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 HOME TELECOM

September 8, 2014

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EXECUTIVE SUMMARY

There is near unanimous agreement that rate-of-return (“ROR”) carriers must be a part of the new Connect America Fund for the deployment of broadband. The problem arises when determining how this should be accomplished. There is also widespread agreement that investment in long-term broadband infrastructure in rural high-cost areas requires stable, predictable funding. Finally there is recognition that funding is finite and insufficient to achieve immediate universal broadband availability. Further complicating the problem is the fact that ROR carriers already have substantial broadband networks in place that require continuation of support in order to remain viable.

Thus, a major tension exists between the ability to recovery support necessary to operate existing broadband networks and the ability to provide funding for the expansion of broadband networks. Unfortunately this conflict has not yet been fully (or openly) addressed or resolved. The Commission brings the conflict into sharp focus when it proposes a near term reform to freeze investment subject to recovery through existing mechanisms after a date certain. The rural industry has generally strongly opposed this action, primarily because the industry itself has not resolved the complex underlying issue of how to divide limited support between the needs of existing networks while providing funding for new investment.

In this filing Home Telecom (“Home”) proposes a “dual track” approach where carriers default to traditional ROR regulation utilizing modifications as proposed by the rural industry, but could voluntarily elect to participate in a mechanism that separates the past from the future such as that proposed by ITTA. While it is clear a large segment of the industry favors continuing with modifications to existing rural mechanism, Home has concerns related to various industry proposals and suggests allowing rural carriers to experiment with various options would better serve the public interest as it would allow for testing prior to major shifts in support funding. Therefore, in this filing Home proposes a plan to blend proposals made by the Commission with concepts proposed by ITTA. Home feels this proposal is in the spirit of the rural carrier axiom that "one size does not fit all." It recognizes that we are not starting from scratch, that we cannot abandon our past to pay for our future. The plan would allow for recovery of prior investment while creating a path forward with targeted funding of new investment, with the eventual transition to a rural-specific model for distribution of support. It appropriately allows the ability for volunteers to "test" a new mechanism rather than force everyone down the same path. It allows for stability and predictability but at the same time innovation and transition.

At its core, the proposal Home presents blends the security of recovery of past investment with the innovation that occurs when future funding is identified before committing to spending on new long-term infrastructure. Home believes the single worst outcome from the transition to a Connect America Fund would be for rural providers to be encouraged to make new investment at the expense of recovery for prior investment. Such an outcome threatens the viability of companies who defer expansion in an attempt to recover past cost while at the time creates a situation where companies expand networks under the mistaken notion that the new investment can be recovered. The end result is the need greatly exceeds the funding, potentially leaving both companies who defer expansion and those making new investments at risk.

Home proposes a voluntary three-phase plan that starts with the separation of past cost from future investment. Electing carriers freeze support on past investment and phase it down over time. On an interim basis while a rural cost model is perfected, electing carriers would receive funding similar to the concept of CAF Phase I support. During the interim period a pre-determined level of support would be targeted specifically to underserved portions of electing carriers service areas, utilizing the existing model for distribution purposes. This would allow carriers to quantify future support in advance, before investment occurs. Carriers would be required to certify, subject to audit, that new support was utilized to expand broadband networks in unserved areas subject to existing reasonable request rules. The final phase would be the use of a cost model specific to rural areas. The transition to the model would include recovery of prior costs started in phase I and the full funding committed under phase II. By blending various components of previously filed plans, Home believes the Commission can both preserve funding for prior investment and create an effective test mechanism to perfect an accurate rural cost model. One of the major befits of this proposal is that it removes the urgency to quickly develop a rural cost recovery model, since for an interim period targeted support for new investment is available. It will likely take time to carefully craft a reliable cost model that addresses the major variations in ROR service areas; shortcutting this process will likely result in the adoption of an ineffective model. Finally, creating a dual path allows those carriers attempting to convert existing ROR recovery mechanisms into an appropriate CAF mechanisms time to test and perfect their mechanisms, while at the same time allowing the Commission and those carriers wishing to explore a model to proceed.

Home suggests the Commission's main goal of developing an appropriate CAF mechanism for ROR carriers can best be achieved by allowing voluntary adoption of various mechanisms in real life experiments to determine if a best solution exists. Such a process best fits the Commission's desire for the development of a fact based record as it will allow for direct comparison of results.

