NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION
The Voice of Rural Telecommunications
www.ntca.org

October 22, 2009

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW, TW-A325
Washington, D.C. 20554

***Ex Parte* Notice:**

***In the Matter of a National Broadband Plan for Our Future,* GN Docket No. 09-51.**

***In the Matter of the High-Cost Universal Service Support and Federal-State Joint Board on Universal Service,* WC Docket 05-337, and CC Docket 96-45.**

***In the Matter of Developing a Unified Intercarrier Compensation Regime,* CC Docket No. 01-92; and *IP-Enabled Services,* WC Docket 04-36.**

***In the Matter of AT&T Petition for Immediate Commission Action to Reform its Universal Service Contribution Methodology,* WC Docket No. 06-122.**

Dear Ms. Dortch:

On Wednesday, October 21, 2009, Wendy Fast, with Consolidated Telephone Companies, Ken Pfister with Great Plains Communications, Jeff Pursley with Parrish, Blessing and Associates and I met with Carol Mattey, Tom Koutsky, Rebekah Goodheart, and Mukul Chawla with the Broadband Task Force, Don Stockdale, Marcus Maher, and Irene Flannery with the Wireline Competition Bureau and discussed issues raised in the above-referenced dockets. NTCA's positions discussed during the meeting are the same as those reflected in the attached NTCA filings in these dockets. Distributed at the meeting is the attached presentation which outlines NTCA's broadband universal service reform proposal.

Pursuant to Section 1.1206 of the Commission's rules, a copy of this letter is being filed via ECFS with your office. If you have any questions, please do not hesitate to contact me at (703) 351-2016.

Sincerely,

/s/ Daniel Mitchell
Daniel Mitchell
Vice President
Legal and Industry

DM:ar

cc: Carol Mattey, Tom Koutsky, Rebekah Goodheart, Mukul Chawla, Don Stockdale, Marcus Maher, and Irene Flannery

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Meeting the Congressional Objective of Universal Broadband

Dan Mitchell, NTCA
Ken Pfister, Great Plains Communications
Wendy Fast, Consolidated Companies
Jeff Pursley, Parrish, Blessing and Associates
October 2009

Current Funding Will Not Create Broadband Deployment

- Congressional Mandate: ubiquitous, efficient and affordable broadband
- The FCC has recognized that

Private Investment + USF + BTOP + BIP < Congressional Objectives

  - Our challenge is to identify the changes in public policy such that Congressional Objectives are aligned with the cost of providing Broadband Universal Service:

Return * (Investments – Grants) + Expenses = Customer Revenues + USF

  - When customer revenues are inadequate, *stable, sufficient* USF needs to make up the difference.
- Broadband deployment is inadequate, especially in the most rural areas.
- Without a major overhaul of USF, the situation will only worsen.

Proper and Timely Regulatory Changes Are Needed

- A systematic, on-going program is necessary to create incentives for incremental deployment of fiber deeper in the network capable of increasingly higher speeds.
- Implicit within this process must be:
  - Rethinking how competition and universal service policies interrelate.
  - Substantial reform of the current universal service system, including targeting and accountability.
  - Special access and backbone price constraints and connectivity requirements.
- The FCC has already recognized that many of these policy changes are necessary.

1996 Act Objectives: Competition and Universal Service

- The Act opened the network to competition, but competition has not materialized in all areas.
- NTCA identified two different market conditions:
  - *Competitive Market Areas (CMA)*—Areas where market forces will promote broadband services at reasonable prices without universal service funding.
  - *Market Failure Areas (MFA)*—Areas where market forces will NOT promote broadband services at reasonable prices without universal service funding.
- Sections 254(b) and (c) do not contemplate universal service funding being provided for overbuilding of existing facilities or to low-cost metropolitan areas.

