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Via Electronic Filing

September 15, 2014

Ms. Marlene Dortch
Secretary
Federal Communications Commission
The Portals
445 12th Street SW
Washington DC 20554

Re: WC Docket No. 10-90, Connect America Fund; WC Docket No. 11-42, Lifeline and Link Up Reform and Modernization

Dear Ms. Dortch,

On September 11, 2014, Cathy Carpino and the undersigned of AT&T met with Carol Mattey, Alex Minard, Jonathan Lechter, Katie King, and Heidi Lankau, of the Wireline Competition Bureau. The purpose of the meeting was to share the results of a detailed analysis of voice telephony service that AT&T Services, Inc. (AT&T) conducted for its ILEC service territory in the state of Illinois. AT&T undertook this analysis in order to provide policymakers with more granular data about the voice market in the distinct geographic regions defined by Phase II of the Connect America Fund (CAF II): below threshold unfunded areas, high-cost CAF II eligible areas, and extreme high-cost "remote" areas. The implementation of CAF II is *the* transformative event promised by the 2012 USF/ICC Transformation Order. Data such as this Illinois analysis should inform the final details of CAF II and enable the Commission to perform the cost/benefit analyses that are necessary if the program is to succeed.

For its analysis, AT&T geocoded every AT&T Illinois consumer customer of wireline voice telephone service as of May 2014 by census block (CB) and then associated this data with the outputs of the FCC's Connect America Model (CAM) 4.1.1 and data from the National Broadband Map (NBM) and the Census Bureau. While the analysis is so-far limited to one state,[1] the result is an unprecedented view into the decline of the wireline telephony market that supports AT&T's assertion that there is no reason in law or policy for the FCC to continue its current overly-broad ETC regime or its mandatory Lifeline requirements for AT&T's ILECs.

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[1] AT&T is preparing the same analysis for Louisiana and hopes to add it to the record later this month. These two states were selected for the analysis due to their contrasting profiles. Illinois is northern, AT&T Illinois' wireline customer base is largely urban, and its ILEC service territory is highly non-contiguous. AT&T Illinois does not receive any high-cost frozen support but the latest CAM run would provide approximately $14.5M/year in CAF II support in eligible areas. Louisiana is southern, AT&T Louisiana's wireline customer base is very rural, and its service territory encompasses virtually the entire state. AT&T Louisiana receives $8.8M/year in high-cost frozen support but the latest CAM run would provide almost $30M/year in CAF II support.

AT&T has consistently argued that the implementation of CAF II requires the FCC to transform the current ETC rules so that: a) they apply only to carriers that willingly accept CAF support and only for the geographic areas where such support is provided; b) existing price cap ILEC ETC designations in areas where no CAF support is received must automatically sunset; and c) Lifeline participation should be de-linked from the high-cost ETC designation and be made voluntary for ILECs, just as it is for today's dominant Lifeline providers. The Illinois analysis shows, among other things, that continuing to require ILECs to be ETCs, including Lifeline-only ETCs, where they do not receive CAF support is unnecessary and simply not justifiable. As AT&T has explained previously, relieving price cap carriers of their ETC designations in areas where they do not and cannot receive high-cost support does not mean that these providers will cease providing services in these areas. As the Commission itself recognizes, "carriers may not discontinue voice service without receiving authorization pursuant to section 214. . . ."[2]

High-Cost Data and Issues

The attached table "Illinois: Analysis of Voice Telephony in AT&T ILEC Service Area" provides the results of our analysis with an explanation of data sources. The second data column from the left contains data for the 175,640 CBs in AT&T Illinois' service territory that the CAM has determined do not qualify for any CAF II support. (See also Map A). There are 3,860,815 households in these CBs of which only 19.8% subscribe to AT&T wireline telephone service. This means that about 80% of the households in this non-CAF area have chosen another provider for their voice service. This figure alone is a clear indication that customers have many attractive options for obtaining voice service and the NBM data reported on Lines 13 a-d underscores this fact. AT&T Illinois serves a minority of the households in its service territory and yet it is the only wireline carrier that is *required* to provide voice service throughout the area because it is an ETC even though it has never received federal high-cost USF support and will never receive CAF support in these CBs.

In its most recent *FNPRM*, the FCC sought comment on whether it should automatically sunset ETC designations associated with CAF II funding at the conclusion of the service term.[3] Obviously the answer is yes and furthermore the Commission should do the same with all price cap carrier ETC designations where the recipient does not and cannot receive high-cost support. There is simply no need for and the FCC cannot justify placing unique obligations on one of many voice carriers in order to ensure consumers have access to voice service. In fact, it would be ironic to so obligate the provider of the one voice service that consumers clearly do not prefer.