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REPLY COMMENTS OF HOME TELECOM

I. Introduction

Home Telecom ("Home") respectfully submits these reply comments in response to various filings made as part of the Federal Communications Commission's ("FCC") Further Notice of Proposed Rulemaking ("FNPRM").[1] Home welcomes the opportunity to reply to the comments filed in this docket in response to the Commission's FNPRM.

Home applauds the Commission for addressing issues vital to the success of rural local exchange carriers' ("RLEC") delivery of network services. Consumers living in rural and remote areas of the nation desperately need these services. Currently over 40 percent of the nation is served by RLECs, each unique in shape, size and service area. Regardless of their diversity, one characteristic becomes apparent to any casual observer of this industry: RLECs are tenacious in their desire to offer quality network services to consumers in order to promote and advance the ability to live in rural America and participate in all this great nation offers. From commerce and entertainment to health care and education, modern RLEC networks offer rural citizens the ability to engage fully in business and civic activities that add value to our nation. From the RLECs' perspective, without their services, many portions of rural America would become a digital wasteland and citizens living in these areas would be marginalized due to their inability to participate efficiently in the fast-moving broadband-based national economy. Thus, when the Commission raises issues critical to the success of their mission, RLECs become justifiably passionate. Solutions offered may vary, just as RLECs vary, but all seek to promote and advance their mission of service to their rural communities, the core value of the RLEC industry.

In this spirit, and recognizing broad participation ensures all viewpoints are represented, Home respectfully responds to recommendations and proposals raised in the FNPRM process. Home will focus its comments on the discussion of a voluntary path to the utilization of a model to calculate universal service support. These reply comments are intended to frame the concepts of how a voluntary path for RLECs might be constructed. Home will offer concrete steps based on various comments filed in response to the FNPRM. Home will propose that the Commission develops a blended approach for a voluntary transition from existing rate-of-return ("ROR") support mechanism to model based support. Home understands this effort means choosing between the lesser of evils—making the difficult choice of how to distribute inadequate funding where need exceeds supply. Addressing difficult questions does not indicate Home's acceptance

[1] Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, Federal Communications Commission, WC Docket

of these conditions as a final outcome; rather it indicates a realization that the failure of RLECs to address these issues leaves the Commission without proper input needed for developing solutions over the short term. Home's comments are intended to offer the best outcome possible over the short term while creating a path to a true high-speed and universally available broadband network of the future.

By presenting such a plan Home does not endorse or support the budget limitations imposed by the Commission, but simply recognizes the fact that the industry has to be responsive to the reality that the Commission will in the end distribute a limited budget and the best possible mechanism should be adopted. Thus, this plan is simply a way to test a distribution mechanism in recognition of the fact that full funding to immediately deploy ubiquitous high-speed broadband infrastructure across the nation simply does not exist.

Prior to addressing specific issues, Home believes it is beneficial to review its understanding of the Commission's concerns as well as highlight the foundational principles that guide its comments on specific reform proposals.

II. Commission's Goals, Desires and Objectives for RLECs

Since the development of the National Broadband Plan in 2010 and the release of the USF/ICC Transformation Order in 2011, the Commission has consistently focused on reforms of federal universal service received by RLECs.[2] One ultimate long-term goal of this effort is to develop a Connect America Fund ("CAF") for RLECs. The CAF would be designed to encourage efficient

No. 10-90, et al., FCC 14-54, June 10, 2014 ("Report and Order").

and prudent investment in broadband infrastructure in the rural areas served by RLECs while operating within a budget designated for this purpose.

The Commission has also expressed a desire to create a voluntary path for RLECs to transition to a particular type of incentive regulation that would phase-out legacy funding mechanisms and replace these mechanisms with a forward-looking mechanism.

Key to the Commission's goals are three objectives: (1) not to distribute support to areas served by unsupported or qualifying competitors; (2) to ensure support is distributed equitably and fairly; and finally, (3) to ensure there is no double recovery during the transition from legacy mechanisms to CAF mechanisms.

As mentioned above, Home provides these reply comments within the confines of the Commission's goals, desires and objectives—all expressed above. Specifically, Home's comments recognize the Commission's mandate that funding for rural carriers must be maintained within an annual budget of no more than $2 Billion until 2017.[3] As stated previously, efforts to guide the Commission to the best solution within its stated goals and objectives does not indicate acceptance of the Commissions positions. Rather, it is a recognition that the Commission has clearly indicated its intent to proceed in the chosen direction and it is in the industry's best interest to offer proposals that offer the best opportunity to preserve and

[2] Home does not imply that the Commission has been idle in addressing a myriad of other issues. On the contrary, the Commission has been very active in other areas of concern.

