

**Before the  
Federal Communications Commission  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
Universal Service Reform	)	WT Docket No. 10-208
	)	
ETC Annual Reports and Certifications	)	WC Docket No. 14-58
	)	
Establishing Just and Reasonable Rates for Local Exchange Carriers	)	WC Docket No. 07-135
	)	
Developing an Unified Intercarrier Compensation Regime	)	CC Docket No. 01-92
	)	

**REPLY COMMENTS OF  
ALEXICON TELECOMMUNICATIONS CONSULTING**

Alexicon Telecommunications Consulting (Alexicon) hereby submits provides these reply comments in response to the Further Notice of Proposed Rulemaking adopted by the Commission in the above-captioned dockets.<sup>1</sup>

Alexicon provided initial comments in response to the FNPRM that covered several areas, including concerns over the use of a cost model for determining support in rate-of-return (RoR) carrier areas.<sup>2</sup> In these reply comments, Alexicon will respond to several parties on the adoption of the Commission's proposal for a voluntary election of a Connect America Fund (CAF) Phase II-like mechanism for RoR carriers, and will further discuss concerns about using such a mechanism for the determination of RoR carrier universal service support.

Overall, Alexicon believes any proposals to transition RoR carrier support, whether on an elective or mandatory basis, are premature and should only proceed when all of the issues have been identified and resolved. As has been made clear, the Commission's long term CAF proposal for RoR carriers is

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<sup>1</sup> *In the Matter of Connect America Fund*, Further Notice of Proposed Rulemaking, WC Docket No. 10-90, et al., released June 10, 2014 (*FNPRM*)

<sup>2</sup> Comments of Alexicon, WC Docket No. 10-90 *et. al.*, filed August 8, 2014 (*Alexicon Comments*)

simply another way of distributing a fixed amount of support among RoR carriers, and is not a solution for ensuring the support necessary to allow RoR carriers to deploy, operate, and maintain quality broadband networks is available.

## I. THE ITTA PLAN

The Commission proposes to adopt a long-term CAF for RoR carriers based on a voluntary plan first advocated by the Independent Telephone and Telecommunications Alliance (ITTA).<sup>3</sup> This plan utilizes the Commission's Connect America Cost Model (CACM) as the basis for determining the cost of broadband deployment in certain situations, and also uses a CAF Phase II-like process to distribute the support to participating carriers. Alexicon addressed some concerns with the Commission's proposal in its initial comments<sup>4</sup>, and now will address concerns raised in comments filed by other parties.

Alexicon first questions the voluntary nature of the Commission's long term CAF proposal for RoR carriers. According to the plan, RoR carriers could elect to participate in a "two-phase transition to model-based universal service support, including participation in the Connect America Fund Phase II."<sup>5</sup> Elsewhere in the *FNPRM*, however, the Commission expresses a clear preference for forward-looking costs as a basis for support in relation to its stand-alone broadband proposal.<sup>6</sup> It has also clearly been the Commission's intent to transition all RoR carriers support mechanisms to a broadband-focused CAF in the near future.<sup>7</sup> Thus, it appears that the Commission has proposed a CAF for RoR carriers, which at this particular point in time will be deemed "voluntary", but at some point in time in the not-too-distant future will be mandatory. The question then becomes, *when* will RoR carriers fall under the CAF Phase II or CAF Phase II-like mechanism, not *if*.

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<sup>3</sup> *FNPRM* at 276-299

<sup>4</sup> *Alexicon Comments* at 6-7

<sup>5</sup> *FNPRM* at 276

<sup>6</sup> *Id* at 269. Alexicon notes that the requirement to "distribute support based on forward-looking costs (rather than embedded costs)" does not necessarily entail the CACM, but the CACM is the only option being discussed, to Alexicon's knowledge, that utilizes "forward-looking costs."

<sup>7</sup> *In the Matter of Connect America Fund*, WC Docket No. 10-90, et. al. Report and Order and Further Notice of Proposed Rulemaking (FCC 11-161, rel. November 18, 2011) (*Transformation Order*) at 1031

Given the assumption that the Commission's proposal for a long-term broadband focused CAF is not voluntary in any real sense, then Alexicon believes substantial further care is needed prior to adopting the plan as described in the *FNPRM*. It appears that the Commission is under the assumption that converting all RoR carriers to price cap regulation will solve issues surrounding the deployment, operations, and maintenance of quality broadband networks. While this may, in some respects, seem to be an expeditious solution, it completely ignores the differences between current price cap and RoR carriers, and why price cap regulation, which has always been an alternative to traditional RoR regulation, has not taken better root.

