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THE BROADBAND ASSOCIATION

November 13, 2013

EX PARTE

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

Re: ***Additional Input to the Cost Model Virtual Workshop 2012, WC Docket No. 10-90***

Dear Ms. Dortch:

The item filed on behalf of the ABC Coalition ("Coalition") is additional input to questions that the Bureau raised in the Cost Model Virtual Workshop.

Virtual Workshop Topic: Connect America Fund – Intercarrier Compensation Recovery Mechanism Set Aside Amount

In the *USF/ICC Transformation Order*, the Commission established an annual funding target of $4.5 billion for high-cost universal service support. Within the $4.5 billion budget, the Commission set aside up to $1.8 billion annually for a five-year period to support areas served by price cap carriers. This amount includes the support that price cap carriers receive through the Connect America Fund Intercarrier Compensation ("CAF-ICC") recovery mechanism. The CAF-ICC recovery mechanism is an explicit support mechanism that replaces the implicit support previously received by carriers from carrier-to-carrier revenues.

Questions for Comment

1. In order to finalize the cost model and identify the census blocks that will be funded, the Bureau needs to specify the amount of funding to be allocated among census blocks through the cost model or competitive bidding. The Bureau forecasts that over a five-year period, from 2015 to 2019, price cap carriers will draw an average of roughly $50 million per year of support from the CAF-ICC recovery mechanism. If the Bureau were to set aside $50 million from the $1.8 billion price cap carrier budget when finalizing the model, this would mean that $1.75 billion in support would be distributed through the model or competitive bidding. Is it reasonable to utilize a straight average when forecasting the price cap carrier draw from the CAF-ICC recovery mechanism? Is $50 million a reasonable amount of support to set aside for the CAF-ICC recovery mechanism in price cap areas? We encourage the price cap carriers to submit their

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> current projections of their anticipated CAF-ICC draw over the relevant time period. Parties that argue that a different methodology should be used should describe in detail their proposals and identify all underlying assumptions for a specific set aside amount for the CAF-ICC recovery mechanism.
>
> <u>Query 1 Response</u>
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> The Coalition believes that it is reasonable to set aside $50 million from the $1.8 billion in support to recognize the average draw of approximately $50 million per year of support from the CAF-ICC recovery mechanism. Additionally, the Coalition believes using a straight average when forecasting the price cap carrier draw from the CAF-ICC recovery mechanism is reasonable, which results in $1.75 billion of support being distributed through the model or competitive bidding.

Virtual Workshop Topic: Support Thresholds

In the *USF/ICC Transformation Order*, the Commission adopted a methodology “that will target support to areas that exceed a specified cost benchmark, but not provide support for areas that exceed an 'extremely high cost' threshold.” With regard to the support benchmark, the Commission stated that it would use the model “to identify those census blocks where the cost of service is likely to be higher than can be supported through reasonable end-user rates alone.” With regard to the “extremely high cost” threshold, the Commission also concluded that "a small number of extremely high-cost census blocks that should receive funding specifically set aside for remote and extremely high-cost areas . . . rather than receiving CAF Phase II support." The Commission anticipated that no more than 1 percent of all American household would be in such remote and extremely high-cost areas. Finally, the Commission directed that "[t]he threshold should be set to maintain total support in price cap areas within our up to $1.8 billion annual budget.”

In the *Model Design PN*, the Bureau sought comment on how to set the funding and extremely high-cost thresholds. It specifically sought comment on whether the Bureau should first determine the funding threshold and then use the budget to determine the extremely high-cost threshold, or if it should first determine the extremely high-cost threshold and then use the budget to determine the funding threshold. Both the American Cable Association (“ACA”) and the National Association of State Utility Consumer Advocates (“NASUCA”) urged the Bureau to use the former approach, and set the funding threshold first.

Questions for Comment

1. One possible method for establishing the support threshold would be to estimate the average revenue per user (“ARPU”) that could be reasonably expected from voice and broadband services and make adjustments to take into account that not all locations passed will necessarily subscribe to one or both services over the full term of Phase II support. Is this an appropriate way to set the support threshold?

Query 1 Response

It would be pure speculation as to what the right ARPU to use over time. The Coalition does not see the value in pursuing any bench mark solution that is based upon revenue/ARPU. Currently, the FCC does not have any data concerning the ARPU for any stand-alone voice/broadband service or combinations of voice and broadband service. This data is highly proprietary to service providers and its collection would involve high restrictive and controversial non-disclosure agreements. Any ARPU data collection would also add lengthy and unnecessary increases to the timeline for CAF 2 model inputs approval and the ultimate disbursal of CAF 2 funding. Therefore, the Coalition believes that using ARPU to develop benchmarks is inappropriate.