[3] Home opines that the creation of this budget given the dynamic nature of the industry and the new obligations the Commission encourages RLECs to accept is unnecessarily restrictive. Notwithstanding, Home crafts its response based on this budget amount.

advance broadband in rural America as the Commission pursues its goals and objectives. The following principles guide this response.

III. Guiding Principles

To operate within the confines of the goals, desires and objectives the Commission has established, Home has identified ten foundational principles that guide its policy discussion for a potential voluntary option for RLECs. Home observes that the Commission's undertaking would be difficult if adequate funding were available, and the current budget constraints make achieving all goals simultaneously virtually impossible. There is a natural tension between the desire to encourage the deployment in areas that are by definition uneconomical to serve and the need to maintain a fixed budget. This tension is apparent in the following guiding principles.

1. ***Support must be predictable.*** The short-term and long-term proposals offered by the Commission need to provide certainty to the RLECs. Home applauds the Commission's abandonment of quantile regression analysis when it recognized that this policy failed to provide predictable support and was not achieving the Commission's goals. Predictability is the cornerstone of any successful policy designed to encourage the long-term investment of private resources.

2. ***Prior commitments must be kept.*** Home agrees with the Nebraska Rural Independent Companies ("Nebraska Group") when it recommends policy be designed to not backslide on

the investments made previously.[4] Prior policies adopted by the Commission have been successful in providing the opportunity for RLECs to invest in and serve a large portion of the geographical area of the nation. These prior policies have offered RLECs stability and certainty. Policies should be judged against this metric to assure those services and networks already operating in RLEC study areas will receive adequate support. Moreover, failure to meet prior commitments will cast into doubt any commitment made in the future, undermining the confidence need to make long-term investments.

3. Limited support resources must be applied to support of existing networks first. Legacy network investment must be secured first, prior to committing funds for additional network investment. This principle is an outgrowth of the principles of predictability and fidelity to prior commitments. Home agrees with the Concerned RLECs comments that suggest that legacy investment and operational expenses appertaining to these investments are the first priority.[5] Having the Commission secure the recovery of legacy investment is a very important step in establishing certainty for future policies. Home recognizes that the Commission's near-term proposal to limit high-cost loop support ("HCLS") and interstate common line support ("ICLS") to non-competitive areas is based in part on this principle. The proposal to limit support in such a manner recognizes that existing or legacy investment, with attendant operating expenses, should continue to be eligible for HCLS and ICLS. Home is encouraged in that the Commission's proposals recognize a different treatment for legacy investment and future investment.

[4] Comments of the Nebraska Rural Independent Companies, WC Docket No. 10-90, et al., August 8, 2014, ("Nebraska Group") pages 4. 12-14.

4. Support should be defined as the difference between cost and revenues. The costs are costs of deploying and operating a broadband network and the revenues are those that would be generated in assessing a retail rate comparable to that available in urban America. It is important that actual support required to produce true universal service not be confused with the support available to fund universal service. It is important that the actual cost to deploy and support a universally available network be identified, regardless of the ability to currently fund such a network. While artificial dials such as the upper and lower support limits utilized in models may be appropriate for distributing limited funding they are not appropriate for determining the cost to deploy and operate networks. Knowledge is the first step to success; we cannot hope to construct the world's best broadband network if we do understand the cost and quantify the benefits.

5. Limited support means delays in the ubiquitous deployment of broadband. Without adequate funding broadband infrastructure cannot be deployed immediately. Instead, it must be spread over a period of years, as part of a long-term plan to provide for the eventual achievement of a ubiquitous network. While we must recognize the impact that limited funding has on the ability to deploy a truly universal high-speed broadband network, we should not allow it to be a barrier to developing a long-term strategy that will eventually lead to such universal availability.

