

February 23, 2016

VIA ECFS

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

Re: *Notice of Ex Parte Presentations - Frontier Communications and CenturyLink - CAF Phase II Unfunded Areas (WC Docket No. 10-90)*

Dear Ms. Dortch:

On Friday and Monday, February 19 and 22, 2016, Kathleen Abernathy of Frontier Communications, Melissa Newman of CenturyLink, and I met with the Commissioners' staffs to discuss a proposal to address unfunded locations in states where the price cap incumbent local exchange carriers ("ILEC") accepted the offer of model-based Connect America Fund ("CAF") Phase II support. In the meetings, Frontier and CenturyLink described a proposal for interim support to ensure continuity of voice service to extremely high-cost and other unfunded locations in the territories of price cap carriers that accepted the offers of model-based support. We met separately with Stephanie Weiner of the Office of Chairman Wheeler and Carol Matthey of the Wireline Competition Bureau; Rebekah Goodheart of the Office of Commissioner Clyburn; Travis Litman of the Office of Commissioner Rosenworcel; Nicholas Degani of the Office of Commissioner Pai; and Amy Bender of the Office of Commissioner O'Rielly.

Our presentation in the meetings followed the attached slides, which were also distributed to the meeting attendees. Attached to this ex parte letter is also a spreadsheet which presents the support amounts generated by the methodology we describe. As the spreadsheet indicates, the total resulting amount of annual interim voice support is approximately \$176 million.

As noted in the slides, price cap ILECs will receive no funding to serve about 6% of the census blocks in their study areas since the intent is to fund these areas in the context of the CAF Phase II competitive bidding process.¹ During this interim period the Commission continues to

¹ *Petition of USTelecom for Forbearance Pursuant to 47 U.S.C. § 160(c) from Enforcement of Obsolete ILEC Legacy Regulations that Inhibit Deployment of Next-Generation Networks, et al.*, WC Docket Nos. 14-192 et al., FCC 15-166 (rel. Dec. 28, 2015) at n.365.

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require these price cap ILECs to provide voice service in these areas, despite the statutory requirement for “sufficient and predictable” support.² These unfunded areas include the costliest-to-serve locations in the most rural and remote areas of these study areas. Because of their geography and terrain, these unfunded areas tend to have higher-than-average ongoing maintenance costs, and also experience more service disruptions due to extreme weather events and natural disasters such as tornados, mudslides, floods, and wildfires.

It is anticipated that funding to ensure broadband and voice service in currently unfunded areas will be addressed in future rounds of universal service funding, either in the CAF Phase II competitive bidding process or the Remote Areas Fund (“RAF”).³ In the interim, however, restoring the inevitable voice service disruptions in unfunded areas presents a significant universal service challenge. Price cap ILECs that accepted offers of model-based CAF Phase II support are obligated to use such support to deploy broadband to covered locations; they cannot shift these monies to support voice service in the unfunded areas. Moreover, for price cap ILECs to extend broadband to the covered locations defined by the CAF Phase II award of support, they must allocate significant amounts of their own capital in addition to the award amounts. The problem of maintaining voice service in unfunded areas particularly affects price cap ILECs that accepted model-based offers of support because, unlike ILECs who declined such offers, they no longer receive *any* legacy frozen support. Thus, the lack of an interim solution is a particularly significant problem for the carriers that are actively using CAF Phase II support to solve the rural broadband gap.

For all these reasons, it would serve the purposes of Section 254 and the public interest for the Commission to provide an appropriate interim solution to ensure the continuity of voice service in the study areas of price cap ILECs that accepted the model-based offers of support, pending further action in the universal service docket. The solution proposed here would remain in place only until the conclusion of the CAF Phase II competitive bidding process. This limited term will send a clear signal to all providers, including the price cap ILECs who receive the interim support, that they should take seriously their participation in the CAF Phase II competitive bidding process.⁴

Frontier and CenturyLink propose that the Commission base this interim voice support on the frozen support that was available in the study areas where the unfunded lines are located. The frozen support was based on pre-reform support levels that were determined to be

² 47 U.S.C. §§ 254(b)(5), 254(e).

