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January 28, 2013

BY ELECTRONIC FILING

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

Re: *Request for Connect America Fund Cost Models*, FCC Public Notice in WC Dockets 10-90 and 05-337, DA 11-2026 (Wireline Competition Bur., rel. Dec. 15, 2011)

Dear Ms. Dortch:

On Thursday, January 24, 2013, Puerto Rico Telephone Company, Inc. ("PRT") met with Federal Communications Commission ("Commission") staff and Commissioner legal advisors regarding the Connect America Fund Phase II ("CAF II") proceeding. Specifically, Walter Arroyo, Director for Government and Regulatory Affairs for PRT, Cristina Lambert, Consultant to PRT, Steve Merlis and the undersigned, from Wiley Rein LLP, and Dave Blessing, from Parrish, Blessing & Associates, had separate meetings with Angela Kronenberg, Wireline Legal Advisor for Commissioner Clyburn, David Goldman, Senior Legal Advisor for Commissioner Rosenworcel, Nicholas Degani, Wireline Legal Advisor for Commissioner Pai, and Christine Kurth, Wireline Legal Advisor for Commissioner McDowell. PRT and its representatives also met with Carol Mattey, Amy Bender, Katie King, Dania Ayoubi, Heidi Lankav, and Talmage Cox from the Wireline Competition Bureau.

During these meetings, PRT discussed its Puerto Rico-specific cost model, which PRT refers to as the "Broadband Cost Model: Puerto Rico" or "BCMPR."[1] PRT explained that the BCMPR—unlike the Connect America Cost Model (which is based on the ABC Coalition's CQBAT Model)—accounts for the unique challenges of deploying and offering broadband services in Puerto Rico. Accordingly, PRT urged the Commission staff to employ the BCMPR when determining how to allocate CAF II support for Puerto Rico. If the Bureau opts not to use BCMPR, it should, at a minimum, maintain legacy high cost universal service support for Puerto Rico.

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[1] PRT filed its highly confidential cost model on January 18, 2013. *See* Letter from Thomas J. Navin to Marlene H. Dortch, WC Docket No. 10-90 (filed Jan. 18, 2013).

Please find attached to this letter the written presentation that PRT distributed during these meetings.

Please let me know if you have any questions.

Respectfully submitted,

Thomas J. Navin
Counsel for Puerto Rico Telephone Company, Inc.

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The FCC's Universal Service Program in Puerto Rico

January 24, 2013

Section 254 of the Communications Act

- Section 254 is the legal foundation for the FCC's Universal Service Fund (USF); it states that:
  - "[A]ccess to advanced telecommunications and information services should be provided in all regions of the Nation"
  - "Low income consumers and those in rural, ***insular***, and high cost areas, should have access to telecommunications and information services … that are … reasonably comparable to those services provided in urban areas"

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The FCC's 8th Broadband Report

- In August 2012, the FCC concludes that 54% of Americans residing in the U.S. Territories do not have access to fixed broadband at the FCC's 3Mbps benchmark.
- Of the 2.2M Americans without access to broadband at the FCC's benchmark in the territories, 1.92M live in Puerto Rico. This is approximately half the population of Puerto Rico.

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Connect America Fund: Phase II

- In Phase II, price cap carriers will be eligible for $1.8 billion annually over a five-year period, which will be distributed based on a forward-looking cost model yet to be developed.
- *The FCC directed the Wireline Bureau to consider whether the model ultimately adopted adequately accounts for costs faced by carriers in Puerto Rico and the other territories.* If the Bureau determines that the model ultimately adopted does not provide sufficient support, the Bureau may maintain existing support levels "without exceeding the overall budget of $1.8 billion per year for price cap areas."
- In areas where the incumbent declines the state-level commitment, the FCC will use competitive bidding to distribute support.

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Modeling Summary

- Under CAF II, federal support will be determined by a forward-looking cost model likely by Jan 2014
  - CQBAT/CACM model estimates reductions in support for PRTC of 95%
- WCB may exempt insular carrier from nationwide model if evidence exists showing that insular circumstances are not accounted for
- Analyses show that nationwide model does not meet these criteria

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Broadband Cost Model: Puerto Rico

- PRT-specific model estimates support, under PR-specific assumptions re take rate and WACC, of up to $88M
- PBA Model Results intuitively reasonable – increase funding to reflect increased obligations under CAF II
- Regression Analysis shows that, all else being equal, costs estimated by nationwide model are the same or lower for insular areas

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Broadband Cost Model: Puerto Rico (cont.)

- BCMPR estimates costs at Census Block Group Level using Microsoft Excel platform
  - Allows transparency of formulas, inputs and algorithms
  - Allows real-time evaluation of input changes
- Model is being developed in Microsoft Access down to Census Block Level
- Network cost inputs are PRT-specific which required confidential treatment
- Model relies on actual data for outside plant route miles
  - Existing Maps of outside plant structure provide accurate estimate of required plant mileages
  - Does not require use of proprietary third party data necessary for nationwide models
- Model is designed for application to geographically confined areas
  - Not appropriate for use as a nationwide model
  - Just like CQBAT/CACAM is not appropriate for use as insular area model

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Statistical Analysis of CQBAT Model Results

- Analysis designed to explain why CQBAT virtually eliminates support for insular areas while support for Price Cap carriers increases to almost $700 million
- Statistical analysis shows that CQBAT model does not account for the cost differences between insular and non-insular areas and therefore is unable to provide sufficient support to these areas
- Non-linear regression estimation techniques test the hypothesis that, all else being equal, the CQBAT model generates equivalent estimates of broadband costs whether the serving area is in an insular area or not
- Results of the analysis, contrary to expectations, indicate that the model, all else being equal, estimates costs for insular areas *lower* than those of non-insular areas
- The CQBAT results do not conform to the Commission's expectation that the cost of deploying and operating a broadband network is greater for insular areas, it, in fact, estimates that costs in insular areas are lower

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FCC SHOULD ADOPT AN INSULAR MODEL FOR PUERTO RICO

- Evidence shows that the CQBAT's results are counter-intuitive for insular areas in general and PRT in particular
- PR-specific model estimates a more reasonable level of support for PRT given the increased obligations under CAF II
- PBA has developed statistical evidence showing that the CQBAT/CACM does not account for unique circumstances of insular areas

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Broadband Cost Model:
Puerto Rico Telephone Company

Model Summary Results: Island-Wide

Total Annual USF Support	$	88,920,343
Total Investment All Locations	$	1,874,303,204
Investment Supported Locations	$	808,987,056
Total Subscribers with Local Private		908,599
Supported Subscribers		157,080
Avg Sup Per Loc (Monthly)	$	47.17
Investment per supported loc.	$	5,150
Last Mile Investment	$	1,735,055,123
Transport Facility Investment	$	92,430,373
Edge Router/Juniper Investment	$	11,390,685
MPLS/IP Cores Investment	$	35,427,024
Internet Access/Undersea		Exp.
% Subscribers Supported		17.288%