6. Limited support must be targeted and deployed in a reasonable manner equitable to all consumers. The short-term distribution of limited support should be in conjunction with the long-term objective of full deployment. This supports the concept of preserving networks

[5] Comments of the Concerned Rural ILECs, WC Docket No. 10-90, et al., August 8, 2014, page 17.

already deployed or not allowing backsliding. However, care must be taken to ensure future support is utilized effectively by encouraging construction of networks that are scalable. Funding is too limited for utilization to simply provide dead-end short term fixes. Funding for future investment must be predictable to encourage full utilization and targeted to ensure the most effective and efficient use of available funding.

7. Support for new investment should be tied to the life of the investment. Broadband network infrastructure is a long-term capital-intensive undertaking. No reasonable business would put forth the capital required without a reasonable opportunity to recover the investment and earn a reasonable return on the capital at risk. Carriers generally base their deployment decisions of the cash flow provided over the life of the support. In this scenario, the period of support becomes the estimated useful life of the network.

8. Support for new investments must be quantified prior to deployment. The planning for new investment must conform to a limited budget. In a reasonable business model infrastructure will be built only when the business case, including support, indicates a reasonable opportunity to recover the cost of the investment. Thus, unlike the old mechanisms, where expenditures were made and support determined after cost was incurred, the new mechanism must identify available support, which will in turn determine the extent of future investment. Annual support thus identified must be made available for the full period committed once infrastructure is deployed.

9. A carrier's service obligations must be limited to support received. Carriers cannot be required to deploy networks where cost exceeds retail revenue and available support funding. This principle has been recognized in the Commission's ruling on what constitutes "reasonable request" for deployment and this principle must continue to apply as long as funding is insufficient to support ubiquitous service.[6]

10. Fiber technology is the long-term solution for bandwidth-abundant networks. Modern networks capable of delivering high-speed broadband will require a fiber-based network using a fiber-to-the-home design to maintain the nation's competitiveness in world markets. While short-term utilization of wireless or satellite networks may help temporarily close broadband availability gaps, they will not provide the long-term bandwidth needed to maintain best in class worldwide connectivity. Short-term support funding mechanisms should not undermine the long-term need to deploy fiber networks.[7]

These ten guiding principles serve as the foundation for Home's detailed comments below.

IV. Tailored Solutions—One Size Does Not Fit All

Home understands that the diversity among RLECs makes it difficult to develop a single mechanism to successfully transition RLECs to the new regulatory paradigm that emphasizes broadband and limited support. While Home believes its ten guiding principals are ubiquitous,

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[6] Report and Order, paragraphs 63-72.

[7] Comments on the Fiber to the Home Council, WC Docket No. 10-90, August 8, 2014, pages 2, 4 and 5 (*deployment of future-proof all fiber networks, Commission should focus on deploying fiber, and Commission should require the deployment of fiber networks*)

there may be many paths that achieve the same result. Home appreciates the concerns raised in this proceeding by many stakeholders from the rural industry. Home believes the concepts raised by the FCC in the FNPRM, the comments filed by ITTA and comments expanded upon by the Nebraska Group merit further examination. Home provides comments on a plan whereby RLECs can elect a path that seeks to meet the Commission's guidelines and objectives.

Home understands that the RLECs are dealing with an entirely different environment from the past and appreciates the challenges the Commission has faced as it attempts to craft policies tailored to the new environment. Home supports the need for RLECs to have a voluntary path to a model-based support mechanism.[8] Home also supports the need for funding for standalone broadband connections.[9] Home understands the reluctance of many RLECs to abandon the known for the unknown. Yet, there is a paradigm shift that is occurring that needs to be addressed by proposals seeking to preserve and advance universal services throughout the nation.

V. A Changing Paradigm

While Home does not agree with the Commission's determination of the level or sufficiency of the current support budget, it recognizes the reality that any proposed mechanism should function within a budget. Operating within this pre-defined budget requires RLECs to develop new skills when facing a new paradigm.

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[8] Comments of ITTA, WC Docket 10-90, *et al.*, August 8, 2014 ("ITTA"), pages 25ff.
[9] Comments of the Rural Associations, WC Docket 10-90, *et al.*, August 8, 2014 ("Rural Associations"), pages 6*ff*.

