INDEPENDENT TELEPHONE & TELECOMMUNICATIONS ALLIANCE

March 14, 2014

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

Re: *Ex Parte* Communication: WC Docket No. 10-90

Dear Ms. Dortch:

On March 12, 2014, the undersigned of ITTA, Trey Judy of Hargray Communications, Bob DeBroux of TDS Telecom, Mike Skrivan of FairPoint Communications (by phone), Bill VanderSluis of Enventis (by phone), and Greg Lunsford of Comporium Communications (by phone) met with Daniel Alvarez in Chairman Wheeler's office to discuss outstanding issues relating to the Bureau's May 16, 2013 Public Notice[1] seeking input on ways to promote rate-of-return ("RoR") carriers' voluntary participation in model-based support under Connect America Fund ("CAF") Phase II, including through voluntary conversion to price cap regulation.

At the meeting, ITTA discussed the attached proposal for a voluntary two-phase transition to alternative regulation for RoR companies (the "Plan"). The Plan aims to address some of the concerns associated with eventually moving to model-based support by providing stability, certainty, and an adequate transition period for RoR carriers that opt to participate in the Plan. As explained in more detail in the attachment, the Plan calls for a two-phase transition to model-based support for RoR companies. Under Phase I, universal service ("USF") support would be frozen at current levels. Plan participants would continue to implement intercarrier compensation ("ICC") rate reductions pursuant to the timeline adopted in the *USF/ICC Transformation Order* for RoR carriers. They would move to a price cap-like structure with respect to regulation of rates for special access service. Their service obligations under Phase I would continue as provided in the *USF/ICC Transformation Order* for RoR companies.

[1] Public Notice, "Wireline Competition Bureau Seeks Comment on Options to Promote Rural Broadband in Rate-of-Return Areas," DA 13-1112 (rel. May 16, 2013) ("May 16th Public Notice").

Under Phase II of the Plan, which would begin after the Connect America Cost Model ("CACM") has been modified to reflect the unique circumstances of RoR companies, Plan participants would accept model-based support and assume service and public interest obligations in the same manner as price cap carriers accepting model-based support under CAF Phase II. Participants that turn down model-based support for certain areas would be relieved of their ETC status and obligations in those areas and those areas would then be opened up pursuant to a competitive process for other communications providers to serve. To the extent model-based support for Plan participants electing the model is lower than the amount of frozen support they received under Phase I of the Plan, such support would be transitioned down over five years to provide participants with an adequate adjustment period. Under Phase II, ICC and special access rates would continue to be regulated as described in Phase I of the Plan.

The Plan gives participants maximum flexibility by allowing them to elect this alternative regulatory path on a study area-by-study area basis and by giving them the option to utilize NECA's tariffing and pooling operations or exit the pool and file their own tariff rates, which would be initialized based on recent tariff filing data but could be adjusted on a going-forward basis to take into account evolving circumstances. Participants would have the option to elect deregulation of the transmission component of their broadband Internet access service offerings under the Plan.

ITTA firmly believes that this proposal is consistent with the direction the Commission charted in the May 16th Public Notice. We also firmly believe that this proposal addresses a number of the concerns expressed by RoR carriers regarding conversion to a price cap regulatory structure. ITTA respectfully requests that the Commission move expeditiously in considering adoption of this framework to facilitate a voluntary pathway to model-based support for RoR carriers while providing regulatory certainty and minimizing disruption for both consumers and carriers.

Please do not hesitate to contact us with any questions regarding this submission.

Respectfully submitted,

Genevieve Morelli

Genevieve Morelli
President

Mel Caldwell

Micah M. Caldwell
Vice President, Regulatory Affairs

cc: Daniel Alvarez

Proposed Interstate Alternative Regulation Plan
for Rate-Of-Return Companies

I. GENERAL TERMS

a. **Availability** –
   i. All rate-of-return ("ROR") companies would be free to opt in to the plan on a voluntary basis.
   ii. ROR companies would be permitted to opt in to the plan at any time during Phase I or Phase II.

b. **Scope** - A participating company would have the discretion to opt in to the plan for all of its study areas or for a select set of its study areas.

c. **Implementation** - The plan would be implemented in two phases:
   i. **Phase I** - Current federal USF support amounts would be frozen at the study area level for participating companies.
   ii. **Phase II** - Participating companies would receive model-based support under a modified version of the Connect America Cost Model ("CACM").

d. **Term** –
   i. Phase I would remain in effect until the CACM has been modified to operate as a functional model for ROR companies.
   ii. Model-based support under Phase II would be made available for ten (10) years to participating ROR companies choosing to participate in Phase II when it becomes operational. For those ROR companies choosing to opt in to Phase II after it has become operational, model-based support would be made available only for so long as Phase II remains in effect for those companies that opted in at the time Phase II became operational.

e. **NECA Pooling** - Participating companies would be permitted to remain in the NECA pool or to exit the pool and file their own rates at their discretion.

f. **Timing** - The Commission should move forward aggressively to adopt the plan on an expedited basis.

II. PLAN SPECIFICS

a. **Phase I -**

i. **Universal Service Fund Support**

1. Interstate Common Line Support ("ICLS") and High Cost Loop Support ("HCLS") would be frozen at their current levels (*i.e.*, their levels as of December 31 of the year prior to election) for the duration of Phase I.
2. Safety Net Additive funds would transition at their own pace.
3. Current obligations associated with these dollars (for example, the requirement to provide 4/1 service upon "reasonable request") would remain in effect. Additional public interest obligations currently applicable to price cap carriers would not be imposed.
4. The level of frozen ICLS and HCLS support would not change for any ROR company electing to engage in study area consolidation or any company subject to merger, acquisition or other change in ownership.

ii. **Intercarrier Compensation –**

1. No change to current ROR company mechanisms.
   a. The current transition for ROR companies' terminating switched access rates would continue to apply.
   b. The current ROR company intercarrier compensation transition mechanism, which provides for a decline of 5% per year of Eligible Recovery, would continue to apply.

iii. **Special Access** –

1. ROR companies participating in the NECA pool would establish price-cap-like settlements with the pool based on interstate special access revenue requirement and demand for the calendar year prior to election. ROR companies with company-specific special access tariffs would use their most recent tariff filing data.
2. ROR companies would have the flexibility to adjust rates pursuant to current and evolving tariffs.

iv. ROR companies would have the option to elect deregulation of the transmission component of broadband Internet access service.

b. **Phase II –**

   i. **Universal Service Fund Support** –

      1. Phase II would begin after a functional model for ROR companies wishing to move to model-based support is established and the details of how the model would apply have been worked out.
      2. ROR companies that accept Phase II support under this plan would assume service and public interest obligations in the same manner as for price cap carriers accepting model-based support under CAF Phase II. ROR companies turning down support for certain study areas would be relieved of ETC status and obligations for those study areas. Those study areas would then be opened to a competitive process to the same extent a competitive process is applicable in areas where price cap carriers decline Phase II support.
      3. To the extent that Phase II funding for a study area is lower than frozen support, support would be transitioned down to the Phase II level over a five-year period.

   ii. **Intercarrier Compensation -** Same as Phase I.

   iii. **Special Access -** Same as Phase I.