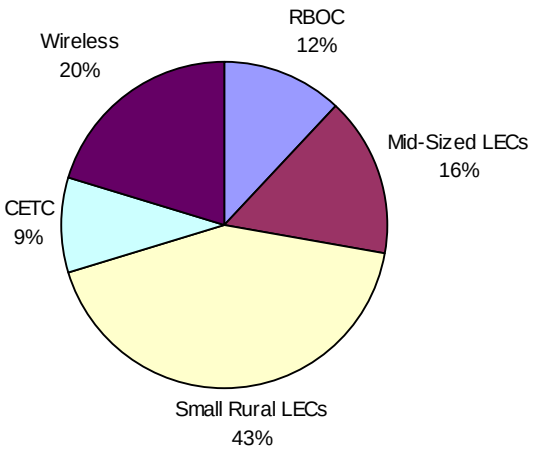
NTCA's Universal Service Concepts

- Market Failure Areas should receive universal service support, regardless of the category of carrier serving the customer.
  - Only one provider should be supported in a MFA.
  - As a condition of receiving universal service support, a provider should be subject to Title II regulation and earnings review.
  - The receipt of universal service support is optional, but if accepted the carrier must provide broadband to *all* households in the MFA.
- The broadband definition should be linked to the broadband service generally available in a sample of urban areas.
- Backbone and middle-mile transport costs should be supported through universal service.
  - Such services should be regulated in non-competitive areas to minimize cost and USF burdens.

The Current $4.3 B in High Cost USF Needs to Be Retargeted

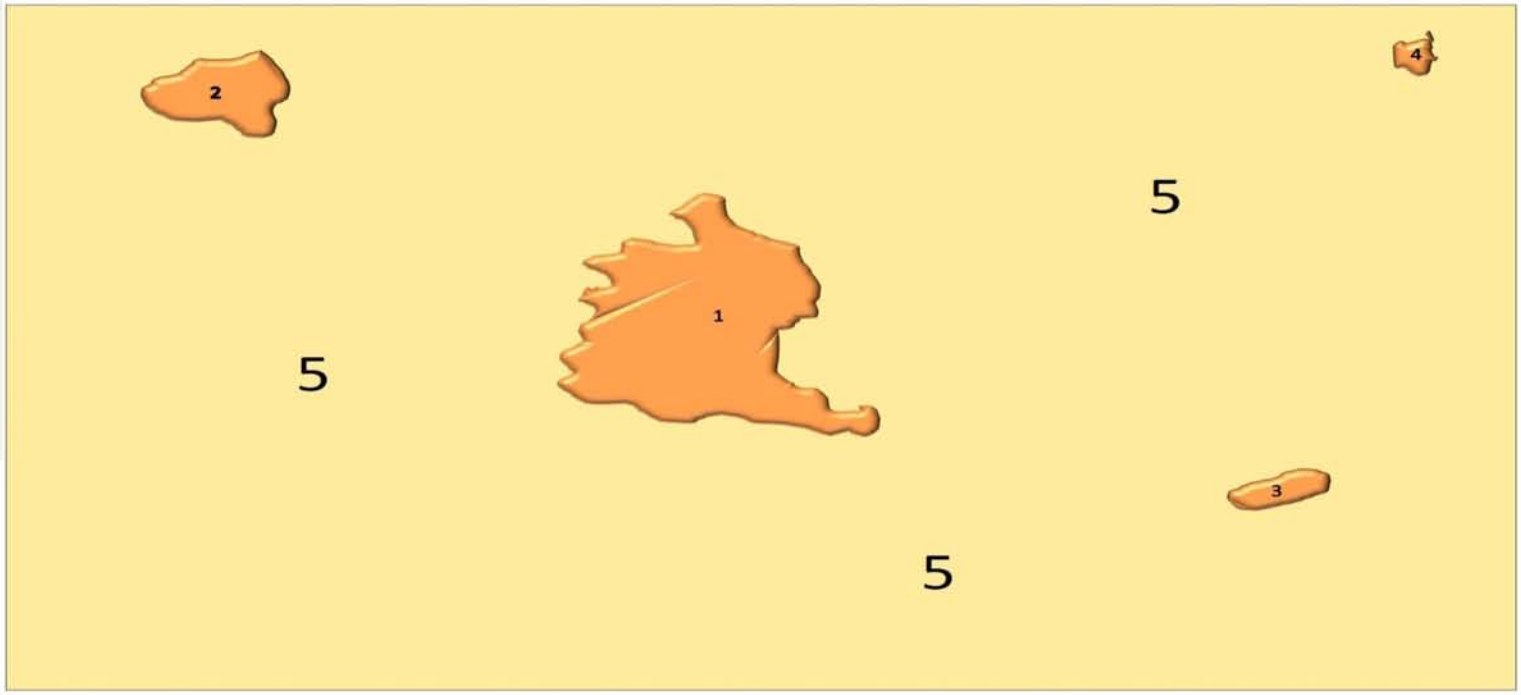
- Wireless companies receive 20% of high cost support, yet most wireless support does not relate to the cost of wireless plant.
  - Wireless companies have relatively few large switches, but receive $72M or 16% of LSS.
  - Even though towers are the significant cost variable, universal service is paid based on handsets.
  - In many instances, support is not being paid to high-cost areas.
- CETCs receive 9% of the high-cost fund, yet they primarily serve towns or cities where the costs are lower.
- Companies are not deploying broadband because the stability and sufficiency of compensation is in doubt and there are no penalties for lack of performance.