The old concept that infrastructure investment will drive support levels is no longer sustainable. The old paradigm focused on ensuring universal availability of service. The hard reality is that over the near term there is not enough support available under the current budget to build out a ubiquitous high-speed broadband network throughout rural America. In addition RLECs face declining support from the former intercarrier compensation regime and a decline in revenues from traditional voice services. The problems RLECs face today are more daunting than those faced by our forefathers in the 1930s and 40s as they sought to build out electrical and telecommunication services to all parts of nations. Today's RLECs need to deploy broadband facilities into the same rural, lightly populated areas into which six or seven decades ago our forefathers brought electrical and telecommunication infrastructure. This task is more difficult than the initial deployment of infrastructure. Then, they were starting from scratch—creating infrastructure where none previously existed. Today, RLECs already have a first generation of broadband network in much of rural America. This first generation broadband network will not meet the needs of the next decade, but neither can it be ignored or abandoned. Today's problem is how to build on what has already been built and not destroy its value in the process.

This brings us to the new paradigm, which is how does the Commission distribute the limited funding available to ensure it does not destroy what has already been deployed, while expanding broadband networks as widely and in an effective and efficient manner possible? What is needed is a sustainable long-term plan that will yield the end results over years.
However, as we collectively adopt this new paradigm, which is rooted in the reality of a limited budget, we must be guided by a broader vision. Our vision should be that of a ubiquitously

connected nation where bandwidth is abundant: A future where every individual is free to choose the services and content of their choice over a network that encourages creativity and innovation.

While we work toward that vision, Home understands the necessity of dealing with present realities. For this reason, Home endorses the concept of a voluntary exploration of new ways to address the paradigm shift. Specifically, it believes carriers must have the option to test a new support mechanism.

VI. A Dual Track Approach

As many parties have commented it is important that the Commission allow voluntary adoption of experimental support mechanisms and not attempt to force all RLECs into an untested mechanism. The two-phase approach recommended by ITTA is one such approach. In its filing ITTA has addressed certain questions raised by the Commission. Other comments have raised additional issues and the Nebraska Group has suggested a workshop approach to better align the Price Cap Connect America Model ("CAM-PC") with markets served by RLECs. The point on which all agree is that the use of a model must be voluntary. This approach of separating the rural industry into two separate groups, one recovering support under traditional mechanisms as requested by many rural providers and another group testing the mechanisms under a model based support system allows for the development of quantifiable data to evaluate various means of distributing support. As such, a dual track process is superior to any single path.

VII. A Blended Plan

The Commission has indicated that it favors separating prior investment from new investment as it considers how to move RLECs to a CAF support model.[10] At the same time the Commission has endorsed exploring a voluntary election to model support.[11] Home respectfully suggests it may be possible to blend the best of both of these concepts into a more effective process. ITTA's plan would effectively freeze current support until a suitable model is developed for ROR areas at which time all support would transition into the model. While Home believes a model can be useful for allocating limited support for new investment, it shares the concerns of many parties as to its appropriateness for recovery of legacy costs.[12] Home would propose that a voluntary transition plan include the recovery of past investment while utilizing a model to allocate future support. Thus, Home recommends expanding the two–phase process to add a middle phase that would create funding for new investment while a model is perfected for use in RLEC areas. This middle step would allow immediate funding for targeted areas and allow for the ability to test models for RLEC areas. This modification would allow carriers certainty of recovery for past investment, which no carrier should have to forgo. It would also eliminate the all or nothing approach to adoption of a model. This could invite broader participation allowing for a more thorough vetting of model support mechanisms.

[10] Report and Order, paragraph 263.
[11] *Id.*, paragraphs 276-299.
[12] *See* generally Rural Associations, ITTA, page 39, and Comments of TCA, WC Docket 10-90, *et al.*, August 8, 2014, page 11.

VIII. A Three-Phase Approach

Home proposes a blended three-phase approach to adoption of models. The first phase would address the recovery of existing investment and operating expenses. This is the cost of operating the existing network and this cost must be recovered to ensure there is no backsliding. This phase would allow for the appropriate recovery of existing network cost while recognizing the fact that as investment is recovered, support should naturally decline. This decline allows for funding of the middle phase.

The second phase provides funding for new investment on a targeted basis within each electing RLEC network. This process would be similar to the CAF Phase I process used by price-cap carriers and the ongoing price-cap area rural broadband experiments. Home proposes that the existing CAM-PC be initially utilized to allocate designated funding to electing carriers for use to deploy networks in underserved/unserved areas. This process should be of tremendous assistance in identifying modifications needed in the CAM-PC to make it appropriate for further use in electing RLEC areas.

