NTCA

NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION

The Voice of Rural Telecommunications

www.ntca.org

July 12, 2012

***Ex Parte* Notice**

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

***Connect America Fund,* WC Docket No. 10-90; *A National Broadband Plan for Our Future,* GN Docket No. 09-51; *Establishing Just and Reasonable Rates for Local Exchange Carriers,* WC Docket No. 07-135; *High-Cost Universal Service Support,* WC Docket No. 05-337; *Developing a Unified Intercarrier Compensation Regime*, CC Docket No. 01-92; *Federal-State Joint Board on Universal Service,* CC Docket No. 96-45; *Lifeline and Link-Up,* WC Docket No. 03-109; *Universal Service Reform – Mobility Fund,* WT Docket No. 10-208**

Dear Ms. Dortch:

On Tuesday, July 10, 2012, the undersigned on behalf of the National Telecommunications Cooperative Association, together with Stuart Polikoff on behalf of the Organization for the Promotion and Advancement of Small Telecommunications Companies, Jonathan Banks of USTelecom, Derrick Owens and Gerry Duffy on behalf of the Western Telecommunications Alliance, Jeff Dupree on behalf of the National Exchange Carrier Association, Manny Staurulakis of John Staurulakis, Inc., Bill Warinner of Moss Adams, and Larry Thompson and Quentin Flippin of Vantage Point Solutions, met with Carol Mattey, Steve Rosenberg, Patrick Halley, Amy Bender, Trent Harkrader, Katie King, Gary Seigel, James Eisner, and John Emmett of the Wireline Competition Bureau (the "Bureau") to discuss the regression analysis-based caps implemented by the Bureau pursuant to the reform order released last November by the Federal Communications Commission (the "Commission").

The meeting participants expressed concern to Bureau staff with respect to the effect of the new caps on the ability of rate-of-return-regulated rural incumbent local exchange carriers ("RLECs") to plan for further investments. We noted a need for the Commission and the Bureau to make the operation of the caps more clear and transparent, as lingering questions with respect to how the caps may apply (and change) going forward are frustrating efforts at network and business planning and chilling RLEC investment in rural broadband and lending for such purposes.

The meeting participants presented the attached exhibit to Bureau staff, showing what we estimate to be the significant "ripple effects" on support payments across 113 different study areas arising out of just the correction of a single variable for two other study areas for boundary data. We discussed with Bureau staff whether this example accurately captures the potential stability or volatility of the new caps arising out of updates to data within the formulas. To assess the relative stability or volatility of the caps, we believe more sensitivity testing is required, and we encourage the Commission and the Bureau to undertake such testing (or to make public the results of such testing to the extent it has already occurred).

We indicated that we would also undertake additional efforts to test the potential stability of the caps (or lack thereof), and would work with Bureau staff on the same. But we also assert that the caps should not have taken effect until such testing is completed or, to the extent already conducted, the results of any prior testing by Bureau staff are made public for review and comment. We also formally request by this letter that Bureau staff release updated independent variables to reflect the corrections to the boundaries of the two study areas referenced above. Having such information is necessary for all interested stakeholders to engage in additional testing of the volatility of the caps and to confirm specifically whether the attached exhibit accurately depicts their potential volatility.

Pursuant to Section 1.1206 of the Commission's rules, a copy of this letter is being filed via ECFS. If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Michael R. Romano
Michael R. Romano
Senior Vice President - Policy

Enclosure

cc: Carol Mattey
Steve Rosenberg
Patrick Halley
Amy Bender
Trent Harkrader
Katie King
Gary Seigel
James Eisner
John Emmett

ONE EXAMPLE OF UNPREDICTABILITY OF REGRESSION MODEL RESULTS

On June 26, 2012 Bureau granted waivers to correct study area boundaries for West River and Kennebec. Since the Bureau does not intend to update the model to reflect these corrections, impacts on other companies will be minimal – for now.

As a way of demonstrating how small changes in one company's data can cause unpredictable changes in benchmarks for other companies, however, the Associations recalculated benchmarks for all companies using updated density variables for these companies. As shown below, changing just ***this one variable*** solely to reflect ***only these two study area boundary changes*** in South Dakota, and holding all other variables constant (even though they would in fact change as well), causes the following shifts in support:

- 520 line company in Arizona – support reduced by $208 per customer
- 20 line company in Washington – support reduced by $167 per customer
- 794 line company in Texas – support reduced by $102 per customer
- 2334 line company in Hawaii –support reduced by $94 per customer
- 163 line company in Michigan – support reduced by $69 per customer
- 1151 line company in New Mexico – support reduced by $64 per customer

Put another way, the shift of just one variable for two isolated study areas has a ripple effect of hundreds of thousands of dollars in support for others across the country. In fact, just this simple one variable change for only two companies has the following effects on 113 other companies:

Support Payment per Customer Impacts	Study Area Counts
-$210 to -$50	7
-$50 to -$20	7
-$20 to -$10	11
-$10 to -$5	2
-$5 to +$0	28
+$0 to +$5	27
+$5 to +$10	19
+$10 to +$20	9
+$20 to +$25	2

Significantly greater changes can be expected when the Bureau updates its formulas in 2014 to account for changes in study area boundaries as well as numerous other factors.