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April 20, 2015

VIA ECFS

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:

The Nebraska Companies[1] herein provide modifications to their original USF reform plan and transition for rate-of-return ("ROR") companies, each of the Nebraska Companies being a ROR company.[2] The revised plan ("Plan")[3] includes several changes to the original version. The changes reflect feedback from various parties in an attempt to achieve a greater consensus that will enable the Commission to move forward with federal Universal Service Fund ("USF") reforms applicable to ROR companies.[4] The changes in the Plan include:

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[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] As the record in this proceeding reflects, the Nebraska Companies provided their original plan to the Federal Communications Commission (the "Commission" or the "FCC") entitled "Nebraska Companies' Proposed Rate-of-Return USF Framework, Options and Transitions" in a series of ex partes the Commissioners and Commission Staff at the end of January this year. *See*, *e.g.*, Letter to Marlene H. Dortch, Secretary, from Thomas J. Moorman, Counsel to the Nebraska Companies, Submission of Notice of Ex Parte, WC Docket No. 10-90, filed February 2, 2015 (Meeting with Commission Staff).

[3] A detailed description of the updated NE Plan is set forth in the accompanying document entitled, *Revised Version of Nebraska Companies' Proposed Rate-of-Return Framework, Options and Transitions.*

[4] *See generally 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*

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- Allowing companies to permanently remain on legacy support (*i.e.*, High Cost Loop Support and Interstate Common Line Support (the "Legacy Support")), but at reduced levels and with the provision that future capital expenditures for a given census block be no more than the ROR Connect America Fund Model ("A-CAM"). [5]
- Lengthening to four years the transition period for companies opting for A-CAM support and establishing a method for funding it.
- Reducing Legacy Support for companies whose operating expenses are determined to be in excess of similarly situated companies.
- Modifying the budget adjustment calculation applicable to all companies that allows the FCC to meet its ROR budget targets in a fair and equitable manner.
- Extending model recipients' broadband build-out requirement timeframe in order to serve 95% of all locations, given that the ROR budget does not fully fund A-CAM.[6]

A central goal of the Nebraska Companies that continues in the revised Plan is to establish a method for allowing companies to optionally elect funding from A-CAM while also allowing other companies to remain on Legacy Support. This option is key in light of variances between the companies vis-à-vis their broadband deployment. Each company should be provided the opportunity to determine which USF support system best suits its needs. Thus, in the first three years of the Plan a study area may elect to receive model-based support. Companies that elect model support would transition gradually to model-based support over a four-year period.

Companies that do not elect model-based support would continue to receive Legacy Support indefinitely with the following adjustments to their support. Some companies remaining on Legacy Support[7] would be subject to reductions because their plant specific and non-plant specific operational expenses ("Opex") exceed the levels of similarly situated companies' expenses.[8] Support would be reduced to the extent those Opex expenses exceed one-half standard deviation above the median level of expenses for similarly situated companies. The ROR budget savings arising from such reductions would be made available to other Legacy

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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.

[5] The Commission has indicated that it would use the name "A-CAM" for the model developed for the optional use by ROR carriers. *See, e.g., Wireline Competition Bureau Announces Availability of Version 4.2 of the Connect America Fund 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, released December 22, 2104.

[6] The remaining 5% of customer locations being served based on the existing "reasonable request" standard.

[7] Legacy Support would not be frozen at the outset of the plan, but would be calculated each year as is done today.

[8] The Plan does not include corporate operating expenses as the Commission currently has a mechanism in place to cap those expenses. *See* 47 C.F.R. § 54.901(c). Companies are categorized based on size and density and the standard would not change annually thereby giving companies the opportunity to adjust operations and avoid the expense adjustment. Companies could seek a waiver from the expense adjustment.

Support companies whose expenses are under the cap during the first three years of transition, and then to all companies in the following years.

The Plan also includes two mechanisms to meet the high-cost support budget target of $1.625 billion[9]: a Model Funding Adjustment ("MFA") and a Budget Adjustment Calculation ("BAC"). The Model Funding Adjustment would apply in the first three years to decrease a study area's Legacy Support after any expense adjustment by a fixed percentage. No company would experience a reduction of more than 25% from the prior year, except for those companies' whose Legacy Support expenses are capped. This reduction would gradually shift budget resources from Legacy Support programs to model-based support. During this transition period, companies opting for Model-based Support would not receive full funding because their support will be transitioning up toward full model support. Starting in Year 4, a BAC calculation, which would reduce each company's support equally on a per location basis, would adjust all companies' support. Therefore, just as companies remaining on Legacy Support will not receive their full support, companies electing A-CAM support would not receive 100% of the support determined by the model.

To assist parties' understanding of the Plan, attached is a price-out forecast that incorporates all the Plan modifications outlined herein. To estimate model-based disbursement amounts, the price-out uses the publicly released results from Report 1.3 of the FCC's illustrative runs.[10] While the parameters set forth in that illustrative run are not precisely congruent with the Nebraska Companies' recommendations for a ROR-focused model,[11] the results represent a reasonable estimate of likely model-based support for all ROR companies.[12] The price-out assumes that a company will elect model support if its model support is higher than existing Legacy Support.[13] No assumptions have been made about the operational decisions of a given company, such as when or how the company will actually expand its broadband footprint or how its operating expenses would be adjusted. The price-out should be considered a "worse-case" scenario in terms of the strain it places on the ROR budget, since no supplemental funding is

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[9] This equals the $2 billion overall ROR budget set by FCC (*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), *aff'd* In Re: FCC 11-161, 753 F.3d 1015 (10th Cir. 2014), *pet. for cert. pending* at ¶ 126) less $375 million already committed to Connect America Fund intercarrier compensation.

[10] *See Wireline Competition Bureau Releases Updated Report for Alternative Connect American Cost Model Version 1.0.1, Public Notice,* DA 15-337, released March 16, 2015.

[11] The Nebraska Companies have recommended that model support should be calculated without applying a high cost threshold and that model support should not be eliminated in a census block by the reported presence of a fixed wireless competitor. *See Comments of the Nebraska Rural Independent Companies*, WC Docket No. 10-90 *et al.*, filed August 8, 2014 at 10-14, 51.

[12] The price-out assumes overall legacy demand would remain constant during all 5 years.

[13] For simplicity, the price-out assumes that all companies that elect model-based support will do so in the first year of the transition period.

included from CAF reserves and not every company will maximize its support because of the performance obligations associated with taking model support.

The price-out estimates support amounts through Year 5. The Nebraska Companies have commented that support should be ongoing. Since the Plan effectively stabilizes after Year 4, the Year 5 amounts shown should fairly represent the most likely scenario for each company's expected support in subsequent years.

Questions regarding the Plan revisions and the accompanying price-out should be directed to the undersigned.

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

Sincerely,

Cheryl L. Parrino

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CLP:\042015 Nebraska Companies' Price Out Cover Letter

Enclosures: Nebraska Companies' Revised Proposed Rate-of-Return USF Framework 042015
Price Out of the Nebraska Companies' Revised Proposed Rate-of-Return USF Framework