Current Distribution of High Cost Support



Existing Money Should Be Retargeted

- Biggest cost driver is household density.
  - For wired networks, a good density measure is households per square mile.
  - Small towns are more similar to urban areas than to out-of-town areas. According to census data, the average nationwide density per square mile are as follows:
    - 6 in out-of-town areas, although the density varies widely.
    - 253 for towns with fewer than 500 households.
    - 470 for all towns.
- Existing structures that attempt to define market areas will not work, e.g. exchanges, study areas, states, MSAs.



Market Areas 1-4 are Cities/Towns with higher density than the surrounding area—generally CMAs.

Market Area 5 is a lower density area outside of Cities/Towns—generally MFAs.

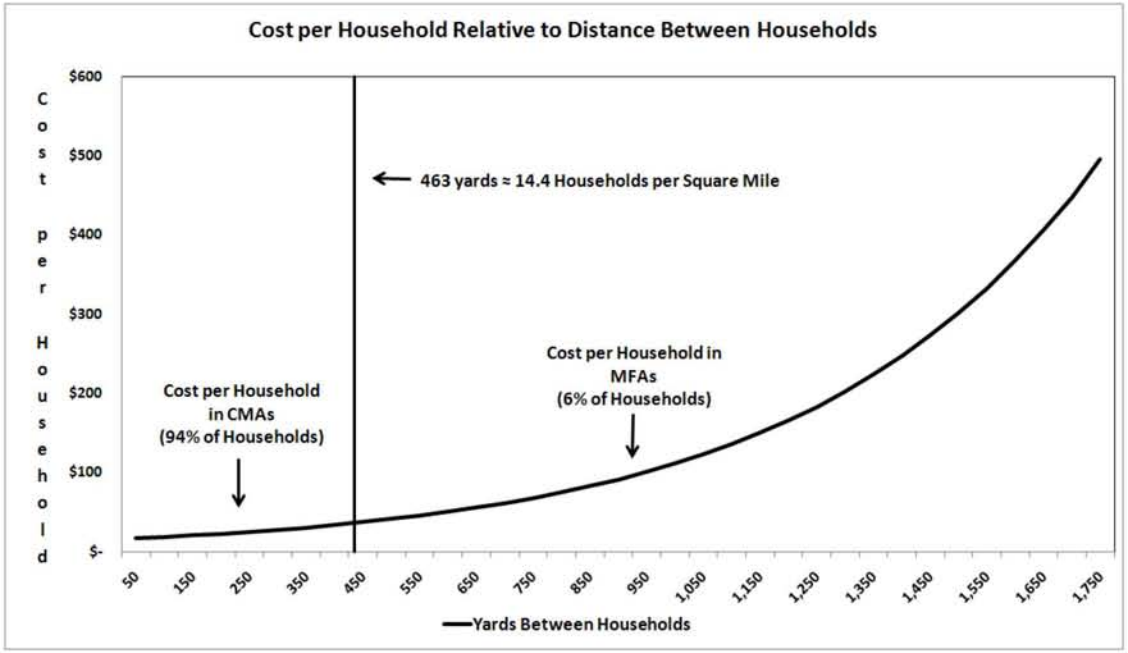
NTCA's Possible Approach to Develop Support Amounts for MFAs

