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September 8, 2014

VIA ECFS

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

Re: *Connect America Fund et al.*, Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, WC Docket Nos. 10-90, 14-58, & 07-135, WT Docket No. 10-208, CC Docket No. 01-92, FCC 15-54 (rel. June 10, 2014)

Dear Ms. Dortch:

Puerto Rico Telephone Company, Inc. ("PRT") hereby files these attached Reply Comments in the above-referenced proceedings.

Please contact me with any questions.

Best regards,
/s/ Thomas J. Navin
Thomas J. Navin

cc: Julie Veach
Carol Matthey
Vickie Robinson
Daniel Alvarez
Rebekah Goodheart
Priscilla Argeris
Nicholas Degani
Amy Bender
Mike Jacobs
Jamie Susskind

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Connect America Fund)	WC Docket No. 10-90
)	
Universal Service Reform – Mobility Fund)	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 PUERTO RICO TELEPHONE COMPANY, INC.

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REPLY COMMENTS OF PUERTO RICO TELEPHONE COMPANY, INC.

Puerto Rico Telephone Company, Inc. (“PRT”) submits these Reply Comments in response to the Federal Communications Commission’s (“Commission”) Further Notice of Proposed Rulemaking (“FNPRM”) seeking comment on performance requirements for insular carriers receiving frozen high cost support (“frozen support”) during Connect America Fund Phase II.¹

I. INTRODUCTION

The record in this proceeding demonstrates widespread support for flexibility in the requirements and obligations associated with Connect America Fund (“CAF”) Phase II frozen support in insular areas like Puerto Rico. Commenters uniformly recommend that the

¹ See *Connect America Fund et al.*, Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, WC Docket No. 10-90 et al., FCC 14-54 (rel. June 10, 2014) (“FNPRM”).

Commission adapt its Phase II CAF to address the unique and often difficult circumstances faced by insular carriers. Most commenters therefore agreed with PRT that the Commission should extend the term of Phase II support from five to ten years to better address deployment of 10/1 Mbps downstream broadband service in these historically under-served areas of the country.² Commenters also embraced an increase to 10/1 Mbps broadband speed for insular areas like Puerto Rico, as long as the Commission takes into account that an increased speed standard will increase the cost of compliance with the standard. Furthermore, there was significant support for providing non-contiguous carriers with flexibility to deviate from the Connect America Model (“CAM”) funded locations to fulfill deployment obligations. And although a couple of commenters took exception to any increased flexibility to achieve Phase II deployment milestones, their arguments are not applicable to non-contiguous carriers that elect to receive frozen support rather than CAM support. Accordingly, with no opposition to its proposal for CAF Phase II frozen support, the Commission should adopt PRT’s deployment plan and allow PRT to bring modern broadband speeds to over 60,000 additional locations across Puerto Rico.

II. COMMENTERS AGREE THAT THE COMMISSION SHOULD TAKE INTO ACCOUNT THE UNIQUE CIRCUMSTANCES FACED BY NON-CONTIGUOUS CARRIERS

Many commenters agree that the Commission should tailor CAF Phase II proposals to each non-contiguous carrier because adopting uniform requirements “inevitably will fail to accommodate each carrier’s unique situation.”³ Because of the “unique circumstances of price cap carriers serving non-CONUS areas,” the United States Telecom Association (“USTA”)

² See Comments of Puerto Rico Telephone Company, Inc., WT Docket Nos. 10-90 & 10-208, WC Docket Nos. 14-58 & 07-135, and CC Docket No. 01-92, Aug. 8, 2014 (“Comments of PRT). Unless otherwise noted, all referenced pleadings in this document were submitted in WT Docket Nos. 10-90 & 10-208, WC Docket Nos. 14-58 & 07-135, and CC Docket No. 01-92 on August 8, 2014.

³ *Id.* at 8.

suggested that the Commission grant non-contiguous carriers “the necessary flexibility to design and implement economically rational deployment plans.”⁴ Alaska Communications Systems (“ACS”) asked that, if the Commission decides to modify performance obligations under CAF Phase II, it “tailor any performance requirements to the frozen support amount available, as well as the deployment challenges facing each non-CONUS carrier.”⁵ No Commenters specifically objected to providing flexibility to non-contiguous carriers to substitute CAM-funded locations. Accordingly, because these areas face unique broadband deployment obstacles, the Commission should allow non-contiguous carriers sufficient flexibility necessary to ensure the maximum deployment of broadband to unserved locations.

III. COMMENTERS SUPPORT INCREASING THE TERM OF CAF PHASE II SUPPORT FROM FIVE TO TEN YEARS

PRT agrees with the majority of commenters that ask the Commission to increase the term of support to ten years because there still likely will be significant areas of Puerto Rico that remain unserved after the initial five years of CAF Phase II.⁶ Data from CAM 4.1.1 Model census block summary for working customers show that there are 164,844 locations in Puerto Rico that currently are not served by any carrier at 10/768.⁷ Of those, PRT is required under the Commission’s frozen support obligation proposal to serve the 29,343 funded by the model.⁸ As a result, there would still be over 100,000 unserved locations in Puerto Rico that could be upgraded to 10/768 using frozen support. Puerto Rico’s poor economic situation results in an

⁴ Comments of United States Telecom Association at 27-28.

