Trey Judy
Director – Regulatory

February 5, 2016

By Electronic Transmission

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

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

Dear Ms. Dortch:

On February 3, 2016, the undersigned Trey Judy, Director – Regulatory and David Armistead, General Counsel of Hargray Communications Group, Inc., met with Carol Mattey, Alex Minard, and Suzanne Yelen of the Wireline Competition Bureau, to discuss issues associated with the above-cited proceedings relating to reform of the FCC's system for providing support to high-cost, rate-of-return local exchange carriers.

Hargray explored several principles related to a geographical based methodology to disaggregate support between competitive and non-competitive areas and discussed possible approaches to effect such a methodology. Mr. Judy reviewed data and modeling related to such the methodology. Hargray provided the attached presentation (Exhibit A) to frame the discussion, but indicated that the concepts were being refined into a more specific and actionable proposal that would be presented on the following day and documented in a subsequent filing (see Hargray Ex Parte dated February 5, 2016 related to meeting with Commissioner Michael O'Rielly, Amy Bender, Rebekah Goodheart, and Stephane Weiner).

If you have any questions, please contact the undersigned.

Respectfully submitted,

/s/ Trey Judy
Trey Judy

cc: Carol Mattey
Alex Minard
Suzanne Yelen

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Exhibit A

[begins on following page]

USF Reform

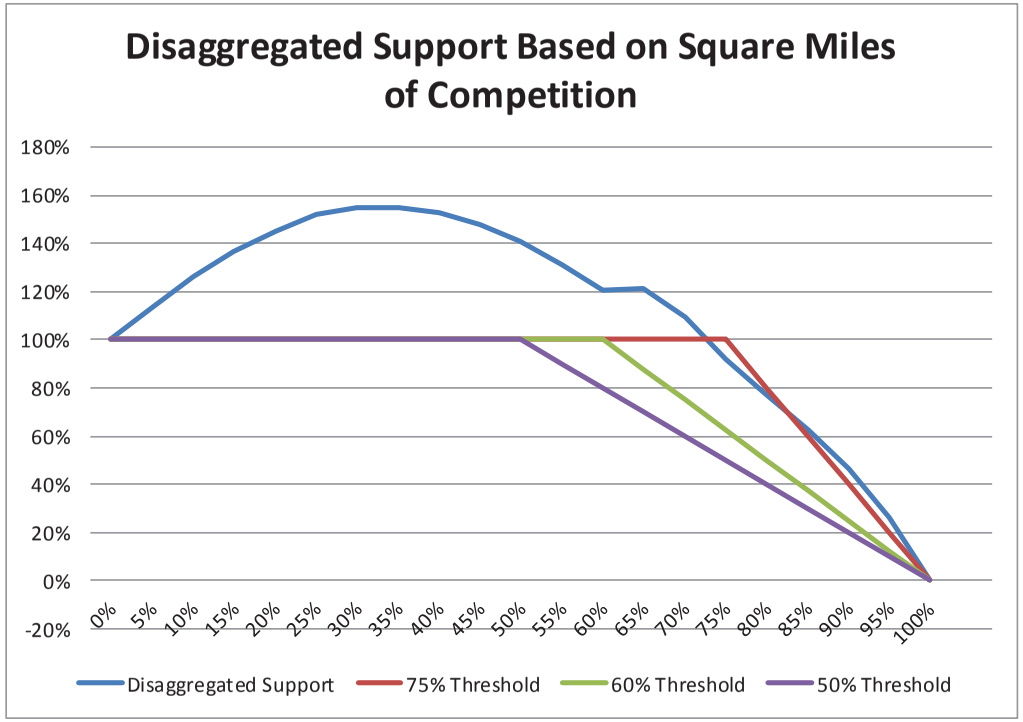
Support Changes for Coverage by an Unsubsidized Competitor

