



January 14, 2016

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:

USTelecom – The Broadband Association submits the attached ex parte document which provides a narrative to the model spreadsheet originally provided to the Commission on January 4, 2016.¹ As noted in the previous filing, this version of the model was developed to explore the mechanics of bifurcation if all assets are direct assigned by vintage (before or after the Date Certain) as requested by Wireline Bureau staff. The attached narrative serves to supplement that filing and provide further explanation as to the changes in the model as compared to the earlier versions submitted to the Commission.

Please contact the undersigned should you have any questions.

Respectfully submitted,

B. Lynn Follansbee
Vice President, Law & Policy

Attachment

¹ Letter to Marlene H. Dortch, Secretary, Federal Communications Commission from USTelecom, WC Docket No. 10-90, (January 4, 2016).

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Background

The Bifurcated Support Model illustrates possible treatments and mechanics to accomplish the FCC proposed bifurcated approach to revising Rate-of-Return carrier universal service funds. While the FCC has provided nothing more than a basic concept of bifurcation in the USF proceeding record, we assume that “bifurcated” means that qualifying network investments made as of a date certain (the “Date Certain”) and associated expenses would be recovered using the current HCLS and ICLS programs, while new network investments incurred on or after that Date Certain and associated expenses would be recovered using a new ICLS-like mechanism.

Previous model versions based the bifurcation on broadband loop network assets; loop assets were direct assigned based on vintage while non-loop assets, support assets and operating expenses were attributed to Existing or New cost categories based on relative broadband loop plant. This approach provided a fully-distributed cost of service attributable to Existing and New broadband loop costs which matches the redirection of Rate-of-Return carrier USF support to broadband loop costs. However, this approach has the undesirable consequence of moving Existing non-loop and support assets and their associated recovery from current HCLS and ICLS mechanism into the New ICLS-like support mechanisms. Therefore, the FCC asked if bifurcated mechanics could be developed that would assign all assets based on vintage so investments made before the Date Certain would continue recovery under the Existing rate of return mechanism.

Cost Attribution

The Bifurcated Support Model Version 3.0 provides one possible method to direct assign assets based on the Date Certain and develop fully-distributed costs needed to properly calculate legacy and new universal service support amounts. Investments made before the Date Certain are referred to as Existing costs and those made after the Date Certain are referred to as New Costs.

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. The fundamental basis on which separations are made is the use of telecommunications plant in each of the operations.¹ Expense accounts are generally apportioned in the same manner as the related plant accounts.² Expense accounts that are not directly related to a single plant account are allocated based on a combination of plant or expense accounts.³

In order to properly attribute expenses to the investments made before and after the Date Certain, the related plant accounts as described in Part 36 separations rules should be used as the basis for cost attribution as opposed to broadband loop costs.

The following is a comparison of the cost attribution methods for rate base and operating expenses used in version 3.0 and version 2.0:

¹ 47 CFR §36.1(c)

² 47 CFR §36.310(b)

