



REDACTED – FOR PUBLIC INSPECTION

March 5, 2014

Ex Parte Notice

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

Re: *Connect America Fund, WC Docket No. 10-90*

Dear Ms. Dortch:

Pursuant to the Third Supplemental Protective Order adopted in the above-referenced proceeding, please find enclosed an original and two (2) copies of a redacted version of certain materials being filed today in this docket. A version of these materials containing confidential information is being filed separately under seal with the Secretary's Office via hand delivery, while the redacted version of these materials is also being submitted via ECFS.

If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,

/s/ Michael R. Romano
Michael R. Romano
Senior Vice President – Policy

Enclosures

cc: Katie King, FCC
Margaret Avril Lawson, CostQuest Counsel



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

Re: *Connect America Fund, WC Docket No. 10-90*

Dear Ms. Dortch:

On February 19, 2014, NTCA–The Rural Broadband Association (“NTCA”), the National Exchange Carrier Association (“NECA”), the United States Telecom Association, and WTA-Advocates for Rural Broadband (collectively, the “Associations”) submitted information in response to questions from Federal Communications Commission (“Commission”) staff regarding the Associations’ proposal for a targeted Connect America Fund (“CAF”) program to refine universal service support mechanisms in areas served by rate-of-return-regulated rural local exchange carriers (“RLECs”). This February 19 filing was a supplement to materials provided in a number of prior filings in these proceedings over the past fourteen months. *See, e.g., Ex Parte* Letter from Michael R. Romano, Sr. Vice President – Policy, NTCA, to Marlene H. Dortch, Secretary, Commission, WC Docket No. 10-90, *et al.* (filed Nov. 26, 2013); *Ex Parte* Letter from Michael R. Romano, Sr. Vice President – Policy, NTCA, to Marlene H. Dortch, Secretary, Commission, WC Docket No. 10-90, *et al.* (filed Dec. 16, 2013).

In response to further questions from Commission staff in the wake of these most recent filings, the Associations now submit further information related to the proposal and draft rules for this new CAF. Specifically, the attached file contains a spreadsheet populated with fields from the NECA 2013 Universal Service Fund Data submission for cost and average schedule RLEC areas. Where appropriate, to capture combinations of study areas with acquired exchanges, the data have been modified to develop the weighted average loop cost and report combined study area loop counts. This spreadsheet provides the data needed for Step 1 of the “calculations used” documentation included within the Associations’ most recent submission. Ensuing steps within the “calculations used” document can then be performed by adding a column of data containing: (1) 2014 high-cost loop support amounts that reflect “recycling” pursuant to the quantile regression analysis caps and local rate floor adjustments, where applicable, and (2) annualized Interstate Common Line Support amounts by study area for the first quarter of 2014 (available through the Universal Service Administrative Company’s November 2, 2013 submission). Performing these steps will provide the Commission staff with all data necessary to populate the spreadsheet, and thereby replicate the Associations’ December 2013 submission. The second tab of the same spreadsheet then provides the projections for CAF recovery mechanism amounts also included with the December 2013 submission.

Marlene H. Dortch

March 5, 2014

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The Associations appreciate the ongoing work of the Commission and staff in considering this proposal, and we are eager to engage in and complete productive conversations regarding the development of a CAF program that: (1) is tailored for smaller company operations; (2) recognizes the unique challenges associated with being a small network operator serving only rural areas; and (3) does not require complex rule changes, unpredictable shifts, or wholesale disruptions in the way in which small carriers recover the costs of providing universal service to rural consumers. In this regard, we have also included with this filing an analysis of how the current version of the Connect America Fund cost model still being constructed for larger companies would affect universal service distributions for smaller carriers. As this attachment shows, moving from current support mechanisms to model-based support would create significant volatility and extremely wide swings in distributions for recovery of prior investments and ongoing operating costs; it could also introduce significant implications for universal service “budgets” as carriers would likely elect whatever method yielded greater levels of support.

Thus, while longer-term discussions regarding alternative voluntary methods of support may be useful as well, such conversations are certain to take a significant amount of time and additional effort – leaving consumers in RLEC areas unable to participate fully in the “IP evolution” while affordable broadband access in such areas remains tethered to continued purchase of traditional telephone service. We are therefore hopeful that, in light of the Commission’s clear commitment to promoting and sustaining technological evolution as evidenced by its recent order, the Commission will move quickly to implement the CAF proposal to help fulfill that vision for all rural consumers based upon the full breadth of data and analysis provided to assess this proposal.