While Alexicon firmly believes the use of the CACM as it currently stands for determining costs of broadband deployment in RoR carrier areas is premature, it is not the CACM, in and of itself, that is the primary concern. Rather, it is the support distribution process that should concern RoR carriers, whether they elect the Commission's proposal or are forced into it in the future. As has been stated, "...any ROR Carrier model-based CAF II is distributing a fixed ROR budget and as such it is the relative cost relationships that are important."<sup>8</sup> In other words, there is no consideration of the total amount of support necessary to ensure services providing forward-looking broadband speeds<sup>9</sup> are available to all Americans living in areas served by RoR carriers. Instead, the Commission is adopting yet another allocation mechanism, one not unlike the recently-eliminated high cost loop support benchmarking mechanism.<sup>10</sup>

Another potential issue with the ITTA plan is the term for the support proposed by the Commission. In the *FNPRM*, the Commission proposes that RoR carriers electing the CAF Phase II process for determining support would receive such support for a period of ten years.<sup>11</sup> The proposed term is not feasible when most rural carriers require Rural Utilities Service (RUS) funds or other loans to

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<sup>8</sup> Comments of the Nebraska Rural Independent Carriers (NRIC), filed in WC Docket No. 10-90, et. al. (August 8, 2014) at 31-32

<sup>9</sup> Alexicon suggests the standard broadband speeds being considered by the Commission are woefully inadequate, and that CAF or any other support mechanism must reflect this fact. See *Alexicon Comments* at 2-4

<sup>10</sup> *In the Matter of Connect America Fund*, WC Docket No. 10-90, et. al., 7<sup>th</sup> Order on Reconsideration at 127-137

<sup>11</sup> *FNPRM* at 280

finance broadband capital projects. It would be difficult if not impossible for rural carriers to make 10-year business cases that would repay this debt. Current RUS loans contemplate a 15 to 20-year payback. The support window would shorten for carriers that did not immediately opt-in to the Plan which would make the business cases even less attractive to lenders. Adoption of a plan with limited support availability may have the unintended consequence of making borrowing necessary funds for broadband projects impractical or impossible.

Another problem with the ITTA plan, as proposed by the Commission for a long-term CAF solution for RoR carriers, is that it only addresses the build-out of new broadband connections. The continuing operating costs for both existing and new build broadband lines must be addressed by any transition or permanent rural universal service fund plan. The Rural associations agree: "...the CACM is still being constructed for its primary purpose - distributing high cost support to price cap carriers - ...there is no track record yet by which to evaluate whether the CACM (or any other model) could spur *sustainable* broadband investment in any rural area served by RLECs."<sup>12</sup>

Finally, neither the ITTA plan nor the Commission's Seventh Order on Reconsideration address the additional need for support that would result from the elimination of Interstate Common Line Support (ICLS). ICLS recovers the interstate portion of common line costs. The Commission has declared Internet usage to be interstate in nature, yet as broadband usage and the related costs increase the Commission has also reduced or eliminated the mechanisms to recover those costs.

## **II. THE CONNECT AMERICA COST MODEL**

Several parties expressed concern with utilizing the CACM for determining the cost of broadband deployment in RoR carrier areas. The most striking of the concerns comes from ITTA itself - when addressing adjustments that should be made to the CACM, ITTA states "A critical preliminary step that must be taken before model-based support can be implemented for rate-of-return carriers is to ensure that the study area boundary data used in conjunction with calculating support is accurate, complete, and up-

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<sup>12</sup> Rural Association Comments, WC Docket No. 10-90, et. al., filed August 8, 2014 at 66(emphasis in original)

to-date. It is even more vital that accurate study area boundary data be utilized in conjunction with the model for rate-of-return carriers than for price cap carriers.”<sup>13</sup> ITTA goes on to state “...the problems caused by inaccuracies in a single study area or a small number of study areas tend to have less significance overall for price cap carriers than for rate-of-return carriers.”<sup>14</sup> Alexicon agrees with ITTA in this regard, and joins in the call to ensure the study area boundary data is accurate before applying the CACM to areas served by RoR carriers. In addition, as Alexicon stated in its initial comments<sup>15</sup>, the Commission should only proceed if and when all problems with applying the CACM to RoR carriers have been identified and, to the greatest extent possible, resolved. To first adopt a proposal (voluntary or mandatory) prior to finishing one of the most important pieces of the proposal is not reasonable, and invites disastrous results.

### III. CONCLUSION

Alexicon appreciates the Commission’s efforts to address the very real problem of how to move forward, on a long-term basis, with ensuring customers of RoR carriers have access to quality broadband services now and in the future. However, converting RoR carriers to price cap regulation is not the answer. Rather, the Commission should take the opportunity to further review the CACM and the CAF Phase II process as applied to RoR carriers and ensure, to the greatest extent possible, that the problems are solved. Only in that way can the Commission, and RoR carriers, make sure a process is in place to make federal support as sufficient, explicit, and most importantly, predictable, as possible.

Respectfully Submitted,

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<sup>13</sup> Comments of ITTA, WC Docket No. 10-90, et. al., (filed August 8, 2014) at 30-31

<sup>14</sup> *Id.*, at 31

<sup>15</sup> *Alexicon Comments* at 7