³ The prospect that some of these areas may remain unfunded after the conclusion of both the CAF Phase II competitive bidding process and the RAF is a pre-existing issue that is neither created nor affected by the instant proposal.

⁴ The short term and limited nature of the support also retains the urgency for the Commission to implement CAF Phase II competitive bidding and the RAF.

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“sufficient.”⁵ Frontier and CenturyLink further propose that the Commission use the Connect America Cost Model (“CACM”) to determine how much of the frozen support is associated with the unfunded areas. Specifically, the Commission first should allocate a price cap ILEC’s total frozen support amount in a state across all locations that are above either the support benchmark or the extremely high-cost benchmark, in proportion to the amount of CACM-generated support available for each location.⁶ In other words, in allocating the frozen support, a location that would have received \$50 in CACM-generated support would receive an allocation of frozen support twice as large as a location that would have received \$25 in CACM-generated support. A location that was, per the CACM, below the support benchmark would receive no allocation of frozen support. Once the frozen support has been allocated across the locations as described above, support is actually provided only for those locations that were not covered by the CAF Phase II offer of model-based support.

As noted above, Frontier and CenturyLink propose that this interim voice support be provided only to price cap ILECs that accepted the offer of model-based support, and only in states where they accepted such offers because of the discontinuation of the frozen support. This interim support mechanism is not necessary in states where the price cap ILEC declined the model-based offer of support because such carriers continue to receive frozen support.⁷ Further, carriers that declined CAF Phase II support do not face the rigorous broadband deployment obligations associated with the CAF Phase II support awards.

The spreadsheet attached to this letter shows the interim voice support amounts that this methodology generates, including the distribution of support across carriers and states. The total amount of interim voice maintenance support generated using this methodology is \$176,399,551 per year.⁸ As noted above, this support would continue only from the time that it is adopted by the Commission through the conclusion of bidding in the CAF Phase II competitive bidding process. Thus, Frontier and CenturyLink estimate that this support would flow for a maximum of two years, and likely less. To fund this proposal, the Commission could use in the first instance the \$100 million per year budgeted for the RAF, since this proposed interim mechanism will terminate before the implementation of the RAF.⁹ The remainder could be funded using a

⁵ *Vermont Public Service Bd. v. FCC*, 661 F.3d 54, 63 (D.C. Cir. 2011).

⁶ Locations with CACM-generated support amounts above \$150 should be allocated based on a flat value of \$150 to avoid skewing the results in favor of such locations.

⁷ Frontier and CenturyLink recognize the criticisms of the amounts of frozen support available in some states, including some states that received no frozen support. This issue flows from the original legacy support mechanisms, and this interim mechanism is not an appropriate vehicle to resolve it.

⁸ This allocation methodology also could be used to distribute any amount of interim voice support that the Commission decided to allocate.

⁹ This interim mechanism will terminate with the conclusion of the CAF Phase II auction, and it appears that implementation of the RAF will follow the CAF Phase II auction.

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tiny fraction of the existing CAF reserve account held by the Universal Service Administrative Company. Given the importance of maintaining voice service to Americans living in the most rural and remote areas, this would be a compelling use of this small fraction of the CAF reserve.

Frontier and CenturyLink urge the Commission to implement an interim voice maintenance support mechanism as described in this filing, and to do so without delay.

Sincerely,

/s/

L. Charles Keller

Attachments

cc: Stephanie Wiener
Rebekah Goodheart
Travis Litman
Nicholas Degani
Amy Bender
Carol Matthey



Voice Obligation for Price Cap Carriers

WC Docket Nos. 10-90, 14-192

Kathleen Abernathy, Frontier Communications

Melissa Newman, CenturyLink

February 2016

Price Cap Carriers' Unfunded Voice Obligation

- The Commission requires price cap carriers to provide voice service in certain census blocks.
 - This includes all CAF Phase II census blocks.
 - It also includes some categories of non-CAF Phase II census blocks, such as extremely high-cost and other high-cost census blocks.
- With CAF Phase II beginning January 1, 2015, carriers that accepted CAF Phase II support like Frontier and CenturyLink have not received any funding for the voice obligation in non-CAF Phase II census blocks, despite §254's sufficiency mandate.
- According to the *December Forbearance Order*, price cap carriers retain the federal high-cost voice obligation without any funding in **about six percent of the census blocks** where they are the incumbent provider and have accepted CAF II support.