Thank you for your attention to this correspondence. Pursuant to Section 1.1206 of the Commission’s rules, a copy of this letter is being filed via ECFS.

Sincerely,

/s/ Michael R. Romano

Michael R. Romano

Senior Vice President – Policy

Enclosures

cc: Carol Matthey
Steve Rosenberg
Kalpak Gude
Deena Shetler
Erin Boone
Randy Clarke
Talmage Cox
Alexander Minard
Gilbert Smith
Joe Sorresso
Suzanne Yelen
Chin Yoo

**CACM Version 4.0 Observations
Impacts on Rate of Return Service Areas**

Observations

The Commission has made clear the current CACM Version 4.0 is being designed only for application to price cap carriers. Analysis of the impacts of this version of the model, were it to be applied to rural rate of return carriers (RLECs), reveals the following disruptive impacts:

- Setting upper and lower model thresholds to produce a “budget target” equal to current loop-related RLEC high cost funding, **[****] of RLEC study areas [****] would experience loop-related high cost support shifts of more than 50%**, nearly evenly divided between those experiencing increases in support of more than 50% and those experiencing decreases in support of more than 50%.
- Setting upper and lower model thresholds at current price cap levels (i.e., irrespective of “budget” targets) would reduce loop-related RLEC high cost support materially; **[****] of RLEC study areas [****] would experience loop-related high cost support shifts of more than 50%, with [****] of these study areas losing more than 50% of their support.**
- If upper and lower model thresholds were set to produce a budget equal to current loop-related RLEC high cost funding, and if study areas were given the option to select the higher of current support or CACM-based support, **[****] study areas would choose CACM and [****] would choose current support. This would require increasing the budget for current loop-related funding by [****]**, which when combined with current CAF ICC funding would result in total RLEC high cost support being **[****]**.
- There has been no in-depth testing or vetting of the model to determine the degree to which specific cost inputs are reflective of actual conditions and cost drivers in any given RLEC’s rural area. The model, for example, assumes that companies ranging in size from **[****]** lines have the same operating expense characteristics.

Conclusions

These observations – taken together with the years-long and still-ongoing experience of building a model for just thirteen larger, price-cap regulated carriers – demonstrate that development of a CACM-like cost model for use with the 1,000 plus RLEC study areas, if feasible at all, will require very significant work effort over an extended period of time.

Consumers in RLEC areas cannot wait for common-sense updates to support that were left undone in the “Transformation Order.” Given the urgent need to support the transition to IP-based services and provide consumers in rural high cost RLEC service territories with service options not tied to traditional voice services, broadband focused CAF support as proposed in rules filed June 17, 2013 (and as explained and justified further in numerous subsequent filings and meetings) should be adopted and implemented without delay.

CAF ICC Projections (5% Reduction in RRQ Every Year)
(\$ in millions)

TS Pool	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Interstate	\$420.0	\$400.1	\$380.1	\$361.1	\$343.0	\$325.9	\$309.6	\$294.1	\$279.4	\$265.4	\$252.2
Intrastate	\$258.3	\$245.9	\$233.6	\$221.9	\$210.8	\$200.2	\$190.2	\$180.7	\$171.7	\$163.1	\$154.9
Reciprocal	\$43.9	\$41.8	\$39.7	\$37.7	\$35.8	\$34.0	\$32.3	\$30.7	\$29.2	\$27.7	\$26.3
Total Reven	\$722.1	\$687.7	\$653.3	\$620.7	\$589.6	\$560.2	\$532.2	\$505.5	\$480.3	\$456.3	\$433.4
Interstate	\$229.4	\$234.8	\$199.4	\$166.9	\$137.2	\$124.3	\$112.4	\$101.2	\$92.7	\$86.3	\$80.3
Intrastate	\$182.1	\$116.4	\$91.7	\$69.6	\$50.1	\$43.4	\$37.5	\$32.1	\$28.6	\$26.5	\$24.6
Recip Com	\$1.3	\$1.0	\$0.7	\$0.4	\$0.3	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Reven	\$412.7	\$352.2	\$291.8	\$236.9	\$187.6	\$167.9	\$149.8	\$133.3	\$121.3	\$112.9	\$104.9
Access Elig	\$309.4	\$335.6	\$361.5	\$383.8	\$402.1	\$392.2	\$382.3	\$372.2	\$358.9	\$343.4	\$328.5
Exogenous	\$0.5	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6
Local Switc	\$5.2	\$4.9	\$4.9	\$4.9	\$4.9	\$4.9	\$4.9	\$4.9	\$4.9	\$4.9	\$4.9
ARC Reven	\$22.0	\$43.0	\$64.2	\$75.1	\$85.1	\$94.2	\$90.5	\$87.1	\$83.7	\$80.5	\$77.4
Adjustmen	\$0.2	\$0.6									
TS Pool CA	\$283.0	\$288.9	\$293.0	\$304.3	\$312.6	\$293.8	\$287.5	\$280.8	\$270.9	\$258.5	\$246.8
Total RoR Q	\$334.0	\$340.8	\$345.7	\$359.1	\$368.9	\$346.6	\$339.2	\$331.4	\$319.6	\$305.1	\$291.2