⁵ Comments of Alaska Communications Systems at 5.

⁶ See Comments of PRT at 13.

⁷ See file SS20140423CAM411_10DL_967UL_CBSummary_Node4_WorkingCust.csv, available at <https://CACM.usac.org/downloads.aspx>.

⁸ See Wireline Competition Bureau Releases Connect America Cost Model Illustrative Results Using Higher Speed Benchmark, *Public Notice*, DA 14-833 (rel. June 17, 2014) (“June 2014 Illustrative Results Notice”).

unusually low subscription rate that is particularly unique to insular areas of the United States, thus limiting a broadband provider's ability to recover its deployments costs from its end users. However, history shows that take rates should increase over time, meaning PRT will be able to recover more of its investment from end user charges if the term of CAF Phase II support is long enough. A longer CAF Phase II period would then allow PRT to allocate more capital to build and operate networks in locations where broadband is not currently available today.

Not only did the majority of commenters ask the Commission for a ten-year support term, many commenters argued that increasing the downstream speed requirement to 10 Mbps would *require* an extension of the term.⁹ ADTRAN stated that “additional time will provide the extra funds and the extended stability to support the required investment by incumbent carriers in the necessary last-mile, middle-mile and network upgrades.”¹⁰ ACS echoed PRT's concern about the take rate in insular areas, arguing that “a ten-year term would better enable [it] to meet [a 10/1 Mbps requirement] . . . in light of the broadband ‘take rate’ it has experienced historically in Alaska . . . which produces a correspondingly smaller customer revenue stream than what might be expected elsewhere in the nation.”¹¹ Accordingly, the Commission should extend the term of frozen support for non-contiguous carriers to ten years.

⁹ See Comments of CenturyLink at 20-21; Comments of AT&T at 43-44; Comments of ITTA at 10; Comments of the United States Telecom Association at 3.

¹⁰ Comments of ADTRAN, Inc. at 3-4.

¹¹ Comments of Alaska Communications Systems at 26.

IV. COMMENTERS AGREE THAT THE COMMISSION SHOULD PROVIDE CARRIERS WITH MAXIMUM FLEXIBILITY

A. Most Commenters Agreed That The Commission Should Allow Substitution Of Unserved Locations In Partially Served Census Blocks For CAM-Funded Locations.

PRT explained in its initial comments that the Commission should allow it the flexibility to substitute CAM-funded locations for other unserved locations throughout Puerto Rico because doing so will allow it to deploy to over three times as many locations.¹² PRT asked that the Commission not adopt build-out requirements based on the CAM because “CAM model cost estimates [] have been determined by the Commission to be inappropriate for establishing support levels of insular carriers.”¹³ The majority of commenters agreed with PRT that flexibility in deployment obligations will better serve the Commission’s goals. CenturyLink observed that because there are “a variety of ways that network deployment and costs in the real world will deviate from what the CAM has modeled . . . [t]he CAF II rules must provide carriers with enough flexibility to adapt to substantial real world cost deviations as they are discovered.”¹⁴ AT&T also argued that the CAM fails to capture the reality of broadband deployment, suggesting that “there may be pockets of CAF-II eligible locations where providing broadband at a downstream speed of 10 Mbps may not be economically viable, even with CAF II support.”¹⁵ Thus, the majority position in this proceeding appears to strongly support flexibility in deployment obligations.¹⁶

¹² See Comments of PRT at 8-10.

¹³ *Id.* at 10.

¹⁴ Comments of CenturyLink at 15-17.

¹⁵ Comments of AT&T at 44.

¹⁶ See Comments of Alaska Communications Systems at 18-23; Comments of Virgin Islands Telephone Corporation at 3-4; Comments of ADTRAN, Inc. at 11; Comments of Alaska

B. Commenters Also Agreed That The Commission Should Expand The Number Of Locations Eligible For Phase II Support

As another way to increase flexibility, commenters asked the Commission to expand the number of Phase II eligible locations by using 10/1 Mbps instead of 4/1 Mbps as the standard for determining whether an area qualifies for Phase II support. Frontier Communications (“Frontier”) argued that the Wireline Competition Bureau’s (“Bureau”) own analysis supports changing the qualifying speed standard because the Bureau’s analysis showed that it could “bring 10 Mbps broadband to an additional 500,000 locations, [reaching over an additional one] million Americans.”¹⁷ CenturyLink agreed and explained that if the Commission “permits an area to qualify . . . at a lower speed, it will unnecessarily and indefinitely relegate customers in the lower speed areas to broadband service at speeds that the Commission has found to be insufficient for supported areas.”¹⁸ PRT agrees with these commenters.

C. Arguments By Commenters Against Providing Carriers With Increased Flexibility Are Inapplicable To Non-Contiguous Carriers.