- The cost to provide service in a given market area will be estimated based on a sample of the actual cost of providing service in such areas.
  - A statistically valid sample of *fiber* projects with different cost characteristics can be developed.
  - Sample data would be used to develop an econometric model.
- If "Broadband Access to the Internet" costs exceed estimated Title II broadband revenues in a given market area, such an area would be considered a MFA.
  - Density, terrain, income, consumer rates, broadband penetration are all factors that need to be considered.
- A waiver process must be in place to handle extreme situations.

Preliminary Results: Approximately 6% of the Households Need Support

- Support needed for MFAs nearly triples when competition is funded. Two-thirds of existing USF dollars are being used to subsidize competition in areas where service already exists.
- We agree with the FCC's statement: The distance between housing units rises rapidly for the last 2-5%, driving up cost and limiting revenue opportunities.

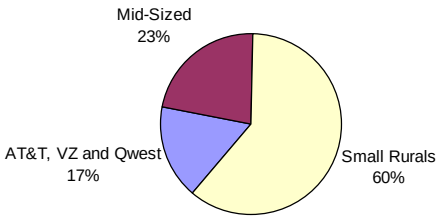
Results (using a $45 benchmark)	CMAs	MFAs
Areas	27,800	3,200
Square Miles	0.6M	2.9M
Households	110M	7M
Percent of Households	94%	6%
Simple Average of Market Area Densities	391.61	6.34



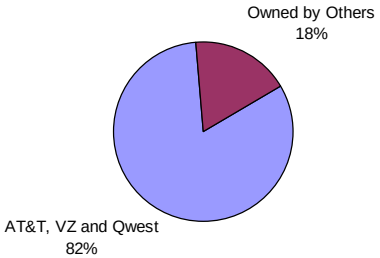
- Our data confirms and expands upon the FCC's analysis that costs increase as household density decreases.
- Based on our initial modeling, 463 yards between households is the "tipping point" between CMAs and MFAs.
- If the existing funds were redistributed using only density as a measure of cost, $1.5 B would be reallocated.

Cost, not Line Counts, Is the Appropriate Metric

RLECs receive more high-cost support than AT&T, VZ and Qwest...



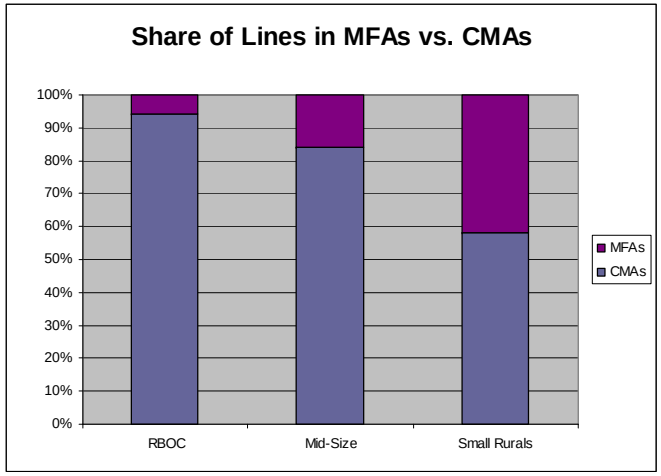
...Even though most non-upgraded lines are owned by those three companies

