USTELECOM
THE BROADBAND ASSOCIATION

October 17, 2013

BY ELECTRONIC FILING

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

Re: *Wireline Competition Bureau Announces Availability of Version 3.2 of the Connect America Fund Phase II Cost Model and Illustrative Results, Seeks Comment on Several Modifications for Non-Contiguous Areas,* Public Notice in WC Docket Nos. 10-90, *Connect America Fund,* DA 13-1846 (rel. Aug. 29, 2013)

Dear Ms. Dortch:

USTelecom continues to believe that model-based support is the correct mechanism for determining high-cost support for all price cap companies, including those serving insular areas. We are confident that such an approach can yield the appropriate amount of support for insular providers, and provides a consistency that is especially important in the face of a budget that constrains support to all carriers. The instant proceeding provides the carriers and the Bureau the opportunity to ensure that the unique circumstances experienced by price cap insular carriers are addressed in the model in a fair and prudent fashion that provides equitable support.

Alaska Communications Systems ("ACS") filed comments in the proceeding cited above[1] providing further information on several specific changes that ACS believes must be made to the CAM to enable it to accurately reflect the costs of delivering broadband in Alaska. USTelecom agrees with ACS that the CAM, even as modified in version 3.2, does not yet fully reflect Alaska-specific cost inputs, and produces an unreasonably low amount of support for the ACS price cap LECs, which provide service only in Alaska.

With respect to the specific changes proposed by ACS, USTelecom has the following comments:

[1] *See* Public Notice, *Wireline Competition Bureau Announces Availability of Version 3.2 of the Connect America Fund Phase II Cost Model and Illustrative Results, Seeks Comment on Several Modifications for Non-Contiguous Areas,* WC Docket No. 10-90, *Connect America Fund,* DA 13-1846 (rel. Aug. 29, 2013).

The CAM for ACS Should Better Reflect the Costs of Building an Undersea Cable to Connect Alaska to IAPs in the Lower 48 States

USTelecom agrees with ACS that the undersea cable cost estimates in CAM v3.2 should be higher. As noted in ACS's Sept. 12th comments,[2] the CAM understates the number of landing stations and the amount of undersea cable required to serve Alaska. ACS makes a compelling case that, because of the topography, terrain, and geographical constraints, it is impossible to construct a terrestrial middle-mile network to reach Juneau and southeast Alaska from the northern landing point of the cable in Anchorage. Similar obstacles affect submarine cable that would be laid through the Cook Inlet, where the presence of pipelines and ice scouring issues make it more economical and reliable to reach Anchorage via another route, which requires two additional landing stations. The additional undersea cable spurs and landing stations required to address these problems are necessary, and the costs of those facilities should be included in the modified CAM for ACS.

In addition, the CAM should adopt ACS's proposal to allocate slightly more than 50 percent of its overall cable cost[3] to its own voice and broadband services, instead of the current 34 percent allocation. Given the presence of GCI, which has its own undersea cables, as a federally supported wireline broadband provider that offers competing voice and broadband services using its cable plant across much of ACS's service area, the level of non-broadband and non-ACS traffic that ACS could capture on its undersea cables is overstated by the Bureau. A lower level of non-broadband and non-ACS traffic on the cables means that a higher proportion the traffic on the cable will represent ACS voice and broadband traffic, and thus a correspondingly higher proportion of the cost should be allocated to voice and broadband services in the CAM for ACS. A reasonable approach is to assume that ACS and GCI will equally capture the traffic other than voice and broadband services delivered to ACS's own customers. This would result in just over 50 percent of the cost of the undersea cable system – not 34 percent – being allocated to ACS to deliver voice and broadband to its own customers.