This Is a Necessary *Interim* Solution Only

- Support to maintain voice service in otherwise unfunded areas would be on an *interim* basis only. FCC can specifically provide for it to terminate when the CAF Phase II auction is concluded.
- Because the support would be interim, and would only support voice service, it would not undercut the urgency to adopt CAF Phase II competitive bidding or RAF rules.

Interim Funding is Consistent with FCC Universal Service Obligations

- The areas primarily impacted by the Order are extremely high cost, low density, rural markets where basic voice service is essential. Implementing interim, sufficient funding preserves this essential service for customers in rural America.
- Interim support will ensure customers in the most rural areas continue to receive voice service in light of:
 - Necessary repairs to maintain service on aging loops.
 - Restoration of service following storms or other natural disasters.

Determining Interim Voice Support for Unfunded Areas

- The FCC could use the existing model to determine what proportion of frozen support is “associated with” unfunded areas, and continue to provide that support on an interim basis until completion of the CAF Phase II auction.
 - Use the relative support revealed by the cost model to allocate the legacy frozen support among the locations that are above the high-cost benchmark.
 - Then, continue to provide the frozen support associated with the otherwise unfunded locations.
- Tied to legacy support levels, which had been found to be sufficient for voice service.

Estimated Interim Voice Maintenance Support by Operating Company and State
2/22/2016

Operating Company	State	Interim Voice Maintenance Support	Existing Annual Frozen Support	Verizon Sold to Frontier	Rejected CAF2
ATT	AL	\$ 2,599,685	\$ 23,580,072		
ATT	AR	\$ 33,333	\$ 212,772		
ATT	CA	\$ 2,847,709	\$ 8,078,796		
ATT	FL	\$ 921,021	\$ 8,779,200		
ATT	GA	\$ 1,854,848	\$ 15,903,708		
ATT	IL	\$ -	\$ -		
ATT	IN	\$ -	\$ -		
ATT	KS	\$ 377,085	\$ 684,516		
ATT	KY	\$ 956,373	\$ 13,303,656		
ATT	LA	\$ 1,080,036	\$ 8,908,188		
ATT	MI	\$ -	\$ -		
ATT	MO	\$ -	\$ -		Rejected
ATT	MS	\$ 7,653,917	\$ 75,816,192		
ATT	NC	\$ 241,986	\$ 4,161,780		
ATT	NV	\$ -	\$ 3,823,668		Rejected
ATT	OH	\$ -	\$ -		
ATT	OK	\$ -	\$ 2,115,972		Rejected
ATT	SC	\$ 480,344	\$ 4,041,096		
ATT	TN	\$ 623,337	\$ 6,371,064		
ATT	TX	\$ -	\$ -		
ATT	WI	\$ -	\$ -		
ATT Total		\$ 19,669,674	\$ 175,780,680		
CBT	KY	\$ 23,660	\$ 769,644		
CBT	OH	\$ -	\$ -		
CBT Total		\$ 23,660	\$ 769,644		
CENT	AL	\$ 2,870,807	\$ 18,621,996		
CENT	AR	\$ 10,265,907	\$ 35,606,124		
CENT	AZ	\$ 4,740,384	\$ 10,343,196		
CENT	CA	\$ -	\$ -		Rejected
CENT	CO	\$ 9,377,430	\$ 37,668,528		
CENT	FL	\$ 1,368,647	\$ 15,416,304		
CENT	GA	\$ 351,517	\$ 1,719,168		
CENT	IA	\$ 299,735	\$ 898,932		
CENT	ID	\$ 1,034,286	\$ 1,997,016		
CENT	IL	\$ 362,844	\$ 1,474,104		
CENT	IN	\$ 1,174,724	\$ 4,118,988		
CENT	KS	\$ 2,670,111	\$ 7,184,664		
CENT	LA	\$ 2,544,836	\$ 20,646,300		
CENT	MI	\$ 905,892	\$ 8,265,468		
CENT	MN	\$ 1,645,372	\$ 6,899,592		
CENT	MO	\$ 3,965,519	\$ 21,846,036		
CENT	MS	\$ -	\$ 5,799,912		Rejected
CENT	MT	\$ 3,486,054	\$ 13,052,256		
CENT	NC	\$ 906,082	\$ 10,952,964		
CENT	ND	\$ 175,739	\$ 400,368		
CENT	NE	\$ 4,394,226	\$ 6,756,120		
CENT	NJ	\$ 9,834	\$ 258,204		
CENT	NM	\$ 2,218,394	\$ 4,459,860		
CENT	NV	\$ 587,121	\$ 1,862,772		
CENT	OH	\$ 1,129,463	\$ 5,204,196		
CENT	OK	\$ -	\$ -		Rejected
CENT	OR	\$ 3,558,472	\$ 12,432,744		
CENT	PA	\$ 553,628	\$ 5,200,344		
CENT	SC	\$ 130,048	\$ 1,338,060		

