheis Consulting
Edit Kranner, Consortia Consulting


*Arlington Telephone Company, Blair Telephone Company, Clarks Telecommunications Co., Consolidated Telephone Company, Consolidated Telco, Inc., Consolidated Telecom, Inc., The Curtis Telephone Company, Eastern Nebraska Telephone Company, Great Plains Communications, Inc., Hamilton Telephone Company, Hershey Cooperative Telephone Company, Inc., K & M Telephone Company, Inc., The Nebraska Central Telephone Company, Northeast Nebraska Telephone Company, and Rock County Telephone Company.

# ROR USF Reform is Needed Now – Nebraska's Plan Meets the FCC's Goals

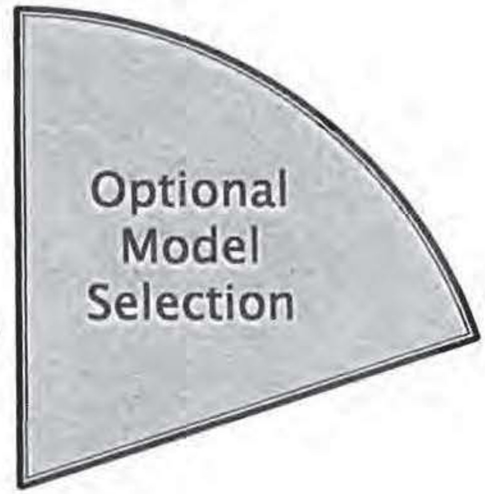



## FCC Goals for Long-Term Reform of ROR USF:

- Support is based on forward-looking costs
- Support is distributed equitably and efficiently
- Support remains within budget
- Support is calculated such that there is no double recovery

# Support Will Transition to Forward-Looking Costs

- Support is directed to areas where there is no competition and a business case cannot be made without support
- In the first three years of the transition, carriers that so elect can move study areas* to model support
- Carriers are incentivized to move to the model support because legacy support is frozen and limited
- All carriers will ultimately receive ROR CAF support
- Virtual workshops will be used to make the A-CAM appropriate for ROR carriers




*To encourage companies to select model support, the election is made on a study area basis

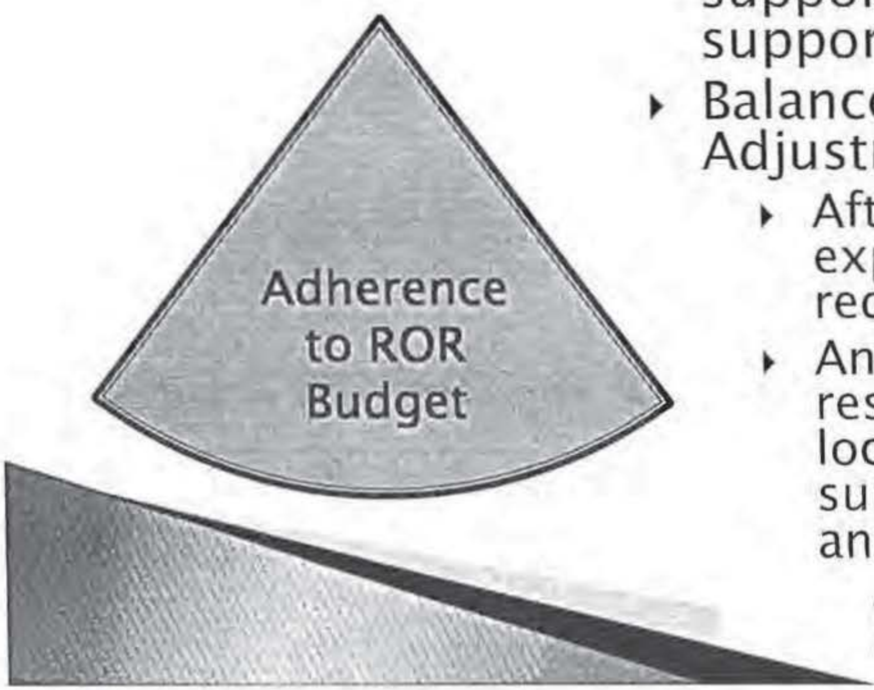
# Companies Opting for Model Support Will Build-Out Over 10 Years

- Companies electing model support must build-out to 95% of locations within their service areas within ten years
- ROR carriers need longer to deploy facilities than PC carriers because of the higher cost of ROR areas
- 100% of support is provided even though only 95% of the locations are served because companies have an obligation to extend service to the remaining 5% of locations on a "reasonable request" basis
- Companies remaining on legacy support will extend service based on a "reasonable request" basis

Performance and Build-Out Requirements

# The Budget Adjustment Calculation Equitably Allocates the Budget

- A-CAM will be run without an ATC
  - Customers with costs over the ATC will not be relegated to substandard service
  - ROR carriers have built facilities to the highest-cost customers
  - Some ROR carriers have a large portion of the highest-cost customers
- In the first year, carriers electing model support receive 50% legacy and 50% model support to ease the budget impact
- Balances the budget using a Budget Adjustment Calculation
  - After comparing legacy expenses* to model expenses, excessive legacy expenses will be reduced
  - Any budget deficit, after utilizing budget reserves, is allocated to all carriers on a per location basis except that no carrier's future support will be less than 50% of the carrier's annual calculated support




