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February 7, 2014

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

**Re: Connect America Fund, High Cost Universal Service Support, WC
Docket Nos. 10-90, 05-337; Additional Costs Associated with Price Cap
Company Service to Non-contiguous Geographic Areas**

Dear Ms. Dortch:

On February 5, 2014, Keith Yoshino, Daniel Masutomi, and Steven Golden of Hawaiiin Telcom, Inc. ("HTI") and I held a telephone conference with Steven Rosenberg, Alexandar Minard, Talmage Cox, and Ian Forbes of the Wireline Competition Bureau in the above-captioned proceeding.

During this conversation, HTI discussed the information contained in the attached letter, which contains certain information that is proprietary and highly confidential to HTI under the terms of the Second Protective Order in the above-captioned dockets,¹ or confidential to CostQuest, under the terms of the Third Supplemental Protective Order in WC Docket No. 10-90.² Accordingly, the attached letter indicates the confidential treatment to be afforded the submitted information as required by those Orders.

In accordance with those Orders, I have attached one copy of HTI's Stamped Confidential and Stamped Highly confidential documents, plus two copies addressed to Katie King in the Wireline Competition Bureau, and two copies redacted for public inspection (the redacted copy is also being filed electronically in ECFS),

¹ *Connect America Fund*, Second Protective Order, WC Docket Nos. 10-90, et al., DA 12-92 (Wir. Comp. Bur., rel. Feb. 10, 2012) ("Second Protective Order").

² *Connect America Fund*, Third Supplemental Protective Order, WC Docket No. 10-90, DA 12-1995 (Wir. Comp. Bur., rel. Feb. 10, 2012) ("Third Supplemental Protective Order").

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which ommits confidential or highly confidential information. One copy is being served on CostQuest's counsel in accordance with the Third Supplemental Protective Order.

Please let me know if you have any questions.

Sincerely,

/s/ Gregory J. Vogt

Gregory J. Vogt
Counsel for Hawaiian Telcom Inc.

Enclosure

cc: Steven Rosenberg
Alexandar Minard
Ian Forbes
Talmage Cox
Katie King
Margaret Avril Lawson

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February 7, 2014

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

Re: Connect America Fund, High-Cost Universal Service Support, WC Docket Nos. 10-90, 05-337; Additional Costs Associated with Price Cap Company Service to Non-contiguous Geographic Areas

Dear Ms. Dortch:

This letter contains additional information of Hawaiian Telecom, Inc. (“HTI”) concerning the development of the cost model to provide universal service fund (“USF”) support to price cap carriers by taking into account the unique characteristics of non-contiguous geographic areas, including the State of Hawaii.¹

In its current form, the CACM v.4.0 attempts to blend cost concepts associated with a “forward-looking, new construction model,” with the “demand-driven flexibility of a market-priced IRU model” to develop undersea transport cable costs. The CACM should employ a consistent approach for both assessing underlying costs and future costs based on forecasted demand. HTI understands that the transport component of the undersea cable module estimates that per subscriber cost is approximately [BEGIN TSPO CONFIDENTIAL] [END TSPO CONFIDENTIAL].

From a forward-looking modeling perspective, the model should reflect the cost to Hawaiian Telecom to construct a new transpacific cable facility. This would be consistent with the design and forward-looking concepts used to develop the cost elements used in the model.

However, recognizing that Hawaiian Telecom, due to its relatively small size, lack of geographic scope, and isolated location, is highly unlikely to be a significant transpacific special access and private line service provider, it would be inappropriate to adjust the cost results by a factor

¹ *Connect America Fund*, WC Docket No. 10-90, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663, ¶ 193 (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*”).

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applied to “unlit” capacity. Rather, the model should reflect that the cost of the facility would be recovered based on the lit capacity only. To better reflect the costs Hawaiian Telcom will experience, the model should be adjusted to use a 90 percent utilization percent (instead of the current 7.911 percent utilization), which is consistent with the anticipated utilization based on a forward-looking new construction model. When modified in this fashion, nominal changes to the modeled demand forecast for future changes would result in low incremental cost changes. The parameters for changing the transpacific transport parameters in the cost model were detailed in HTI’s comments.²

The Commission has correctly indicated, however, that transpacific transport is probably going to be obtained in the future through purchase of IRUs in existing undersea cables. The above analysis can be validated by using Hawaiian Telcom’s current costs based on market-priced IRUs. An efficient cable owner would only light the capacity anticipated to be sold over a reasonable recovery period. The facility costs would be assigned to maximize cost recovery over the forecasted demand. From this perspective, contrary to forward-looking model concepts, the transpacific service providers with the largest combined lit and unlit capacity may not be offering the most affordable IRUs available; instead, the service provider would price the IRU at the market rates to maximize cost recovery and long-term profitability based on lit capacity. In the transpacific market, Southern Cross has the most capacity between Hawaii and the continental United States and their pricing of IRUs currently is higher than other providers.