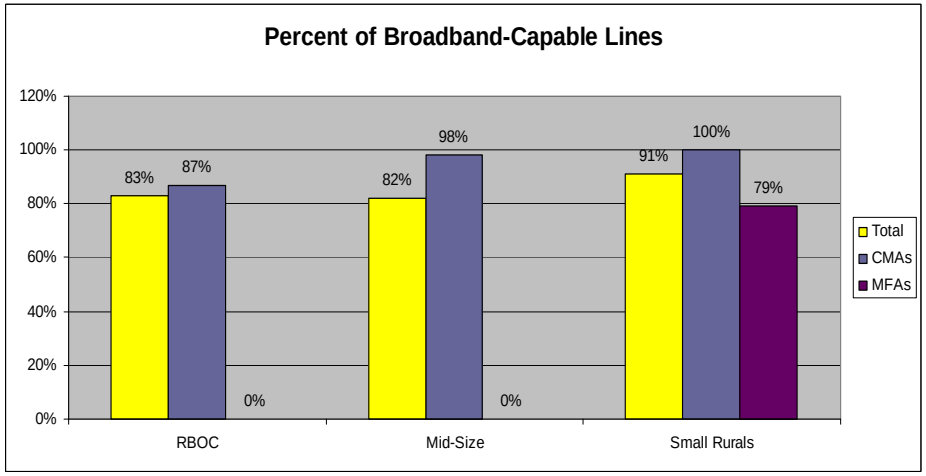


Source: FCC Broadband Meeting Handout September 29, 2009

- Be wary of “Rural support per line” as the costs vary significantly.
- The absolute number of lines is not as important as the overall cost of the areas served.
- While RBOCs have MFAs, we believe RBOC MFAs to be more densely populated than mid-sized and rural MFAs, and thus less costly on a per line basis.
- Cost is the appropriate metric.

Rural America is Falling Behind in Broadband Deployment



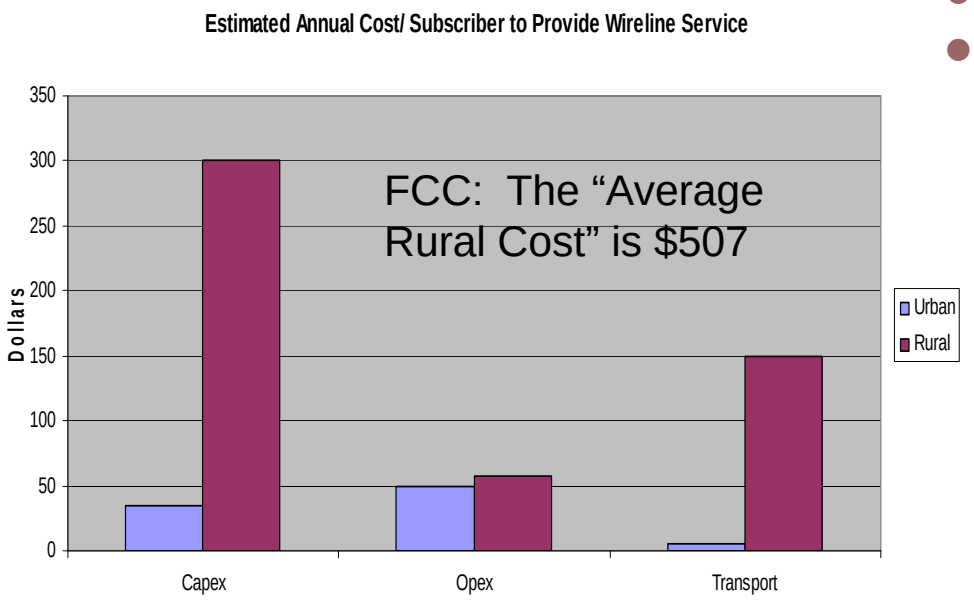


- RBOCs and mid-sized companies have the vast majority of lines in CMAs—areas that don't need support—while small rural companies have large portions in MFAs.
- While all carriers have made investments in broadband, larger carriers have not done so in MFAs and are not even fully deployed in their CMAs—even though they receive 39% of total ILEC support.
- Although small rural companies have deployed at least 200 kbps[1] to most customers, much of that plant will not meet tomorrow's broadband needs.