Modeling Assumptions

- Actual cost data for cost disaggregation is not available, but we do know particular trends with a high degree of certainty
- Key facts:
  - Support is based on the average cost per loop throughout a carrier's service area, but the actual cost of any particular loop will be lower/higher than others (e.g., a carrier with an average cost per loop of $5 may have loops that cost $1 and loops that cost $9)
  - Areas competitors serve will have a lower actual cost per loop, will be more commercial, and will be more dense than areas without competition; therefore the support provided those loops (which is based on the average cost of all loops) will tend to be higher than the actual cost of those loops
  - Areas without competition will have higher service costs, lower density, and more residential and single-line business; therefore the support provided for those loops (which is based on the average cost of all loops) will tend to be lower than the actual cost of those loops
  - As support (calculated using average costs) for lower actual cost loops is removed (which is what happens when support is removed for competitive areas), the result is that the average costs of loops remaining eligible for support rises higher than the overall average cost of loops, requiring a higher support number to cover the non-competitive areas
- The following slides show how disaggregated support should vary for companies with different cost profiles
  - These examples show hypothetical companies (each with a different starting point for average loop cost) that, as they lose support for loops due to unsubsidized competition, experience cost per loop increases and density decreases at a slow (2.5%) rate that then increases to a more rapid (15%) rate as more loops lose support

Very Low Cost Company

- The example below shows a very low cost company, which means it is likely to have a high level of competition (the (horizontal) axis shows disaggregated support as a percentage of current support)
- The cross over point at which disaggregated support (the y (vertical) axis) equals current support is from 70% to 75% (horizontal axis)
- After the cross over point, the slope of the downward slope is about 3 to 1 from 70% to 90% and then becomes more steep