³ 47 CFR §36 – Subpart D

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RATE BASE	COST ATTRIBUTION BASIS (Before or After Date Certain)	
	Version 3	Version 2
Account 2001 - Total Plant in Service	-	
Account 2110 - General Support Facilities	Direct Assign	% Broadband Loop Cost
Account 2210 - Central Office Switching	Direct Assign	% Broadband Loop Cost
Account 2220 - Operator Systems	Direct Assign	% Broadband Loop Cost
COE Cat. 4.11 - WB Exchange Line Circuit	Direct Assign	% Broadband Loop Cost
COE Cat. 4.12 - Exchange Trunk Circuit	Direct Assign	% Broadband Loop Cost
COE Cat. 4.13 - Basic Exchange Line Circuit	Direct Assign	Direct Assign
COE Cat. 4.21 - IX Circuit to Others	Direct Assign	% Broadband Loop Cost
COE Cat. 4.22 - Interexchange WB Circuit	Direct Assign	% Broadband Loop Cost
COE Cat. 4.23 - Other Interexchange Circuit	Direct Assign	% Broadband Loop Cost
COE Cat. 4.3 - Host Remote Circuit	Direct Assign	% Broadband Loop Cost
Account 2230 - COE Transmission, total	sum	sum
Account 2310 - Information Orig/Term Equip	Direct Assign	% Broadband Loop Cost
C&WF Cat. 1 - Exchange Line (nonWB)	Direct Assign	Direct Assign
C&WF Cat. 2 Wideband Exchange Line	Direct Assign	Direct Assign
C&WF Cat. 2 - WB/Exchange Trunk	Direct Assign	% Broadband Loop Cost
C&WF Cat. 3 - Interexchange	Direct Assign	% Broadband Loop Cost
C&WF Cat. 4 - Host Remote	Direct Assign	% Broadband Loop Cost
Account 2410 - Cable & Wire Facilities, total	sum	sum
Amortizeable Land and Support Assets	Direct Assign	% General Support Facilities
Amortizeable Central Office Equipment	Direct Assign	% Central Office Equipment
Amortizeable Information Origination/Term.	Direct Assign	% IOT Equipment
Amortizeable Cable and Wire Facilities	Direct Assign	% Cable & Wire Facilities
Account 2680 - Amortizeable Tangible Assets, total	sum	sum
Account 2690 - Intangible Assets	Direct Assign	% Broadband Loop Cost
Total Account 2001 - TPIS	sum	sum
 Other Telecommunications Rate Base	-	
Account 2002 - Plant Held for Future Use	Direct Assign	% Broadband Loop Cost
Account 2003 - Telecom Plant Under Constr.	Direct Assign	% Broadband Loop Cost
Account 2005 - Telecom Plant Adjustment*	Direct Assign	% Broadband Loop Cost
Account 1220 - Material and Supplies	% Cable & Wire Facilities	% Broadband Loop Cost
Cash Working Capital	calculated	calculated
Total Other Telecommunications Rate Base	sum	sum

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Rate Base Offsets	COST ATTRIBUTION BASIS (Before or After Date Certain)	
	Version 3	Version 2
<i>Accum. Depr. - General Support Facility</i>	<i>Direct Assign</i>	<i>% General Support Facilities</i>
<i>Accum. Depr. - C.O.E. Switching</i>	<i>Direct Assign</i>	<i>% Switching Equipment</i>
<i>Accum. Depr. - C.O.E. Operator Systems</i>	<i>Direct Assign</i>	<i>% Operator Systems</i>
<i>Accum. Depr. - C.O.E. Transmission</i>	<i>Direct Assign</i>	<i>% COE Transmission Equipment</i>
<i>Accum. Depr. - I.O.T. Equipment</i>	<i>Direct Assign</i>	<i>% IOT Equipment</i>
<i>Accum. Depr. - Cable and Wire Facilities</i>	<i>Direct Assign</i>	<i>% Cable & Wire Facilities</i>
Account 3100 - Accumulated Depreciation, total	sum	sum
Account 3200 - Depr Plant Held for Future Use	<i>Direct Assign</i>	<i>% Broadband Loop Cost</i>
Account 3400 - Accum Amort on Tangible Assets	<i>Direct Assign</i>	<i>% Broadband Loop Cost</i>
Account 3500 - Accum Amort on Intangibles	<i>Direct Assign</i>	<i>% Broadband Loop Cost</i>
Account 3600 - Accum Amort on TPAA	<i>Direct Assign</i>	<i>% Broadband Loop Cost</i>
Account 4040 - Customer Deposits	<i>% Telephone Plant in Service</i>	<i>% Broadband Loop Cost</i>
Account 4100 - Current Deferred Income Taxes	<i>% Telephone Plant in Service</i>	<i>% Broadband Loop Cost</i>
Account 4310 - Other Long Term Liabilities	<i>% Telephone Plant in Service</i>	<i>% Broadband Loop Cost</i>
<i>Accum. Defd. Taxes - Land and Support Assets</i>	<i>% General Support Facilities</i>	<i>% Broadband Loop Cost</i>
<i>Accum. Defd. Taxes - C.O.E. Switching</i>	<i>% Switching Equipment</i>	<i>% Broadband Loop Cost</i>
<i>Accum. Defd. Taxes - C.O.E. Operator Systems</i>	<i>% Operator Systems</i>	<i>% Broadband Loop Cost</i>
<i>Accum. Defd. Taxes - C.O.E. Transmission</i>	<i>% COE Transmission Equipment</i>	<i>% Broadband Loop Cost</i>
<i>Accum. Defd. Taxes - I.O.T. Equipment</i>	<i>% IOT Equipment</i>	<i>% Broadband Loop Cost</i>
<i>Accum. Defd. Taxes - Cable and Wire Facilities</i>	<i>% Cable & Wire Facilities</i>	<i>% Broadband Loop Cost</i>
Account 4340 - Noncurrent Def'd Income Taxes, total	sum	sum
Account 4360 - Other Def'd Credits in Rate Base	<i>% Telephone Plant in Service</i>	<i>% Broadband Loop Cost</i>
Total Rate Base Offsets	sum	sum
Net Rate Base	sum	sum