The CAM for ACS Should Permit the Use of State-Specific and Forward-Looking Plant Mix Figures

USTelecom agrees with ACS and the Bureau that state-specific plant mix figures provide the most accurate cost measures and should be incorporated into the CAM. Equally valuable in accurately determining costs is the use of forward-looking plant mix figures. It is sensible to use a forward-looking number when estimating the cost of facilities yet to be built. This is not

[2] *See* Comments of Alaska Communications Systems at p. 7, *In the Matter of Connect America Fund, Public Notice: Wireline Competition Bureau Announces Availability of Version 3.2 of the Connect America Fund Phase II Cost Model, and Illustrative Results; Seeks Comment on Several Modifications for Non-Contiguous Areas*, WC Docket No. 10-90, DA 13-1846 (filed September 12, 2013).
[3] *Id* at pp. 12-17.

inconsistent with the treatment of plant mix by other companies who also use forward-looking plant mix figures and generally estimate them using actual experience as a surrogate.[4] The USF/ICC Transformation Order indicates its preference for forward-looking costs as well.[5]

The CAM for ACS Should Reflect Alaska-Specific Soil Type

USTelecom supports ACS's request to set the model's soil type for Alaska so as to best represent the cost per foot of deploying fiber where ACS provides service. ACS presents evidence that the "hard rock" category best captures the costs of deploying network facilities in ACS's service areas due to the unique geology, topography and climate of Alaska, even in areas that are not composed of hard rock, *per se*. Including modifications to the soil mix is consistent with the Commission's goal of modeling forward-looking costs at a granular, geographically-specific level.[6]

The CAM Should Include a Carrier-Specific Adjustment in Baseline CapEx

It is reasonable to posit that insular carriers incur higher costs to purchase and transport equipment to deployment sites than carriers in the lower 48 states due, in part, to the use of additional ocean carriage. Because of the potential longer shipping windows, insular carriers may have to warehouse more equipment so that it can be available quickly in emergency situations. The CAM as modified for insular carriers should reflect a carrier-specific adjustment for that reality. For ACS, this change in the CAM could be implemented either through an increase in the regional adjustment factor for Alaska or by creating an Alaska-specific set of Cap-Ex inputs.

ACS Should be Classified as a "Small" Carrier

USTelecom supports ACS's proposal that it be classified as "small" for purposes of the CAM. ACS expects to fall below the 100,000 line threshold between "small" and "medium" sized companies in late 2015 or early 2016, well before the completion of the CAF Phase II build-out.[7] Consequently, classifying ACS as "small" should better reflect the forward-looking costs intended to be estimated for CAF II support.

It is Appropriate for the CAM to Use a Lower Support Threshold for ACS

While USTelecom continues to believe that the support threshold should be based on cost, we do recognize that the CAM may instead rely on revenues (the calculation of which necessarily relies on take rates). Because of the Commission's decision to preserve CETC support in Alaska, ACS's situation with respect to take rates is unique. The fact that it is subject

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[4] See ex parte letters sent to Ms. Marlene H. Dortch by Verizon on March 22,2013, AT&T on March 23, 2013, and CenturyLink on March 24, 2013.
[5] *USF-ICC Transformation Order*, ¶ 188.
[6] *Id.*
[7] *See* letter from Leonard A. Steinberg and Richard R. Cameron of ACS at p. 10, *Connect America Fund, High-Cost Universal Service Support*, WC Docket Nos. 10-90, 05-337 (filed July 9, 2013).

to competition from a federally supported wireline (cable) broadband provider that receives federal high-cost support across a large proportion of ACS's service areas should be recognized through a lower support threshold for the CAM for ACS.

ACS Should be Permitted Ten Years to Complete Construction Under CAF Phase II

USTelecom supports an extended build-out period for ACS, consistent with the milestones ACS has proposed. ACS has documented that unique conditions hinder rapid broadband deployment in Alaska. Rather than discourage ACS from accepting CAF Phase II funding, the Bureau should make an exception to the five-year CAF Phase II build-out schedule in Alaska and so modify the CAM for ACS.

Adopting changes to the CAM tailored to each insular provider will most accurately provide the appropriate amount of support for such providers. ACS has constructively engaged in highlighting areas of the CAM for which modifications will help ensure that the final version of the model will best serve the Commission's broadband deployment goals in Alaska. The Bureau should move promptly to resolve these issues and finalize a modified CAM for ACS that will address the unique circumstances faced by ACS in Alaska.

Sincerely,

David B. Cohen
Vice-President, Policy

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