

KELLEY DRYE & WARREN LLP

A LIMITED LIABILITY PARTNERSHIP

WASHINGTON HARBOUR, SUITE 400

3050 K STREET, NW

WASHINGTON, D.C. 20007-5108

(202) 342-8400

FACSIMILE

(202) 342-8451

www.kelleydrye.com

NEW YORK, NY

LOS ANGELES, CA

CHICAGO, IL

STAMFORD, CT

PARSIPPANY, NJ

BRUSSELS, BELGIUM

AFFILIATE OFFICES

MUMBAI, INDIA

DIRECT LINE: (202) 342-8518

EMAIL: tcohen@kelleydrye.com

March 19, 2012

Via ECFS

Marlene Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: American Cable Association (“ACA”) Notice of *Ex Parte* Presentation; *Connect America Fund*, WC Docket No. 10-90 et al.

Dear Ms. Dortch:

On March 15, 2012, Jim Mitchell of Armstrong Utilities and its affiliated Armstrong Telephone Company (a group of independent telephone companies) (“Armstrong”), Danny Jobe of MetroCast, Gary Evans of Hiawatha Broadband Communications (“Hiawatha Broadband”), Chris Kyle of Shenandoah Telecommunications Company (“Shentel”), Ross Lieberman of ACA, and Thomas Cohen and Joshua Guyan of Kelley Drye & Warren LLP, met with Carol Matthey, Michael Steffen, Alex Minard, Amy Bender, Joe Cavender, Katie King, Ted Burmeister and Steve Rosenberg to discuss ACA’s positions in the above-referenced docket regarding the Connect America Fund Order and Further Notice of Proposed Rulemaking, including the proposed competitive bidding process.¹ More specifically, the ACA members provided a profile of their companies, and discussed the current broadband market and their recent deployments of broadband networks, including technologies and capabilities (*e.g.* broadband speeds), costs, and impediments.

¹ See *Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing a Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link Up; Universal Service Reform – Mobility Fund; WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011) (“CAF Order”).*

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Armstrong can provide voice, video and data service to over 400,000 locations. It owns and operates cable systems and independent telephone companies in six states and provides broadband service using both cable modem and DSL technologies. MetroCast is a traditional cable company that provides digital television, high speed Internet, digital phone and business services in rural communities in nine states. Hiawatha Broadband is a voice, video and broadband provider that was started in 1992 as a not-for-profit and transitioned in 1997 to meet a need for broadband that was not being served by the telephone companies. Hiawatha now serves approximately 14,000 customers in rural areas of Minnesota. Finally, Shentel is a 100 year old company that provides voice, video and data service in the northern Shenandoah Valley and surrounding areas, as well as West Virginia, western Maryland and southern and southwestern Virginia. Shentel has 22,000 ILEC customers (with 100 percent DSL coverage), coverage of 2 million wireless POPs (350,000 wireless subscribers), and can provide voice, video, and data service to over 200,000 locations as a franchised cable provider.

In the meeting, the ACA members described how small and medium telecommunications and cable operators are serving rural areas with high speed broadband. Messrs. Mitchell, Jobe, Evans and Kyle are experts regarding the business case each company uses to determine whether and how to build out broadband facilities to sparsely populated areas. In its filings, ACA has employed these expert views to advocate, for instance, that broadband plant can be deployed more rapidly and with greater capability. It should take no longer than two years to build out any census tract. Moreover, speeds need to be significantly greater than 4 Mbps downstream and 1 Mbps upstream to meet the current and future demands of consumers and to fulfill the requirements of the Communications Act for access in high-cost areas.² In sum, ACA strongly believes that CAF resources can be more efficiently and effectively used by cable providers to provide higher-speed broadband service.