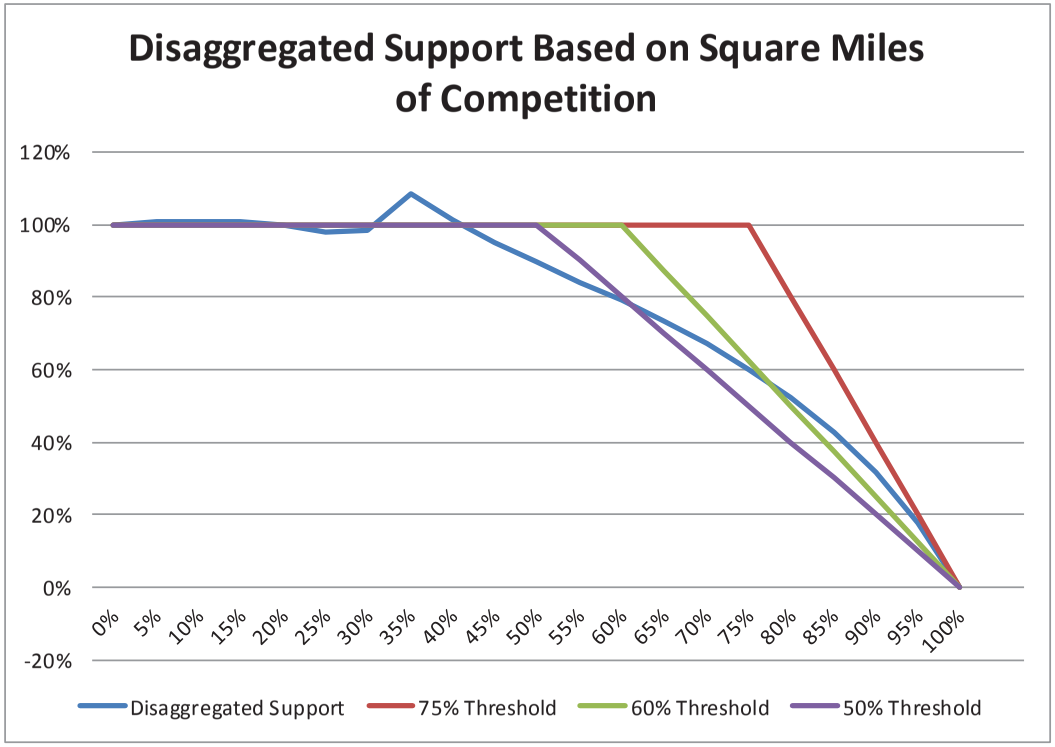


Average Monthly Loop Cost $ 37.28 Annual ICLS Revenue $ 258,146 Annual HCLS $ -

	11th %	21st %	31st %	41st %	51st %	61st %	71st %
Monthly Loop Cost	**$ 23.92**	**$ 25.13**	**$ 27.68**	**$ 31.99**	**$ 36.97**	**$ 44.74**	**$ 54.13**

Average/Low Cost Company

- The example below shows a company in the lower range of average, which could face some competition, but that competition would be less likely in the higher cost ranges
- The cross over point at which disaggregated support (the y (vertical) axis) equals current support is from 40% to 45% (horizontal axis)
- The slope of the downward slope is about 1.2 to 1 from 45% to 80% and quickly becomes more steep

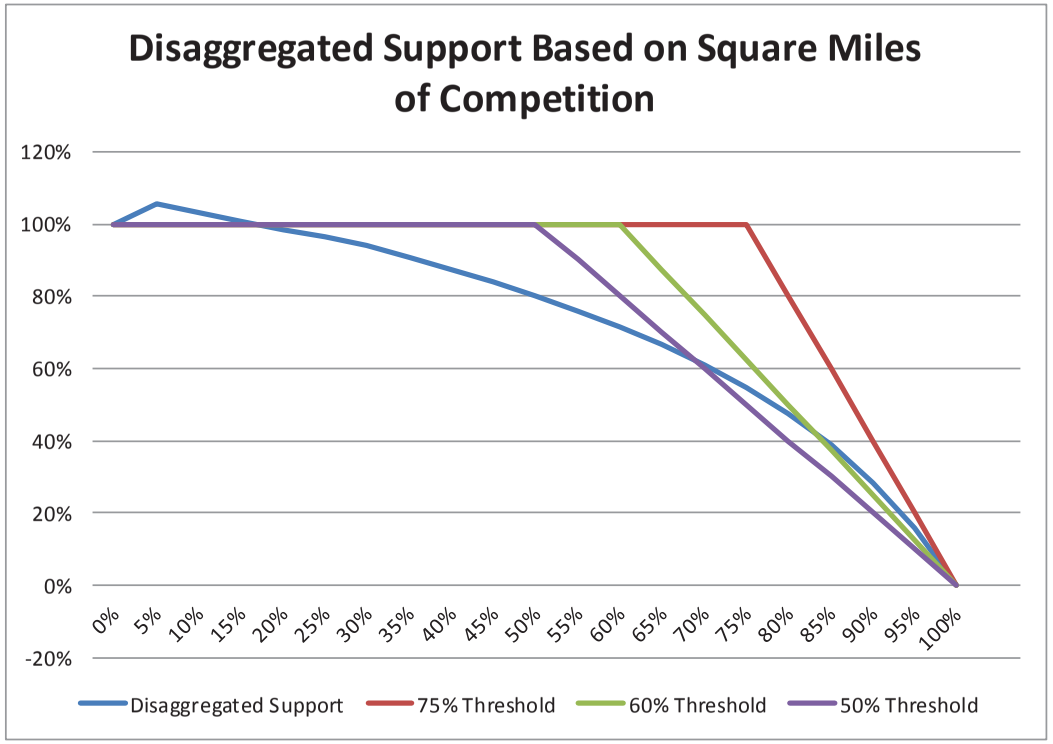


Average Monthly Loop Cost $ 53.26 Annual ICLS Revenue $ 830,651 Annual HCLS $ -

	11th %	21st %	31st %	41st %	51st %	61st %	71st %
Monthly Loop Cost	**$ 34.17**	**$ 35.90**	**$ 39.55**	**$ 45.71**	**$ 52.82**	**$ 63.92**	**$ 77.34**