2. The Bureau recognizes that there may be different take rates for standalone voice service, standalone broadband service, and a package that includes both voice and broadband, and that the number of locations connected (and therefore able to subscribe) will increase over time as deployment progresses. The Bureau previously sought comment (Calculating Average Per-Unit Costs) on the assumption that, on average, 80% of locations would subscribe over the Phase II time horizon, noting that take rate has a small impact on the cost per location passed. (To illustrate the point, if 60% of locations subscribe at the beginning of Phase II and 100% subscribe at the end of Phase II, that would represent an average subscription rate of 80% over the five-year period.) What assumptions for ARPU and take rate are appropriate for purposes of setting the funding threshold?

Query 2 Response

It would be pure speculation as to what the right ARPU to use over time. The Coalition does not see the value in pursuing any bench mark solution that is based upon revenue/ARPU. Additionally, the Bureau's question confuses the concept of customer subscription. The industry understanding of the calculation of subscribership is that the number of customers subscribing to the service in question is divided by the total number of potential customers (e.g. households) that may subscribe to the service. The question presents total locations as potential customers and bases subscription as a percent of total customers. This is incorrect. In actuality, households and business, not locations, represent the total universe of potential customers. In the latest available U.S. Census data, households are less than 87 percent of housing units[1]. Thus, subscribership should be calculated based on household and active business location counts, not on pure locations in to account for vacant locations.

[1] United States Census Bureau Quick Facts, http://quickfacts.census.gov/qfd/states/00000.html

3. The table below shows the support threshold for various take rate-ARPU combinations. Would adopting a funding benchmark in the $40 to $50 range be a reasonable approach? To the extent commenters believe the funding threshold should set higher or lower, they should identify with specificity their underlying assumptions about ARPU and take rate.

	Average Take Rate over Phase II			
ARPU	50%	60%	70%	80%
$50	$25	$30	$35	$40
$60	$30	$36	$42	$48
$70	$35	$42	$49	$56
$80	$40	$48	$56	$64

Query 3 Response

It would be pure speculation as to what the correct ARPU to use over time. The Coalition does not see the value in pursuing any bench mark solution that is based upon revenue/ARPU as discussed above. If the Bureau determines it should use take-rates (subscribership) in combination with an ARPU estimate, the take rates should be consistent with the current levels of experience across the country. Active subscribers are the most accurate means of unitizing the cost, because the costs of service are recovered through the rates of the active subscribers. The most currently reported subscription rate for residential fixed broadband connections with advertised speed of at least 3Mbps down and 768 up is 45 percent and the subscription rate for residential fixed broadband connections with advertised speed of over 200 kbps is 69 percent.[2] These provide a more appropriate range of take rates than presented in the take rate table associated with this question. Finally, as stated the Coalition response to "Support Threshold" question 2, the subscribership must be stated as a percentage of the potential customers, not locations.

4. Given the Phase II budget of up to $1.8 billion, adopting a support benchmark in the $40 to $50 range could result in an extremely high-cost threshold between $145 and $155 per location passed, under version 3.1.2 of the Connect America Cost Model with default input values. Is this a reasonable range for the extremely high-cost benchmark?

Query 4 Response

The Coalition does not feel that an upper threshold for cost of $145 to $155 is prohibitive. It is important in considering a benchmark level that a CAM unit cost is influenced by the take rate if that option is enabled within the model. That said, the Coalition believes that even at the 100% level this range is not too high.

[2] "Internet Access Services: Status as of Jun 30, 2012", Industry Analysis and Technology Division Wireline Competition Bureau, May 2013, Table 13 and Table 14.

5. Are there other methods of calculating the support threshold for Connect America Phase II support? For instance, would basing the funding benchmark on a specified cost percentile, such as the 95th percentile, be appropriate? Are there other methods that the Bureau should consider?

<u>Query 5 Response</u>

In the Coalition submission of the ABC Plan, the benchmark was based upon the 95th percentile as the lower cost level for funding and then determining the upper cost threshold as a function of determining which value achieves the target funding level.

The Coalition believes that another viable approach to setting the support thresholds is to establish a two-step process: First, develop a target number of alternative technology locations such as 1%, or .75% of Price Cap locations (roughly 1.5M or 1M respectively) which determine the upper cost threshold (i.e. Alternative Technology Cap). Second, determine the lower cost benchmark as a function of the targeted fund size. The FCC has established the guidance that the Alternative Technology locations should not exceed one percent of all American households – though it is unclear whether this is one percent of total households or Price Cap households. In either case, the 1.5M or 1M levels would be under by either definition.

Sincerely,

Robert Mayer
Vice President
Industry and State Affairs

cc: Carol Mattey
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