[1] Based on the FCC's current definition of broadband at 200 Kbps or higher. Source: NTCA Broadband/Internet Availability Survey NOTE: This survey was not statistically valid, so conclusions are not necessarily representative.

FCC: "end-to-end fiber networks offer nearly unlimited scalability and performance."

- We agree. Fiber has significant technical advantages over competing technologies.
  - The cost of FTTN is usually significantly less than a FTTP project.
  - FTTN provides a stepping stone for eventual FTTP deployment.
  - Upgraded electronics allow for higher speeds.



- Fiber is expensive!
- Be wary of aggregate costs, as "Rural Costs per Line" vary significantly.
  - To achieve a maximum speed of 1 Mbps, even without transport costs, our data by state for MFAs ranges from $600 to over $5,000.
  - Since our analysis excludes all CMAs, the lower end of our cost estimates exceeds the FCC's cost per line.

To Stimulate Investment the Social Compact Must Be Reinvigorated

- Even though rural companies have deployed significant broadband…
  - Rural companies have not recovered their investment cost.
  - Ongoing investments are required, especially in electronics.
  - Fiber is not ubiquitous or even to all the nodes.
    - While only 20% of Consolidated's and Great Plains' local plant is fiber, this was accomplished at a combined investment in excess of $40 M. Even so, only 63% of the nodes are fiber fed.
- Deployment will not occur in RBOC or mid-sized areas without more accountability.
- Universal service recipients should be held to the same standards: Title II, Earnings Oversight and Deployment Requirements.
- Without universal service modifications, the deployment in rural America will halt and the broadband gap between CMAs and MFAs will expand.

Grants Alone Are Not the Answer to Ubiquitous Broadband!

- High administrative cost for carriers and the government.
- Inappropriate awarding of funding will result in less broadband being deployed, rather than more.
  - Effectively reduces the customer density if customers are “cherry picked.”
  - If grants were provided to a second provider to overbuild in MFAs, the USF will be increased between 35% and 40%.
- One-time grants are inconsistent with COLR obligations.

Grants for MFAs Don't Justify the Investments

- Illustrative Project: RUS Grant Last-Mile Project
  - FTTN to 2,400 customers in 8 exchanges
  - Funded by 50% Grant and 50% Loan
  - Cost $10.3M ($5.15 M Grant)
- Net Present Value:
  - 60% Take Rate Assumed
    - Company's Current Take Rates are 40%
  - NPV = <$27M> assuming no incremental USF or
  - NPV = <$17M> assuming current ICLS
- Universal service policy must be fixed because grants will not accomplish the goal of broadband deployment.

On-going Support for OpEx Is Necessary

- FCC: The OpEx challenge is often magnified in rural areas due to difficult transport economies. We agree.
- Even though an area may not be a MFA, transport costs could still be exceptional.
- Consolidated's backbone costs increased 63% in the past two years, while Great Plains' increased 100%.
- We can't offer our customers affordable broadband prices if we have unreasonable transport costs.
  - Consolidated's DSL transport cost is $29/customer
  - Customer demand for bandwidth is growing exponentially

Regulate to Ensure Open Access and Affordable, Fair Interconnection

- FCC: Applications and device use and demands are evolving; **Internet use today will not look like Internet use tomorrow.**
  - **…the utility of the internet is in usage…**
  - We agree.
- To ensure that there is a ***public*** Internet capable of a variety of applications,
  - support should only be used to fund public networks
  - the entire network must have sufficient throughput—not just the local distribution network and
  - the cost to reach the backbone must be affordable and
  - networks must be required to interconnect.
- Without appropriate policy changes, the full potential of the Internet will NOT be reached.