Average/High Cost Company

- The example below shows a company on the higher range of average, which would be less likely to face competition outside of its lowest cost areas
- The cross over point at which disaggregated support (the y (vertical) axis) equals current support is from 15% to 20% (horizontal axis)
- The slope of the downward slope is about 0.5 to 1 from 10% to 35% and 1 to 1 from 40% to 80%

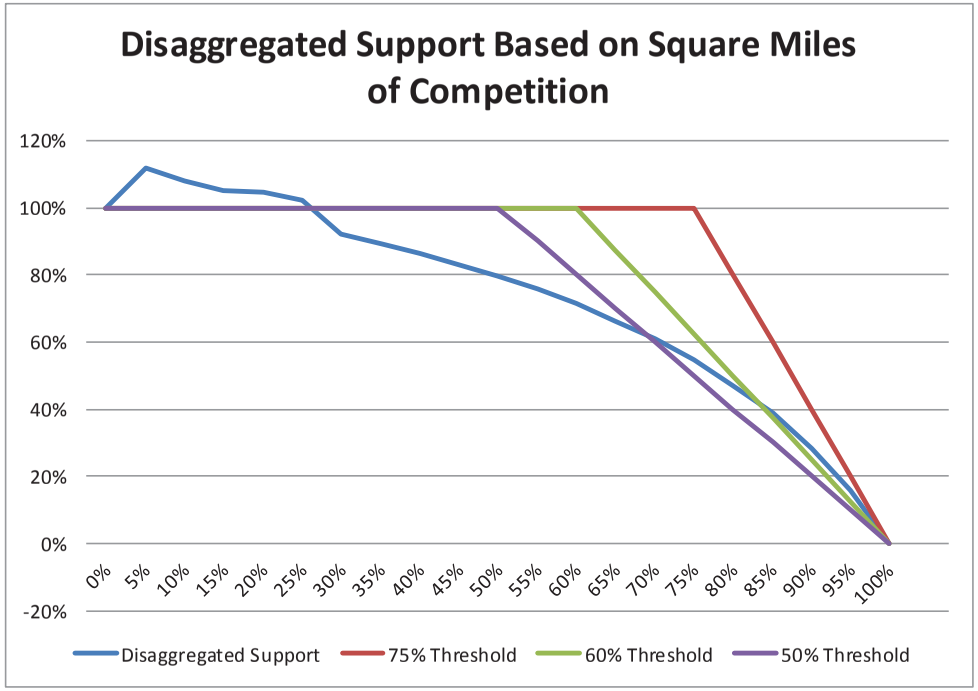


Average Monthly Loop Cost	$ 74.57	Annual ICLS Revenue	$1,593,902	Annual HCLS	$ 535,509

	11th %	21st %	31st %	41st %	51st %	61st %	71st %
Monthly Loop Cost	**$ 47.83**	**$ 50.26**	**$ 55.38**	**$ 63.99**	**$ 73.95**	**$ 89.49**	**$ 108.28**