The two commenters that argue for a prohibition on substitution of unserved locations in partially served census blocks for funded locations did not do so with reference to non-contiguous areas.¹⁹ As PRT explained in its initial comments, PRT’s engineering department identified several census blocks in CAM-funded areas with an upgrade cost in excess of \$2,500, including several areas in excess of \$10,000.²⁰ These locations would consume a disproportionate amount of frozen support Phase II funding if the Commission does not allow a

Rural Coalition at 10, 12-15; Comments of ITTA at 10; Comments of United States Telecom Association at 3, 16-17.

¹⁷ Comments of Frontier Communications Corporation at 4-5 (comparing June 2014 Illustrative Results Notice with Wireline Bureau Announces Availability of Version 4.1.1 of the Connect America Funds Phase II Cost Model, *Public Notice*, DA 14-515 (rel. Apr. 17, 2014)).

¹⁸ Comments of CenturyLink at 12.

¹⁹ See Comments of Utilities Telecom Council at 19; American Cable Association at 11.

²⁰ See Comments of PRT at 9.

carrier to make rational the economic substitution discussed above. The Commission itself has recognized that it makes little sense for carriers to invest exorbitant capital to fund extremely expensive locations rather than deploy to many more locations at a much lower cost. The majority of the 164,844 unserved locations in Puerto Rico have a model-estimated cost below \$52.50. If PRT is allowed to replace the highest-cost CAM-funded locations with those other locations, PRT estimates that it will be able to serve over 60,000 additional locations across almost 3000 census blocks during the term of Phase II, including 58 percent of CAM-funded locations. This would best effectuate the Commission's goal to make broadband available to as many locations as possible in Puerto Rico.

The National Cable and Telecommunications Association ("NCTA")'s concern that allowing carriers to identify and substitute unserved locations in partially served census blocks or totally unserved census blocks for CAM-funded locations would impose burdens on competitors wishing to challenge the identified locations is inapposite to PRT's proposal.²¹ PRT plans to demonstrate in advance which unserved locations in partially served census blocks that it intends to serve; competitors will have ample time to view the proposal and make any challenges to the Commission before the term of Phase II support even begins. Further, although NCTA argues that allowing location substitution imposes a "lopsided allocation of burdens," it is unclear why it is more difficult for competitors to inspect incumbent carriers' proposals for locations that they already serve than it is for incumbent carriers to identify locations in partially served census blocks that are unserved by competitors at 10/1 Mbps speeds. Accordingly, the Commission

²¹ See Comments of National Cable & Telecommunications Association at 7-8 (arguing that allowing flexibility "will lead to inefficiency and waste unless there is a process in place by which competitors will be informed of the areas where incumbent LECs plan to use the money at the street level and given the opportunity to show that the area already is served, but implementing such a process will create staggering burdens for companies and the Commission staff").

should reject NCTA concerns when tailoring CAF Phase II for Puerto Rico because it simply does not apply.

V. COMMENTERS AGREE THAT THE COMMISSION SHOULD IMPLEMENT 10/1 MBPS SPEED

Most commenters, including PRT, support the Commission’s proposal to increase the Phase II speed requirement to 10 Mbps. As PRT has observed, this improvement is necessary to “bridge the 10 Mbps broadband speed availability gap between Puerto Rico and the rest of the United States.”²² Frontier emphasized in its comments that “while not every customer needs or desires a 10 Mbps service, it is important for rural customers to have that option.”²³ United States Telecom Association also agreed and noted that 10/1 Mbps speed “has been embraced by consumers and is consistent with prudent network design and provisioning.”²⁴ The Commission should heed the near unanimous support for 10/1 Mbps broadband and make it part of CAF Phase II deployment.²⁵

While an upgrade to 10/1 Mbps was substantially supported in the record, most commenters argued that the Commission should not increase the upstream speed requirement beyond 1 Mbps. ACS “strongly opposed” an upstream speed greater than 1 Mbps because it would need to adopt substantially different architecture which would cause it “to incur substantially greater operating expenses.”²⁶ ADTRAN argued that the Commission should not change the requirement because the current requirement “will still ensure that rural customers

²² Comments of PRT at 6.

²³ Comments of Frontier Communications Corporation at 4.

²⁴ Comments of United States Telecom Association at 4.

²⁵ See Comments of Alaska Communications Systems at 30; Comments of Virgin Islands Telephone Corporation at 3-4; Comments of ADTRAN, Inc. at 3-4; Comments of AT&T at 43-44; Comments of CenturyLink at 20-21; Comments of ITTA at 10; Comments of United States Telecom Association at 3.

²⁶ Comments of Alaska Communications Systems at 31.

enjoy ‘reasonably comparable’ services, without straining the limited resources available for subsidizing broadband service through CAF Phase II.”²⁷ PRT agrees with these commenters and asks the Commission not to impose a higher upstream speed requirement, as doing so would result in a precipitous decrease in the amount of locations it will be able to serve in Puerto Rico.

VI. CONCLUSION

Because the record provides strong support for PRT’s CAF Phase II proposal, PRT asks the Commission to accept the proposal and allow PRT to use its support as effectively as possible to close the broadband availability gap between Puerto Rico and the rest of the United States.

Respectfully submitted,

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²⁷ Comments of ADTRAN, Inc. at 8.