*General and Administrative Expenses, Plant Specific Operating Expenses, Plant Non-Specific Operating Expenses excluding Depreciation Expense

# Support is Distributed Equitably and Efficiently

| Year | Expense Overage Percentage |
|---|---|
| 1 | 100% |
| 2 | 75% |
| 3 | 50% |
| Thereafter | 25% |

**Formula:**

Excessive Legacy Operating Expenses
=Allowable Expenses – Actual Expenses
=ROR CAM Expenses * (1+Expense Overage %)
– Actual Expenses

**Example:**

Expense Overage Percentage$_{\text{Year 3}}$ = 50%;
Study Area$_A$ ROR CAM Expenses = \$3,000
Study Area$_A$ Actual Legacy Expenses = \$5,000
Excessive Legacy Operating Expenses = (\$500)

- Step 1: Adjust Excessive Expenses
  - For cost companies electing legacy support, actual expenses are compared to modeled expenses to determine excessive expenses
  - The imposition of excessive expense limits are phased in so that carriers can adjust operations
- Step 2: Allocate Remaining Overage
  - The remaining budget overage is allocated on a per location basis to reduce each carrier's support subject to a limit of 50% of each carrier's annual support

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# Dashboard for Our Impact Analysis Model

- Dashboard allows for the selection of various input parameters
  - A-CAM
  - Budget Constraints
- The annual support amount for each company is calculated
- Support amounts are summed to determine the total support paid to all ROR companies

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# The Challenge Process Should be Efficient and Appropriately Target Funding


- The PC challenge process is time consuming, expensive and places the burden and risk on the ILEC
- If rigorously enforced, the Performance Standards Order would only fund cable competitors
- No reduction in support based on the actions of a competing provider will be permitted for the life of the investment
- The Nebraska Companies' proposal
  - Streamlines the ROR challenge process for companies electing model support
  - Achieves the policy objective of targeting support to areas in need

# Competitive Areas Can be Determined by Geography, Not a Challenge Process

- The challenge process could be streamlined by not providing support in some census blocks with costs higher than $52.50
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| Cost | Competitive | Support |
|---|---|---|
| Less than $52.50 | Yes | No support because the cost is less than the funding threshold |
| Between $52.50 and $60.00 | Yes | No support because it is assumed to be competitive |
| Over $60.00 | No | Support for cost above $52.50 |

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# Companies Are Allowed an Opportunity to Recover Existing Investment


- Frozen legacy support, adjusted for excessive expenses, is available for a period of time
- Even though legacy operating expenses are adjusted, capital recovery is frozen
- The transition provides an opportunity for carriers to meet debt obligations and adjust operations
- The transition does not cause a company's support to "whipsaw" as might happen with other data-only plans

# Transition to ROR Permanent CAF Support

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 | Year 11 and Thereafter |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FCC Activity | Proceeding to establish permanent ROR CAF Support | | | | | | | | | | |
| Optional ROR CAM Support | 50% frozen & 50% ROR CAM support* | 100% ROR CAM Support* | | | | | | | | | 100% ROR CAF Support |
| Legacy Support Transition | Frozen Support = Legacy Capital Expenditure Support plus Constrained Operating Expenses | | | 80% Frozen Support + 20% ROR CAF Support | 60% Frozen Support + 40% ROR CAF Support | 40% Frozen Support + 60% ROR CAF Support | 20% Frozen Support + 80% ROR CAF Support | 100% ROR CAF Support | 100% ROR CAF Support | 100% ROR CAF Support | |

*Companies may opt for model support in years 1, 2 or 3. Prior to opting for model support companies will follow the legacy support transition. In the first year of election, companies will receive 50% frozen support and 50% ROR CAM support.

# ROR Carriers Serve the Most Sparsely Populated Thus the Highest Cost Areas

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Source: CAM v4.2
Calculations done on a CBG basis.

# Policies Adopted in the PC Order Should be Modified for ROR

- Retain funding in areas currently capable of 4/1 M because USF is necessary to make the investments financially viable
  - The FCC recognized the difference between ROR and PC companies in the Transformation Order
- An ATC should not be used to balance the budget
  - ROR carriers extended facilities based on historical service commitments and the understanding that USF would be available
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  - ROR carriers are committed to deploy broadband to all customers
- In most ROR service areas, ongoing support is necessary
  - The fewer the number of locations in a given area, the greater the need for ongoing support
- Budget constraints don't allow full funding, so the build-out times must be extended
  - In extremely rural locations, the cost differential between 4/1 M and 10/1 M is significant

# Conclusions

- Allow companies to opt into model support
  - Use a streamlined competitive ROR challenge approach by eliminating support in areas with costs less than $60 per month
  - Require build out to 95% of locations with the remaining 5% of locations to be served on a "reasonable request" standard
  - Retain funding for areas with 4/1 M service currently
- Companies may remain on legacy support
  - Freeze legacy capital support for three years, then transition to ROR CAF support over the next five years
  - Limit company's legacy expenses by comparing actual expenses to model expenses
- After incorporating budget reserves, balance the budget without an ATC by allocating any budget overage to companies on a per location basis, subject to a maximum support loss of 50%
- On-going support is necessary in most ROR areas