



December 8, 2015

**Ex Parte**

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 Twelfth Street, S.W.  
Washington, D.C. 20554

Re: Connect America Fund, WC Docket No. 10-90

Dear Ms. Dortch:

On December 3, 2015, B. Lynn Follansbee of USTelecom – The Broadband Association, Michael Romano and Josh Seidemann of NTCA – The Rural Broadband Association, Vince Wiemer of Alexicon, Jeff Smith of GVNW, Steve Meltzer of JSI and Jim Frame of NECA held a conference call with Suzanne Yelen, Joe Sorresso, Gary Seigel, Victoria Goldberg, Chris Cook, Richard Kwiatowski and Ted Burmeister of the Wireline Competition Bureau.

On December 7, 2015, the undersigned filed an ex parte notice describing the topics of discussion in that conference call. In conjunction with that discussion, please find the attached document which sets forth in more detail the issue associated with the mechanics of allocating various expenses and support assets under the bifurcated approach and the creation of a new support mechanism for going forward investment.

Please contact the undersigned should you have any questions.

Respectfully submitted,

A handwritten signature in blue ink that reads "B. Lynn Follansbee".

B. Lynn Follansbee  
Vice President, Law & Policy

Attachment

c: Suzanne Yelen  
Joe Sorresso  
Gary Seigel  
Victoria Goldberg  
Chris Cook  
Richard Kwiatowski  
Ted Burmeister

# Allocation of Assets and Expenses in a Bifurcated Approach

One of the goals in working through the theory and mechanics of bifurcation was to use current separations rules and processes as much as possible to avoid unintended consequences and mismatches due to inconsistent treatments. Current separations, USF calculations and indeed all rate-making allocates support assets in relation to cable & wire facility (CWF) and central office equipment (COE) network assets. The allocation of support assets based on relative network assets occurs in the current High Cost Loop Support (HCLS) algorithm and Interstate Common Line Support (ICLS) calculations as well as in the development of special access rates.

This basic separations tenet was kept in the Bifurcated Support approach as well. The bifurcated support approach is the attribution of Total broadband loop costs to Existing and New cost categories. If you have Existing and New broadband loop network assets it logically follows that a portion of the support assets and operating expenses are used for each as well. There are two methods of attribution: direct assignment and allocation. Costs that can be specifically identified as belonging to a cost category are directly assigned. Costs that cannot be specifically identified with a single cost category must be allocated on a reasonable basis.

Total costs in the bifurcated approach are attributed as Existing or New costs in the following manner:

## **Assets:**

### Broadband Loop Costs:

CWF Cat. 1 - Exchange Line (nonWB)  
CWF Cat. 2 - Wideband Exchange line  
COE Cat. 4.13 - Basic Exchange Line Circuit

General Support Assets  
Central Office Equipment (non-loop)  
Cable & Wire Facility (non-loop)  
Tangible & Intangible Assets  
Other Telecom Rate Base  
Accumulated Depreciation & Amortization  
Other Rate Base Offsets

## **Existing or New attribution basis:**

Direct Assigned by Date  
Direct Assigned by Date  
Direct Assigned by Date

Allocated based on Broadband Loop Cost  
Allocated based on associated plant account  
Allocated based on Broadband Loop Cost

## **Operating Expenses:**

Plant Specific Operations Expenses  
Plant Non-Specific Operations Expenses  
Depreciation and Amortization Expenses  
Customer Operations Expenses  
Corporate Operations Expenses  
Other Expenses & Offsets

Allocated based on Broadband Loop Cost  
Allocated based on Broadband Loop Cost  
Allocated based on associated plant account  
Allocated based on Broadband Loop Cost  
Allocated based on Broadband Loop Cost  
Allocated based on Broadband Loop Cost

In reality most services will use a mix of Existing and New investment so proper attribution of associated support assets and operating expenses is needed to develop a fully distributed cost of service.

# Allocation of Assets and Expenses in a Bifurcated Approach

## Illustration #1: Addition of Broadband Loop Plant Only

Company has \$2 million in broadband loop plant, \$500k in support assets and \$1 million in operating expenses on 12/31/2015. During 2016, the company adds an additional \$500k in broadband loop plant, while support assets and operating expenses are unchanged.

	12/31/2016		
	Total	Existing	New
Broadband Loop Plant	\$2,500,000	\$2,000,000 <i>direct assigned</i>	\$500,000 <i>direct assigned</i>
<b>Allocator</b>		<b>80.0000%</b>	<b>20.0000%</b>
Support Assets	\$500,000 <i>allocated</i>	\$400,000	\$100,000
Operating Expenses	\$1,000,000 <i>allocated</i>	\$800,000	\$200,000

## Illustration #2: Addition of Broadband Loop Plant and Support Assets

Company has \$2 million in broadband loop plant, \$500k in support assets and \$1 million in operating expenses on 12/31/2015. During 2016, the company adds an additional \$500k in broadband loop plant, \$250k in support assets and operating expenses are unchanged.

	12/31/2016		
	Total	Existing	New
Broadband Loop Plant	\$2,500,000	\$2,000,000 <i>direct assigned</i>	\$500,000 <i>direct assigned</i>
<b>Allocator</b>		<b>80.0000%</b>	<b>20.0000%</b>
Support Assets	\$750,000 <i>allocated</i>	\$600,000	\$150,000
Operating Expenses	\$1,000,000 <i>allocated</i>	\$800,000	\$200,000

## Allocation of Assets and Expenses in a Bifurcated Approach

### Illustration #3: Addition of Support Assets Only

Company has \$2 million in broadband loop plant, \$500k in support assets and \$1 million in operating expenses on 12/31/2015. During 2016, the company adds \$250k in support assets while broadband loop plant and operating expenses are unchanged.

	12/31/2016		
	Total	Existing	New
Broadband Loop Plant	\$2,000,000	\$2,000,000 <i>direct assigned</i>	\$0 <i>direct assigned</i>
<b>Allocator</b>		<b>100.0000%</b>	<b>0.0000%</b>
Support Assets	\$750,000 <i>allocated</i>	\$750,000	\$0
Operating Expenses	\$1,000,000 <i>allocated</i>	\$1,000,000	\$0