



October 21, 2013

**BY ELECTRONIC FILING**

Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 Twelfth Street, SW  
Washington, DC 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 No. 10-90, Connect America Fund, DA 13-1846 (rel. Aug. 29, 2013)*

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Dear Ms. Dortch:

Model-based support continues to be the correct mechanism for determining high-cost support for all price cap companies, including those serving insular areas. As we have said previously, 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<sup>1</sup> provides 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.

Hawaiian Telcom, Inc. (“HTI”) provided specific cost information concerning HTI’s unique circumstances in providing broadband services in the State of Hawaii.<sup>2</sup> HTI also filed comments in the above-captioned proceeding describing the changes that the Commission should make to the Connect America Cost Model (“CAM”) to accurately reflect HTI’s costs.<sup>3</sup> USTelecom agrees with HTI that the CAM, even as modified in version 3.2, does not yet fully reflect Hawaii-specific cost inputs, because the modified CAM produces an unreasonably low amount of support for the HTI, a price cap local exchange carrier that provides service only in Hawaii.

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<sup>1</sup> 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) (“Public Notice”).

<sup>2</sup> Letter from Steven P. Golden, Hawaiian Telcom, Inc., to Marlene Dortch, FCC, WC Docket No. 10-90, *et al.* (filed September 11, 2013) (“HTI Cost Ex Parte”).

<sup>3</sup> Comments of Hawaiian Telcom, Inc., WC Docket 10-90, DA 13-1846 (filed Sept. 12, 2013) (“HTI Comments”).

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

### **The CAM Should Better Reflect the Costs of Building an Undersea Cable to Connect Hawaii to the Mainland**

USTelecom agrees with HTI that the CAM, as modified by version 3.2, erroneously estimates undersea cable costs between Hawaii and the mainland based on the total capacity of only the largest-capacity cable serving that route today.<sup>4</sup> This erroneous calculation distorts a proper allocation of costs and unreasonably limits the amount of support that should be attributed to HTI's undersea cable costs. Instead, the CAM should employ a valid forward-looking methodology by applying a percentage use factor applied to the lit capacity of fiber that an efficient provider would be expected to utilize in the future, based on an average of all available fibers. An efficient owner of undersea cable would not be expected to recover any costs from un-lit capacity, but would concentrate only on the costs for lit capacity that contributes to the recovery of the costs of construction. Any un-lit capacity would only be recovered after the capacity has been lit. Thus, an efficient provider would be expected to build only the capacity that it requires for broadband services (or that would be sold to other users who themselves would pay for their own portion of the cable). Applying the usage factor to an average of all cables would more fairly apportion costs.

The undersea fiber transport investments in the CAM are capped based on the assumption that 50 percent of the facility investment would be "shared" with other, non-broadband services (e.g., cost would be recovered through special access and private line services). USTelecom agrees with HTI that this assumption is unrealistic for HTI in Hawaii because it is only minor provider of interstate, interLATA special access and private line services and could not reasonably be expected to achieve a greater share.<sup>5</sup> A more realistic usage factor would be 90 percent based on HTI's current experience in providing broadband in the state.

The CAM should not utilize current infeasible right of use ("IRU") fees because these represent market prices, not the costs that an efficient provider would be expected to incur. Use of IRU fees would be inconsistent with the forward-looking methodology that the model employs for other costs. USTelecom thus supports HTI's reformulation of the CAM methodology that should be used to estimate undersea cable costs for HTI between Hawaii and the contiguous states.<sup>6</sup>

Furthermore, HTI's territory experiences high costs associated with middle-mile transport within the State of Hawaii for voice and broadband connections, caused in large part by submarine cable costs between islands. None of these higher transport costs, including ocean-going vessels to lay inter-island fiber in deep-sea channels, would be recoverable under the current version of the CAM. Amendments should be made to the CAM to reflect these HTI-specific costs.

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<sup>4</sup> *Id.* at 3-4.

<sup>5</sup> *Id.* at 4.

<sup>6</sup> *See id.* at 6.

### **The CAM Should Use State-Specific and Forward-Looking Plant Mix Figures**

USTelecom agrees with HTI that state-specific plant mix figures provide the most accurate cost measures and should be incorporated into the CAM.<sup>7</sup> USTelecom applauds the Bureau for recognizing the need for such price cap company-specific plant mix figures for non-contiguous areas.<sup>8</sup> Equally valuable in accurately determining costs is the actual prudent experience of HTI.<sup>9</sup> By utilizing this figure, the Commission would more accurately estimate costs based on the forward-looking costs of an efficient provider, the very basis for the Commission directing the staff to create the model.<sup>10</sup>

### **The CAM for HTI Should Reflect Hawaii-Specific Soil Type**

USTelecom supports HTI's request to set the model's soil type for Hawaii to best reflect the cost per foot of deploying fiber in Hawaii.<sup>11</sup> HTI presents evidence that the "hard rock" category best captures the costs of deploying network facilities in HTI's service territory based on the unique geology and topography of the State of Hawaii, even in locations on the islands where soil may not literally be "hard rock".<sup>12</sup> This methodology would be consistent with the Commission's goal of modeling forward-looking costs at a granular, geographically-specific level.<sup>13</sup>

### **The CAM Should Include a Carrier-Specific Adjustment for HTI to Reflect the Higher Shipping and Storage Costs Experienced in Hawaii**

US Telecom supports HTI's request to modify CAPEX costs for Hawaii that would better reflect the forward-looking costs of storage and shipping caused by HTI serving an island state remote from the contiguous United States.<sup>14</sup> As HTI states, it must import nearly all of its materials, increasing its costs. These higher shipping costs are reflected in the higher material costs for Hawaii compared to the costs in the CAM and faced by other carriers on the mainland as well as the higher cost to carry an above-average value of inventory in order to decrease the time to repair damaged facilities. The CAM should include an adjustment to reflect these higher costs.

Adopting changes to the CAM tailored to each insular provider will most accurately provide the appropriate amount of support for such providers. HTI has responsibly identified areas of the CAM for which modifications will help ensure that the final version of the model

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<sup>7</sup> *Id.* at 6-8.

<sup>8</sup> Public Notice at 8-9.

<sup>9</sup> HTI Ex Parte at 9.

<sup>10</sup> *Connect America Fund*, WC Docket No. 10-90, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663, ¶ 188 (2011), *pets. for review pending sub nom. In re: FCC 11-161*, No. 11-9900 (10th Cir., filed Dec. 18, 2011) ("*USF-ICC Transformation Order*").

<sup>11</sup> HTI Comments at 8-9.

<sup>12</sup> HTI Cost Ex Parte at 7-8.

<sup>13</sup> *USF-ICC Transformation Order*, ¶ 188.

<sup>14</sup> HTI Comments at 9-10.

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will best serve the Commission's broadband deployment goals in Hawaii. The Bureau should move promptly to resolve these issues and finalize a modified CAM to include HTI's proposed revisions.

Sincerely,

A handwritten signature in black ink, appearing to read "David B. Cohen".

David B. Cohen  
Vice-President, Policy

cc: Carol Matthey  
Steven Rosenberg  
Amy Bender  
Alexander Minard  
Katie King  
Dania Ayoubi  
Talmage Cox  
Michael Jacobs  
Theodore Burmeister  
Travis Litman