1. 2012 is the Compliance Filing and 2013 is the 2013 Annual Filing. Emery exited and Geneseo entered the TS pool

2. Interstate minutes decline by -5.5%, intrastate minutes by -7.2%, residential access lines by -4% and SLB/MLB access lines by -3.4% per year based on the 2013 annual filing.

3. Rate changes for interstate terminating, intrastate terminating and non_CMRS reciprocal compensation rates follow the FCC

4. For company with Eligible Recovery, the maximum annual residential/SLB ARC increase is \$0.50 and maximum

5. Exogenous costs and LSS are assumed to remain the same for 2013 through 2033.

6. RoR CAFICC is assumed to be 18% higher than TS Pool CAFICC.

CAFICC Projections (5% Reduction in RRQ Every Year)
(\$ in millions)

TS Pool	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Interstate	\$239.6	\$227.6	\$216.2	\$205.4	\$195.1	\$185.4	\$176.1	\$167.3	\$158.9	\$151.0	\$143.4
Intrastate	\$147.2	\$139.8	\$132.8	\$126.2	\$119.9	\$113.9	\$108.2	\$102.8	\$97.7	\$92.8	\$88.1
Reciprocal	\$25.0	\$23.8	\$22.6	\$21.4	\$20.4	\$19.3	\$18.4	\$17.5	\$16.6	\$15.8	\$15.0

Total Revenue	\$411.8	\$391.2	\$371.6	\$353.0	\$335.4	\$318.6	\$302.7	\$287.6	\$273.2	\$259.5	\$246.5
Interstate	\$74.5	\$69.0	\$63.8	\$58.9	\$54.2	\$49.7	\$45.4	\$41.3	\$37.4	\$33.7	\$30.2
Intrastate	\$22.9	\$21.2	\$19.7	\$18.3	\$17.0	\$15.7	\$14.6	\$13.5	\$12.6	\$11.7	\$10.8
Recip Comp	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Revenue	\$97.4	\$90.2	\$83.5	\$77.1	\$71.1	\$65.4	\$60.0	\$54.9	\$50.0	\$45.4	\$41.0
Access Elig	\$314.4	\$300.9	\$288.1	\$275.9	\$264.3	\$253.2	\$242.7	\$232.7	\$223.2	\$214.1	\$205.6
Exogenous	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6
Local Switch	\$4.9	\$4.9	\$4.9	\$4.9	\$4.9	\$4.9	\$4.9	\$4.9	\$4.9	\$4.9	\$4.9
ARC Revenue	\$74.5	\$71.6	\$68.9	\$66.2	\$63.7	\$61.2	\$58.9	\$56.6	\$54.5	\$52.4	\$50.4
Adjustment	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TS Pool CA	\$235.6	\$225.0	\$214.9	\$205.4	\$196.3	\$187.7	\$179.5	\$171.7	\$164.4	\$157.4	\$150.9
Total RoR C	\$278.1	\$265.5	\$253.6	\$242.3	\$231.6	\$221.4	\$211.8	\$202.6	\$194.0	\$185.8	\$178.0

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