The third and final phase would be the adoption of a CAM fitted for rate-of-return carriers ("CAM-ROR"). This final step anticipates the recovery of prior cost identified in phase one and the full recovery of support under phase two. In effect, the model support would phase in as the other recovery systems phase out.

IX. Specific Mechanics of the Voluntary Election

Overview

In proposing the following mechanics Home has attempted to balance the need for a simple, implementable mechanism with the ability to meet the individual needs of electing RLECs. There is a balance in this approach since the simpler the plan, the less tailored the plan is to individual carrier's needs. Using the maxim that "the perfect should not be the enemy of the good," Home attempts keep the process simple and would rely on an expedited waiver process to allow those carriers who might wish to utilize a voluntary election to a model to seek specific changes to meet their individual needs.

Phase 1

1.1 An electing RLEC will freeze existing HCLS and ICLS support. The investment associated with this frozen support will be phased down over 10 years. To achieve this phase down in a simple and equitable manner, the approximate industry average breakdown of support of 40 percent capital and 60 percent operating expense will be utilized for distribution, yielding an annual reduction of 4 percent per year for 10 years to recover existing investment.

Pursuant to its guiding principles, Home recommends the Commission freeze the recovery of all expenses in the HCLS and ICLS mechanisms as of a date certain for electing RLECs. After support in these two programs has been frozen, the portion of support attributed to capital investment (depreciation expense and a weighted rate-of-return percentage) should be phased down over a ten-year period and this support should be repurposed to support future infrastructure using a new distribution mechanism to be discussed below. To simplify the elections process Home proposes the Commission use the approximate industry average of 60 percent operating expense and 40 percent capital recovery in splitting support.[13] Electing RLECs with a significant difference from these percentages will be allowed to file an expedited waiver request to utilize a different split. During this phase-down period, recovery for operating expenses will be frozen at the electing RLEC's current level.

The proposed freeze and phase down would simplify the recovery of prior investment and it would eliminate several other concerns raised by various parties. Specifically for electing RLECs, this process would address NTCA's concerns regarding stand-alone broadband for RLECs as the current support level would be frozen and would not change based on how the network is used—*e.g.*, if the networks are used for voice loops or broadband connections only.

Furthermore, freezing existing support and focusing on the recovery of prior investment in Phase 1 eliminates the concern of using funding to build into competitive areas.[14] Any support for new construction would need to be qualified under Phase 2 (see *infra*) where competitive overlap concerns are addressed. Thus Phase 1 provides a reasonable transition away from rate-of-return regulation while providing stability and certainty for the recovery of past network expenses.[15]

During this phase-down period carriers may elect to participate in funding for specific areas under Phase 2.[16]

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[13] These industry-wide percentages are used to estimate the amount of return and depreciation expense for the capital recovery portion, and the remaining is operating expense recovery.

[14] Comments of the National Cable and Telecommunications Association, WC Docket 10-90, August 8, 2014, pages 6ff.

[15] Home does not take the move away from rate-of-return regulation lightly; however, given the inability of the Commission to sufficiently fund federal high-cost support, such a move would be considered necessary for electing RLECs.

[16] Under this proposal, recovery of existing investment would be frozen and phased down over time. Should the Commission determine that this phase-down was not acceptable and that carriers be required to submit detailed cost

This first phase provides for reasonable certainty that existing investment can be recovered. It accomplishes the Commission's plan to separate past and future investment and allow for the recovery of past investment using existing HCLS and ICLS mechanism. By using industry averages to separate capital and expense recovery, it simplifies the process of reducing support as investment is recovered. This ensures carriers do not continue to receive support after investment is recovered. At the same time it provides for continued recovery of necessary network operating cost along with a future revenue stream that can be used to direct funding to underserved/unserved areas.

1.2 The electing carriers frozen support is segregated from the cumulative $2 Billion RLEC support budget. The electing RLECs' frozen funding is first applied to the phased down of existing network as identified in Phase 1.

Similar to the ITTA plan, the Commission would allow RLECs to adopt an alternative mechanism using its CAM-PC. In so doing the Commission would transfer the support from frozen HCLS and ICLS mechanisms attributable to the electing RLECs into an alternative mechanism that will be called the "Interim CAF-ROR". This transfer is for those RLECs who voluntarily adopt the alternative mechanism.