Average/High Cost Company Cost Cliff Example

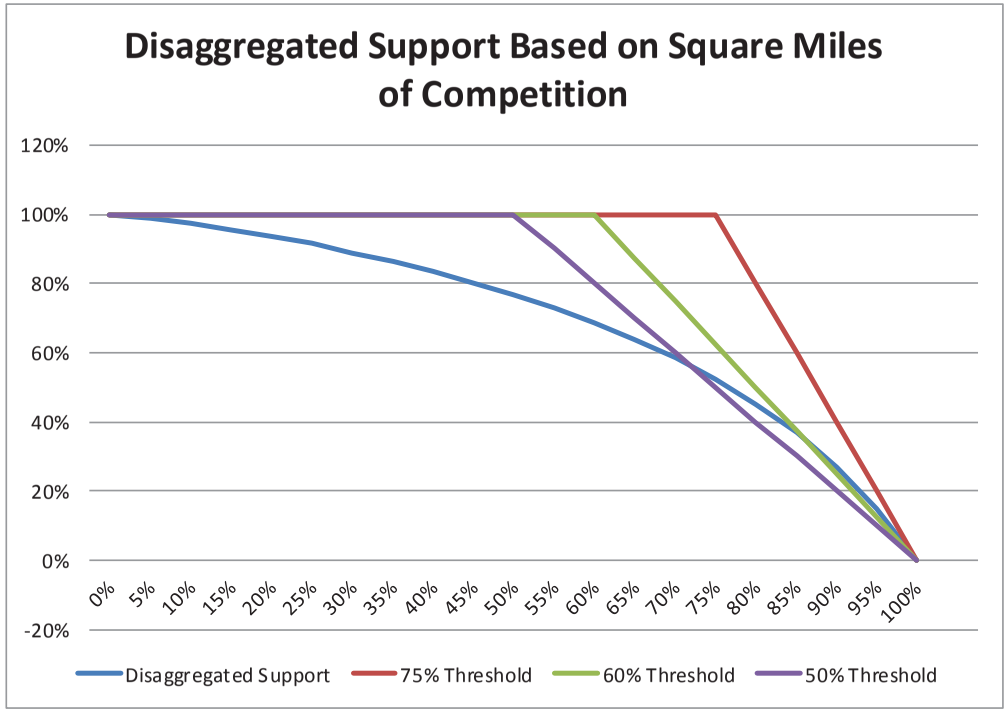
- The example below shows a company on the higher range of average, but it has a different cost profile (cost and density shift up and down by 50% after 25% competitive overlap)
- The cross over point at which disaggregated support (the y (vertical) axis) equals current support occurs after the rapid cost increase from 25% to 30% (horizontal axis)
- After the cost cliff, the slope of the declining disaggregated support lines looks much like previous examples



Average Monthly Loop Cost	$ 73.16	Annual ICLS Revenue	$1,137,029	Annual HCLS	$ 311,952		
	11th %	21st %	31st %	41st %	51st %	61st %	71st %
Monthly Loop Cost	**$ 42.71**	**$ 44.87**	**$ 68.99**	**$ 76.06**	**$ 83.86**	**$ 101.47**	**$ 122.78**

High Cost Company

- The example below shows a company on the higher range of average, which would be least likely to face competition
- The cross over point at which disaggregated support (the y (vertical) axis) equals current support (horizontal axis) begins declining immediately, but at a low rate
- The slope of the downward slope is about 0.3 to 1 from 0% to 15%, 0.5 to 1 from 20% to 45%, and 1 to 1 from 50% to 80%



Average Monthly Loop Cost $ 106.53 Annual ICLS Revenue $2,738,468 Annual HCLS $3,468,890

	11th %	21st %	31st %	41st %	51st %	61st %	71st %
Monthly Loop Cost	**$ 68.33**	**$ 71.79**	**$ 79.11**	**$ 91.42**	**$ 105.64**	**$ 127.83**	**$ 154.67**

Summary of Results

- For all cost assumptions, disaggregated support should actually increase for the first lines removed due to the presence of an unsubsidized competitor
  - This is because the competitor will serve the lowest cost areas, leaving the higher cost areas for the carrier of last resort
- For companies that do not receive HCLS today, disaggregated support increases gradually until the average loop cost on the remaining non-competitive lines exceed the HCLS benchmark at which point, disaggregated support increases at a higher rate
- After a peak, disaggregated support declines until it hits a cross over point where disaggregated support equals current support
- There is an inverse relationship between cost per loop and the cross over point, where lower cost companies have a higher cross over point – Companies with a lower cost per loop have a higher cross over point
- After the cross over point, the decline is less steep than at higher levels of competitive overlap