An efficient service provider would acquire the capacity anticipated to be used during the study period, initiating supplemental IRU leases to accommodate changes to the demand forecast. An efficient service provider would also not over-purchase IRU capacity where only 7.911 percent would be utilized. Because market prices are based on lit capacity and anticipated demand, there is currently little basis for adjusting the current “incremental” price of additional capacity. Therefore, the total price should be based on current per 10 Gbps IRU pricing and reflect 90 percent utilization.

The way in which this revised percentage utilization factor would be reflected for existing transpacific undersea cables serving Hawaii is detailed in Appendix A, which documents an estimated current utilization factor of 86.187 percent. The continued use of the utilization factor of 7.911 percent significantly understates the cost contribution that results from the transpacific undersea cables.

The above-described approach more accurately predicts the forward looking costs of transpacific undersea cable costs than does CACM v.4.0. This is supported by HTI’s current costs for IRU-based transpacific transport. HTI paid [Bharti Airtel](#), [BEGIN HIGHLY CONFIDENTIAL]

² Comments of Hawaiian Telcom, Inc., CC Docket No. 10-90, DA 13-204, 3-7 (filed Jan. 7, 2014).

[END HIGHLY CONFIDENTIAL] and [BEGIN HIGHLY CONFIDENTIAL]

[END HIGHLY CONFIDENTIAL].³

See Appendix B, Annexure I (Keawaula to One Wiltshire) and Annexure 3 (Makaha to One Wiltshire).

Based on current demand forecasts, Hawaiian Telcom anticipates that its transpacific broadband capacity needs will grow between [BEGIN HIGHLY CONFIDENTIAL] [END HIGHLY CONFIDENTIAL] per month or between [BEGIN HIGHLY CONFIDENTIAL] [END HIGHLY CONFIDENTIAL] over the next ten years. In contrast, based on the results of the last 3 years, HTI estimates subscribers will grow at about [BEGIN HIGHLY CONFIDENTIAL] [END HIGHLY CONFIDENTIAL] per year. The cost per 10 Gbps or 100 Gbps between Hawaii and the continental U.S. is estimated to decline by [BEGIN HIGHLY CONFIDENTIAL] [END HIGHLY CONFIDENTIAL] per year, over the next 10 years. This decline is lower than other transpacific routes as technology advances allows new cable systems to bypass Hawaii altogether and major undersea cable systems such as Japan-US and Southern Cross will reach the end of their designed lives by approximately 2025, which will greatly affect the supply of bandwidth. Using a 90 percent utilization factor, the cost per subscriber using IRU pricing would be approximately [BEGIN HIGHLY CONFIDENTIAL] [END HIGHLY CONFIDENTIAL] per subscriber, roughly seven times the per subscriber cost identified in CACM v.4.0. Over the last year, the cost per subscriber increased by [BEGIN HIGHLY CONFIDENTIAL] [END HIGHLY CONFIDENTIAL] per subscriber. As bandwidth growth is expected to continue to exceed subscriber growth, the resulting transpacific undersea cable cost per subscriber will continue to increase.

The per subscriber transport cost includes the transpacific transport cost between the cable landing station and the mainland, plus the backhaul fiber facilities between the cable landing station and the peering point in Honolulu.⁴ The cost per subscriber is difficult to derive because transport is purchased based on the constant availability of a certain level of usage, usually in 10 Gbps segments. However, due to the bursty nature of Internet communications, no subscriber uses a constant level of bandwidth. One can estimate the per subscriber cost by taking overall bandwidth purchased to meet expected demand and divide that amount by the average number of

³ Letter from Steven P. Golden, Hawaiian Telcom, Inc. to Marlene Dortch, FCC, WC Docket No. 10-90, *et al.* (filed Sept. 11, 2013) (“HTI Cost Ex Parte”). This information was supplemented in Letter from Steven P. Golden, Hawaiian Telcom, Inc. to Marlene Dortch, FCC, WC Docket No. 10-90, *et al.* (filed (Nov. 8, 2013).

⁴ This backhaul cost does not include the middle mile costs incurred in handling traffic between central offices in the State of Hawaii.

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subscribers in a recent month. Adjusting for anticipated capacity and subscriber growth, this cost would increase significantly over the model's study period.

This transport cost does not include the cost of peering either at Honolulu or on the mainland, which HT has estimated is roughly ten times the cost experienced on the mainland. The peering cost estimate used here, however, does include the extraordinarily high transport costs identified in the previous paragraph. The methodology for deriving this per subscriber cost is included as Appendix C.

HTI appreciates the Commission's efforts in taking into account the higher costs of price cap carriers serving non-contiguous areas of the country. The Commission can better address improved broadband facilities to serve unserved areas in non-contiguous areas by adopting the modest adjustments outlined above. HTI urges the Commission to promptly complete the CACM and distribute support in order to further the goal of bringing broadband to all Americans. Please let me know if you have any questions regarding this submission.

Sincerely,

/s/ Steven P. Golden
Steven P. Golden
Vice President External Affairs
Hawaiian Telcom Inc.

APPENDIX A

(REDACTED -- FOR PUBLIC INSPECTION)

APPENDIX B

(REDACTED -- FOR PUBLIC INSPECTION)

APPENDIX C

(REDACTED -- FOR PUBLIC INSPECTION)