Estimated Interim Voice Maintenance Support by Operating Company and State
2/22/2016

Operating Company	State	Interim Voice Maintenance Support	Existing Annual Frozen Support	Verizon Sold to Frontier	Rejected CAF2
CENT	SD	\$ 292,223	\$ 1,028,364		
CENT	TN	\$ 1,897,638	\$ 7,401,336		
CENT	TX	\$ 2,416,844	\$ 15,843,864		
CENT	UT	\$ 200,912	\$ 967,080		
CENT	VA	\$ 824,167	\$ 11,009,340		
CENT	WA	\$ 4,999,490	\$ 14,786,532		
CENT	WI	\$ 2,308,457	\$ 20,202,744		
CENT	WY	\$ -	\$ 12,877,188		Rejected
CENT Total		\$ 73,666,805	\$ 344,540,664		
CONS	CA	\$ 2,021,182	\$ 5,851,152		
CONS	IA	\$ 260,172	\$ 1,356,612		
CONS	IL	\$ 1,119,987	\$ 7,095,852		
CONS	MN	\$ 709,618	\$ 4,044,132		
CONS	PA	\$ 359,330	\$ 4,337,088		
CONS	TX	\$ 1,162,051	\$ 13,889,040		
CONS Total		\$ 5,632,340	\$ 36,573,876		
FAIR	AL	\$ -	\$ -		
FAIR	CO	\$ -	\$ 782,100		Rejected
FAIR	FL	\$ 934,091	\$ 6,832,296		
FAIR	IL	\$ 298,333	\$ 756,936		
FAIR	KS	\$ -	\$ 495,324		Rejected
FAIR	MA	\$ -	\$ -		
FAIR	ME	\$ 1,308,423	\$ 7,838,508		
FAIR	MO	\$ 241,278	\$ 2,799,780		
FAIR	NH	\$ 90,551	\$ 1,423,212		
FAIR	NY	\$ 49,358	\$ 3,713,928		
FAIR	OH	\$ 544,387	\$ 1,007,580		
FAIR	OK	\$ 707,088	\$ 1,108,116		
FAIR	PA	\$ 32,724	\$ 649,224		
FAIR	VA	\$ 13,138	\$ 521,856		
FAIR	VT	\$ 440,467	\$ 8,596,920		
FAIR	WA	\$ 406,870	\$ 2,740,956		
FAIR Total		\$ 5,066,708	\$ 39,266,736		
FRON	AL	\$ 155,245	\$ 1,443,276		
FRON	AZ	\$ 2,351,567	\$ 5,063,148		
FRON	CA	\$ 3,896,030	\$ 6,883,524		
FRON	CT	\$ 9,961	\$ 464,352		
FRON	FL	\$ 14,920	\$ 128,700		
FRON	GA	\$ 34,852	\$ 1,626,528		
FRON	IA	\$ 337,560	\$ 961,008		
FRON	ID	\$ 7,096,566	\$ 12,157,740		
FRON	IL	\$ 3,132,708	\$ 9,075,252		
FRON	IN	\$ 3,306,225	\$ 11,803,476		
FRON	MI	\$ 159,544	\$ 529,764		
FRON	MN	\$ 553,115	\$ 1,708,980		
FRON	MS	\$ 26,822	\$ 748,152		
FRON	MT	\$ 217,535	\$ 783,768		
FRON	NC	\$ 1,186,805	\$ 6,898,860		
FRON	NE	\$ 260,730	\$ 422,448		
FRON	NM	\$ 109,703	\$ 352,260		
FRON	NV	\$ 2,081,725	\$ 4,547,256		
FRON	NY	\$ 384,261	\$ 8,249,784		
FRON	OH	\$ 1,210,583	\$ 4,121,160		
FRON	OR	\$ 1,078,723	\$ 7,205,592		