Since current RLEC support is capped and being fully utilized, Home assumes that those RLECS adopting the alternative mechanism are recovering their appropriate share of support as of the election date. The proposed segregation of funds protects both electing and non-electing RLECs

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studies, it is important that the Commission redefine connections subject to recovery under HCLS and ICLS as any connection where investment occurred prior to the support freeze. For this purpose the allowed "connection" is one that is capable of carrying voice telephony service regardless of how the final consumer chooses to utilize the connection.

from any unintended impacts carriers using different recovery mechanisms might have on each other.

Phase 2

> ***2.1 The Commission would establish a forward-looking new investment budget that utilizes projected funds available after meeting the funding requirements in Step 1.1 above plus any additional funding the Commission makes available to kick-start the process.***[17]

As the support for legacy investment is phased-down as outlined in step 1.1, the annual support not committed but under the allocated budget set in 1.2 can be repositioned for support under the interim model mechanism.

> ***2.2 For an interim period, the new forward-looking investment budget as established in 2.1 above would be allocated to electing RLECs using the existing price-cap model CAM-PC. The CAM-PC is used for allocation purposes only and is recognized as inaccurate for the purpose of determining full network cost in RLEC service areas. Carriers making investment under this step would be guaranteed recovery as calculated by the model for a period of 10 years.***

It is important that the Commission establish on the front end the total annual support that would be made available under the interim model. Once committed this amount should be made available for the entire ten-year period anticipated by the Commission.

Home recommends the Commission use its existing CAM-PC to allocate support for new investment in unserved or under served census blocks in RLEC areas during an interim period of

[17] Home recommends the Commission use surplus funds to jump-start broadband investment using the approach in Phase 2. The Commission suggests a kick-start is a good use of funds. (See Report and Order, paragraph 269)

time. It is obvious that the CAM-PC is not yet able to determine the actual cost of service in RLEC areas, as many modeling flaws already have been identified in ROR study areas. Notwithstanding, Home agrees with other comments that the model is sufficient to simply allocate available support for new investment during an interim period for electing RLECs.[18]

2.3 Support would be calculated on a census block level and only available for unserved/under-served locations within each census block where cost exceeds the floor as established by the CAM-PC. In order to allocate the forward-looking investment budget the total budget would be divided by the total support as calculated above. This ratio would then be applied to each electing carrier's individual support as calculated by the price cap model. Each electing carrier would have to certify that these funds were used only to construct new investment in unserved/underserved areas and be subject to audit verification.

The interim distribution of CAF support for RLECs would be targeted to the deployment of new broadband networks in unserved or under-served census blocks. Targeting new support to unserved census blocks eliminates concerns about funding in competitive areas. Home recommends that a census block be defined as unserved if at least 75 percent of the locations within the census blocks cannot receive at least 10 Mbps download /1 Mbps upload broadband.[19]

Phase 3

3.1 The CAM-PC would be modified to more accurately reflect costs in RLEC areas. The model would calculate support using the average urban retail rate for broadband service and would be subject to an upper limit of $250 per line per month of support.[20]

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[18] Inasmuch as the Commission is intent on rationing support under the $2B budget, the CAM should be able to distribute support for new investment in unserved areas.

[19] Served areas by an incumbent will be areas where 100 percent of the residence and business locations are offered service throughout the census block. Home agrees with Nebraska Group on this policy for census blocks served by rate-of-return carriers.

[20] A similar limitation has been adopted by the Commission, *see* 47 CFR § 54.302.

> ***Support would only be calculated for census blocks with cost between the upper and lower limits of cost and only for census blocks where no unsubsidized carrier provides service for all locations in the census block. The model would return the actual support needed to provide universal broadband service. To the extent this calculation exceeds the available budget the funding would be allocated as outlined in 3.2.***

Home supports the Nebraska Group call for workshops to examine the CAM from a RLEC perspective. In addition, Home suggests there are many more items that need to be examined, including but not limited to:

a) rural purchasing power factor to account for reduced purchasing power on infrastructure equipment and supplies;

b) lower adoption rates for supported services;

c) lower target to reflect actual average urban broadband rates;

d) use of a rural competitive overlap rule which would require all locations in a census block be served by competitor before that block is excluded from support;

e) ensure expenses calculations are correlated for rural areas by comparing to NECA or statewide overall cost per expense category;

f) ensure there is no density bias built into the model where cost is distributed evenly, but actual costs are higher in less dense areas, for example maintenance;

g) make sure edge census blocks are properly accounted for in the model;

h) determine the amount of support needed beyond the assumed five-year build out; and,

i) calculate a rural high cost threshold tied to the budget available for distribution by model.