OPERATING EXPENSES

COST ATTRIBUTION BASIS (Before or After Date Certain)
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Account/Category	Version 3	Version 2
<u>Plant Specific Operations Expense</u>		
Account 6110 - Network Support Expense	% General Support Facilities	% Broadband Loop Cost
Account 6120 - General Support Expense	% General Support Facilities	% Broadband Loop Cost
Account 6210 - Switching Expense	% Switching Equipment	% Broadband Loop Cost
Account 6220 - Operator Systems Expense	% Operator Systems	% Broadband Loop Cost
Account 6230 - Transmission Expense	% COE Transmission Equipment	% Broadband Loop Cost
Account 6310 - Info Orig/Term Expense	% IOT Equipment	% Broadband Loop Cost
Account 6410 - Cable and Wire Facilities Exp.	% Cable & Wire Facilities	% Broadband Loop Cost
Total Plant Specific Operations Expense	sum	sum
<u>Plant Non-Specific Expense</u>		
Account 6510 - Other P,P & E Exp.	% TPIS	% Broadband Loop Cost
Account 6530 - Network Operations Expense	% TPIS	% Broadband Loop Cost
Account 6540 - Access Expense	% TPIS	% Broadband Loop Cost
Total Plant Non-Specific Operations Expense	sum	sum
<u>Depreciation and Amortization</u>		
<i>Depr. Exp. - General Support Facilities</i>	<i>Direct Assign</i>	<i>% General Support Facilities</i>
<i>Depr. Exp. - C.O. Switching</i>	<i>Direct Assign</i>	<i>% Switching Equipment</i>
<i>Depr. Exp. - C.O. Operator Systems</i>	<i>Direct Assign</i>	<i>% Operator Systems</i>
<i>Depr. Exp. - C.O. Circuit Equipment</i>	<i>Direct Assign</i>	<i>% COE Transmission Equipment</i>
<i>Depr. Exp. - IOT</i>	<i>Direct Assign</i>	<i>% IOT Equipment</i>
<i>Depr. Exp. - C&WF</i>	<i>Direct Assign</i>	<i>% Cable & Wire Facilities</i>
Account 6561 - Depreciation of Plant in Service, total	sum	sum
Account 6562 - Deprec. of Plant Held for Future Use	Direct Assign	% Broadband Loop Cost
Account 6563 - Amortization of Tangible Assets	Direct Assign	% Broadband Loop Cost
Account 6564 - Amortization of Intangibles	Direct Assign	% Broadband Loop Cost
Account 6565 - Amortization of TPAA	Direct Assign	% Broadband Loop Cost
Total Depreciation and Amortization Expense	sum	sum
<u>Customer Operations Expense</u>		
Account 6610 - Marketing Expense	% Telephone Plant in Service	% Broadband Loop Cost
Account 6621 - Operator Services	% Telephone Plant in Service	% Broadband Loop Cost
Account 6622 - Number Services	% Telephone Plant in Service	% Broadband Loop Cost
Account 6623 - Customer Services	% Telephone Plant in Service	% Broadband Loop Cost
Total Customer Operations Expense	sum	sum

COST ATTRIBUTION BASIS (Before or After Date Certain)	
Version 3	Version 2

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<u>Corporate Operations Expense</u>		
Account 6710 - Executive and Planning Expense	% Big 3 Expenses (Part 36)	% Broadband Loop Cost
Account 6720 - General & Administrative Exp	% Big 3 Expenses (Part 36)	% Broadband Loop Cost
Total Corporate Operations Expense	sum	sum
Other Operating Taxes (not income)		
	% Telephone Plant in Service	% Broadband Loop Cost
<u>Other Revenues and Expenses</u>		
<i>Rent Revenue related to General Support Facility</i>	<i>% General Support Facilities</i>	<i>% Broadband Loop Cost</i>
<i>Rent Revenue related to COE Switching</i>	<i>% Switching Equipment</i>	<i>% Broadband Loop Cost</i>
<i>Rent Revenue related to COE Transmission</i>	<i>% COE Transmission Equipment</i>	<i>% Broadband Loop Cost</i>
<i>Rent Revenue related to C&WF</i>	<i>% Cable & Wire Facilities</i>	<i>% Broadband Loop Cost</i>
Account 5240 - Rent Revenues, total	sum	sum
Account 7370 - Special Charges (Allowed)	% Big 3 Expenses (Part 36)	% Broadband Loop Cost
Account 7540 - Interest on Customer Deposits	% Net Telephone Plant in Service	% Broadband Loop Cost
Total Other Revenues and Expenses	sum	sum
Total Operating Expense (Excluding Income Taxes)		
	sum	sum
Operating Federal Income Taxes	% Net Telephone Plant in Service	% Broadband Loop Cost
Operating State Income Taxes	% Net Telephone Plant in Service	% Broadband Loop Cost
Other Operating Taxes (not income)	% Telephone Plant in Service	% Broadband Loop Cost
Total Operating Taxes including Income Taxes	sum	sum
Operating Fixed Charges	% Net Telephone Plant in Service	% Broadband Loop Cost