² The Commission adopted public interest requirements in the *CAF Order* that include a requirement to provide broadband service initially (within 3 years) at speeds of 4 Mbps/1 Mbps and 6 Mbps/1.5 Mbps to an unspecified number of locations at the end of the five year period. *See CAF Order*, ¶ 160. Because providers are increasing broadband speeds by approximately two times every two years, these low speeds will not reflect the market when Phase II funding is awarded in 2013 and beyond. In its comments, ACA did not request that the Commission reverse its decision but argued that service at speeds of 4 Mbps/1 Mbps should be delivered to 95 percent of locations at the end of its proposed two year deployment period. *See Comments of the American Cable Association, WC Docket No. 10-90 et al.* at 30-31 (filed Jan. 18, 2012). It also urged the Commission to conduct a brief proceeding later this year to establish speeds that are anticipated to reflect average performance by the most efficient provider in the market in 2015-2017. *Id.*, n.4. The public interest requirements then should be amended to reflect this expected performance, which ACA anticipated should at least reflect its proposed speeds of 16 Mbps/4 Mbps. As discussed herein, the experience of the ACA members in attendance bears this out.

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Each of the represented companies provides service in rural areas of the country and see unmistakable and growing demand for higher speed broadband services. These companies are not typically the low-cost broadband provider in their community, however, they offer higher broadband speeds and have used that differentiator to achieve substantial market penetration in many sparsely populated and often poor geographic areas.³ For example, over 80 percent of Armstrong's rural customers purchase a package that includes at least 10 Mbps downstream and 2 Mbps upstream broadband service (and Armstrong provides customers with a package that has 50 Mbps downstream and 5 Mbps upstream), MetroCast typically provides 12 Mbps downstream and 1 Mbps upstream service to its customers, and Hiawatha Broadband offers symmetrical speeds starting at 10 Mbps. Shentel sees customer demand for 20 Mbps, offers speeds of 5, 10, 15 and 25 Mbps downstream, and has plans to rollout 50 Mbps service. Approximately, 65 percent of Shentel's Internet subscribers currently subscribe to speeds greater than 8 Mbps. Armstrong offers speeds up to 50 Mbps downstream and Hiawatha Broadband offers up to 100 Mbps. All expect demand for higher speeds to continue to increase significantly.

Despite the high costs of deployment and lower returns due to population densities, rural broadband providers like Armstrong, MetroCast, Hiawatha Broadband and Shentel are continuing to deploy broadband facilities in areas where the speeds described above are not available. The cost to deploy high-speed broadband lines for these companies is typically \$20,000 – \$35,000 per road or aerial mile and is most heavily affected by the terrain and pole attachment application and make-ready costs. The return on investment analyses generally indicate that it is not profitable for the companies to construct and operate broadband facilities where there are fewer than 10-20 locations per road mile, although the exact calculation will depend on the specific circumstances of the deployment.

Despite these economic challenges, Armstrong recently purchased a small cable company in Kentucky and replaced the existing network with fiber-to-the-home to 750 locations. The project was completed in approximately two and one-half months. Similarly, MetroCast recently purchased three small cable systems in the Warsaw and Bowling Green areas of Virginia from a larger cable provider and converted the systems to fiber-to-the-home. The project was completed in six months. Shentel is currently planning to deploy a fiber-to-the-home network in McDowell County, West Virginia, which is the second-poorest county in the nation, to serve 10,000 locations across 300 miles with high-speed broadband. The project is expected to cost \$9 million, but has not yet been started due to pole attachment delays and make-ready work. Based on previous construction experience in other areas of West Virginia and Virginia, the project will take less than 12 months to complete. Finally, Mr. Evans noted that Hiawatha Broadband can typically build out high-speed broadband service to each census tract it targets over a six month period.

³ Hiawatha Broadband's lowest market penetration is 62 percent and its highest is 88 percent.

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Barring often lengthy pole attachment or other right-of-way delays, once funding is in place for these high-speed broadband projects, they can generally be completed within less than a year. Consequently, the Commission should not inefficiently allocate its limited CAF resources to providers that require three years to deploy 4 Mbps / 1 Mbps broadband service and five years to deploy 6 Mbps / 1.5 Mbps service to some locations when there are other providers ready, willing and able to deploy in less than two years networks with much faster speeds which meet actual customer demands.

This letter is being filed electronically pursuant to section 1.1206 of the Commission's rules.

Sincerely,



Thomas Cohen
Joshua Guyan
Kelley Drye & Warren, LLP
3050 K Street N.W.
Washington, DC 20007
202-342-8518
tcohen@kelleydrye.com
Counsel for the American Cable Association

cc: Alex Minard
Amy Bender
Michael Steffen
Carol Matthey
Joe Cavender
Katie King
Ted Burmeister
Steve Rosenberg