3.2 Subject to the transition as specified in 3.3, if the budget is insufficient to fund the total support as calculated by the RLEC model, carrier's support will be reduced by the carrier's CAM-ROR model support times the ratio of total budget support for all electing carriers to total CAM-ROR support calculated for all electing carriers.

3.3 A transition period will be established to move electing carriers to the new CAM-ROR model. To the extent that any individual carrier's actual support as calculated in 3.2 is less than the support that carrier would be entitled to under 1.1 and 2.3, the RLEC will continue to collect the full amounts until the ten year obligations of each fund as outlined in 1.1 and 2.3 are met. These companies support and CAM-ROR model results from 3.2 would be removed from the calculation to be performed in 3.2 to produce support for the remaining carriers.

The goal for the CAM-ROR should be that the model accurately reflects the forward-looking costs specific to the deployment of a "greenfield" fiber network in the specific areas served by the RLECs. However, the ability to accurately identify the costs of constructing and operating a network is entirely different than the ability to fully fund that build out and operation. Home believes it is highly likely that over the near term the model will be insufficiently funded and thus the model simply turns into an allocation mechanism to distribute the limited/budget available for high-cost support. Given this fact, and the importance of not backsliding and maintaining existing service, it is important that an appropriate transition mechanism be developed that would operate until such time as full funding is available.[21]

[21] Recall that while the Commission's model is being tailored for use to determine RLEC costs, electing RLECs will continue to receive support for legacy investments under the old recovery system, which is phasing down four percent per year. In addition, for those carriers qualifying for funding under the CAM will be receiving a revenue flow that is targeted to new investment in unserved areas for the interim period.

3.4 Carriers receiving support from the CAM-ROR would be required to meet the existing standards for a reasonable request for provision of broadband service. To the extent the cost of service to any unserved location exceeds the combination of retail revenue and actual support the location would not meet the reasonable request standard.

Home believes the above plan offer a blended approach to a voluntary move to models. It allows carries to collect a declining HCLS and ICLS based on their prior investment while creating the opportunity to expand broadband networks in a targeted manner while leading to the ultimate use of a rural specific model. Home is in the process of evaluating the CAM-PC based on its output.

X. Commission Should Incent Adoption to Offset Inherent Risk in Election

The adoption of any new mechanism carries with it the risk of the unknown. Home believes the Commission should resolve the various questions it raises related to the voluntary adoption of a model to the benefit of the adopting companies. For instance the Commission should not limit the ability of carriers to adopt the voluntary plan at a future date, allow election on a study areas basis, and provide for comparable regulatory treatment of broadband Internet access service afforded to other alternatively regulated carriers.[22]

XI. Conclusion

Home has attempted to be responsive to the Commission's request for ways to implement a framework for the voluntary conversion by ROR carriers to model based support. Home's concrete specific steps are rooted in the ten principles enumerated in these comments. Home believes a dual approach which allows carriers to choose between traditional support

[22] While Home strongly believes all broadband Internet access service should be regulated as a Title II service, such discussion is beyond the scope of this filing. Nevertheless, Home believes that all electing carriers should be treated equably to other alternatively regulated carrier in regard to broadband Internet access service.

mechanisms or a model based support mechanism offers valuable opportunity to vet various support processes. Further the use of a blended plan that incorporates the predictability of recovery for prior investment, while allocating support for new investment though the use of a model, provides for a bridge from the recovery of prior ROR based investment to recovery of future investment from a forward looking model based mechanism. While Home's proposal is similar to the ITTA proposal in many ways, Home believes it offers a better tie to recovery of existing investment, provides for targeted interim support for new broadband investment and allows for a smoother transition to full model based support. In this way we also believe the proposal addresses many of the Commission's concerns. It adopts the concept of separating prior and future investment, thus eliminating the concern over double recovery. In the interim, it targets support to un-served/underserved areas ensuring that support is not provide in competitive areas. Finally it maintains the budget and distributes support among the electing carriers fairly. While Home has not attempted to resolve every issue the Commission raised in regards to the use of models, Homes believes its proposal can provide the basis for a path forward. Home looks forward to continued dialog with the Commission and the industry to explore all avenues for an appropriate Connect America Fund mechanism for rural carriers.

Respectfully submitted,

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