Estimated Interim Voice Maintenance Support by Operating Company and State
2/22/2016

Operating Company	State	Interim Voice Maintenance Support	Existing Annual Frozen Support	Verizon Sold to Frontier	Rejected CAF2
FRON	PA	\$ 3,224,418	\$ 20,295,984		
FRON	SC	\$ 533,362	\$ 3,992,316		
FRON	TN	\$ 90,013	\$ 1,004,796		
FRON	UT	\$ 644,051	\$ 1,951,956		
FRON	WA	\$ 3,312,942	\$ 11,432,424		
FRON	WI	\$ 260,918	\$ 2,443,056		
FRON	WV	\$ 8,882,483	\$ 28,882,752		
FRON Total		\$ 44,553,368	\$ 155,178,312		
HTC	HI	\$ 189,174	\$ 1,968,816		
HTC Total		\$ 189,174	\$ 1,968,816		
VZN	CA	\$ 5,556,289	\$ 22,164,924	Sold to Frontier	
VZN	CT	\$ -	\$ -		Rejected
VZN	DC	\$ -	\$ -		Rejected
VZN	DE	\$ -	\$ 227,616		Rejected
VZN	FL	\$ -	\$ 12,209,964	Sold to Frontier	Rejected
VZN	MA	\$ -	\$ 1,467,264		Rejected
VZN	MD	\$ -	\$ 2,303,364		Rejected
VZN	NC	\$ -	\$ 24,072		Rejected
VZN	NJ	\$ -	\$ -		Rejected
VZN	NY	\$ -	\$ 6,013,056		Rejected
VZN	PA	\$ -	\$ 13,537,212		Rejected
VZN	RI	\$ -	\$ 30,252		Rejected
VZN	TX	\$ 4,750,744	\$ 19,736,232	Sold to Frontier	
VZN	VA	\$ -	\$ 34,179,864		Rejected
VZN Total		\$ 10,307,033	\$ 111,893,820		
VZN Total Sold to Frontier		\$ 10,307,033	\$ 54,111,120	Sold to Frontier	
WIND	AL	\$ 146,644	\$ 1,735,176		
WIND	AR	\$ 540,129	\$ 3,135,768		
WIND	FL	\$ 74,228	\$ 1,295,772		
WIND	GA	\$ 2,451,165	\$ 14,365,368		
WIND	IA	\$ 2,771,472	\$ 6,416,724		
WIND	KY	\$ 704,316	\$ 12,740,316		
WIND	MN	\$ 770,518	\$ 4,681,404		
WIND	MO	\$ 538,088	\$ 2,516,976		
WIND	MS	\$ 16,101	\$ 630,396		
WIND	NC	\$ 707,629	\$ 12,249,600		
WIND	NE	\$ 1,006,759	\$ 2,326,392		
WIND	NM	\$ -	\$ 4,574,784		Rejected
WIND	NY	\$ 60,821	\$ 2,702,208		
WIND	OH	\$ 588,202	\$ 2,331,072		
WIND	OK	\$ 4,127,070	\$ 9,895,740		
WIND	PA	\$ 973,453	\$ 10,908,780		
WIND	SC	\$ 89,083	\$ 2,045,184		
WIND	TX	\$ 1,725,110	\$ 5,561,244		
WIND Total		\$ 17,290,788	\$ 100,112,904		
GRAND TOTAL		\$ 176,399,551	\$ 966,085,452		

VZN Total Sold to Frontier is a subset of VZN Total. Grand Total summarizes Holding Company TOTAL.