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As previously stated the related plant accounts as described in Part 36 separations rules should be used as the basis for cost allocation in order to properly attribute expenses to the investments made before and after the Date Certain. The relative broadband loops costs used as the allocator in prior versions *should not be used* because it does not represent a cost causative basis for attribution.

Let's use the following example to illustrate:

Company A has \$1 million in broadband loop investments and \$250k in general support facility on December 31, 2015 (the Date Certain). In 2016, Company A adds a new \$250,000 office building but does not add any new broadband loop. Company A has \$150k in general support expenses in 2016.

If broadband loop plant is used as the allocator then none of the general support facility expense is allocated to New costs despite the fact that half of the general support facility assets were added after the Date Certain.

Alternatively, if general support expense is allocated based on the related plant account (general support facility) then the expense is properly attributed to Existing and New general support facility assets.

	2016		
	Total	Existing	New
LOOP ALLOCATOR			
Broadband Loop Plant	\$1,000,000	\$1,000,000	\$0
Relative %		100.00%	0.00%
General Support Facility	\$500,000	\$250,000	\$250,000
General Support Expense	\$150,000	\$150,000	\$0
		allocated	allocated
<hr/>			
RELATED PLANT ALLOCATOR			
Broadband Loop Plant	\$1,000,000	\$1,000,000	\$0
General Support Facility	\$500,000	\$250,000	\$250,000
Relative %		50.00%	50.00%
General Support Expense	\$150,000	\$75,000	\$75,000
		allocated	allocated

If you have Existing and New assets it logically follows that a portion of the associated operating expenses are used for each as well. As demonstrated above, operating expenses should follow the related assets to properly develop a fully-distributed cost of service when all assets are direct assigned

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by vintage. Use of a single category of assets (such as broadband loop investment) is not cost-causative and will not result in a proper attribution of costs.

Process Summary

This model demonstrates possible mechanics of a Bifurcated Support approach for Rate of Return carriers. Under this approach costs are segregated as Existing (investments made before the Date Certain) or New (investments made after the Date Certain).

All model inputs are made in the *Consolidated Inputs* worksheet. All other sheets are outputs.

The *Bifurcated Financials* sheet takes the total USF eligible rate base and operating expense accounts and assigns/allocates the amounts for recovery through Existing mechanisms (HCLS and ICLS) and the New Mechanism (BUSS).

The *CBM* sheet calculates the capital expenditures limit using the proposed Capital Budgeting Mechanism.

The *OpEx Detail* sheet calculates and applies the Corporate Operations Expense Limit as well as the proposed Double Log Operating Expense Limit to determine the operating expenses eligible for USF support.

The *HCLS* sheet calculates High Cost Loop Support for Total and Existing broadband loop costs

The *P36 Separations* sheet uses current separations rules to separate Existing and New costs into message and private line cost eligible for Existing and New support mechanisms.

The *P69 Existing and New* sheets separate USF eligible costs into Common Line and Special Access elements.

The *SpA Disagg* sheets disaggregates the Special Access element into Other Special Access and DSL/Broadband components.

The *Loop Disagg* sheets disaggregates the loop portion of the Voice+Data and Data-Only DSL/Broadband components.

The *CL-SpA RRQ* sheet calculates the Existing and New Common Line, Existing Data-Only Broadband and New Special Access Broadband Loop revenue requirements needed to determine ICLS and BUSS support.

The *Summary of Results* sheet summarizes the HCLS, ICLS and BUSS support and applies budget cap and per loop support limits.

Please read the Instructions included in the model before use.