The third data column from the left contains data for the 6,749 CBs that are "CAF II eligible" which means that there is no qualifying broadband provided by an unsubsidized competitor and the CAM has identified that deploying broadband to the

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[2] *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, FCC 14-54, ¶ 184 (rel. June 10, 2014) (*CAF II FNPRM*).

[3] *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, FCC 14-54, ¶ 184 (rel. June 10, 2014) (*CAF II FNPRM*).

32,159 "funded locations" would be "high-cost." If AT&T Illinois were to accept the offer of CAF II support for these CBs it will have knowingly taken on the obligations in return for the CAF II support ($14.5M) and its high-cost ETC designation should be limited solely to these CBs and those obligations relevant to the goals of CAF II.

There are 33,228 households in this CAF II area and while the percent of households that continue to subscribe to AT&T Illinois wireline voice service is higher than in non-CAF areas, at 41.9%, it is also very clear that consumers have options for voice service since about 58% have chosen another provider. The viability of other voice providers in these CBs suggests that the areas that the CAM has identified as "high-cost" for broadband should not be assumed to be high-cost for voice service. The NBM data in Lines 13 a-d of this column indicates that these options may be wireless broadband or fixed wireless providers since cable company service drops off dramatically. In any event, the data support AT&T's position that there is no need for the FCC to continue providing high-cost support to support voice in CAF II areas where CAF II support is not accepted or won. And there is certainly no justification for requiring price cap ILECs to remain ETCs in these areas to ensure voice service is available. The data show that the FCC was prescient in transforming USF to a broadband program; no USF solution is needed for voice even in the new "high-cost," CAF II areas.

The fourth and final column contains data for the 1,311 CBs that have no CAF II eligible locations and have an average cost above $172.51, the "alternative technology" threshold for the version of the CAM used that would place these locations in the Remote Area Fund (RAF). There are other RAF locations in CBs that are CAF II eligible (see pink areas on Map A) but these are excluded from this analysis in order to provide a "pure" RAF data set. Despite the remote, low density character of these CBs, the voice market results are remarkably similar to those for the CAF II eligible areas. Of the 2,159 households in these CBs, 46.7% still subscribe to AT&T Illinois wireline voice service while about 53% have chosen another provider for their voice service. Cable companies are virtually non-existent in these CBs so it appears that wireless and fixed wireless providers are viable competitors. Again, while these CBs are extremely high cost for broadband they do not appear to lack options for voice service.

Lifeline Data and Issues

The Lifeline data show an even more dramatic depiction of customers embracing competitive offerings over AT&T Illinois' wireline service. According to the Universal Service Administrative Company's (USAC's) 2013 disbursement data, 96% of Lifeline reimbursements went to wireless carriers in Illinois, with only 4% going to wireline providers. Between 2007 and 2013, AT&T Illinois' Lifeline disbursements dropped by 65%. But over that same period of time, Lifeline disbursements in Illinois increased by an astounding 870%.

The data also show that consumers in both urban and rural areas, including extremely high-cost areas, have equally rejected AT&T Illinois as their Lifeline provider of choice. In non-CAF II-eligible CBs, only 0.4% of households obtain Lifeline benefits from AT&T Illinois. This percentage is identical in CAF II-eligible CBs and increases by a statistically insignificant amount to 0.6% in extremely high-cost CBs. There is no question that a sizable percentage of Illinois households are eligible for Lifeline benefits in urban and rural areas[4] yet only a small fraction of eligible households obtain their Lifeline benefits from AT&T Illinois. The data dispel any myth that Lifeline competitors are predominantly in urban areas, leaving rural Lifeline-eligible customers with only the ILEC as their Lifeline provider.

To put the AT&T Lifeline percentages in perspective, we estimated the number of Lifeline subscribers in each CAF area[5] and compared the results with the number of AT&T Illinois Lifeline customers in the same area. In the extremely high-cost RAF CBs, AT&T estimates that between 113 and 350 households receive Lifeline benefits but we know that only 12 of them receive that benefit from AT&T Illinois. And, in CAF II-eligible CBs, we estimate that between 1,687 and 5,383 households obtain Lifeline service but we know that just 133 obtain that benefit from AT&T Illinois. The data clearly suggest that Lifeline provider alternatives are ubiquitously available throughout AT&T Illinois' ETC service area and Lifeline-eligible consumers resoundingly prefer those alternatives to AT&T Illinois' wireline Lifeline offering.

The Commission now has access to a tremendous amount of data from its National Lifeline Accountability Database (NLAD) which would allow it to geocode every single Lifeline customer to a census block. AT&T encourages the Commission to use the data it has to conduct an analysis similar to what AT&T has done in Illinois to identify the geographic distribution of Lifeline subscribers and the providers who serve them. Based on its own work in Illinois, AT&T believes the Commission will find that Lifeline-eligible consumers have numerous Lifeline provider options and, given the choice, obtain Lifeline benefits from a non-ILEC.

Last month, AT&T filed comments in response to the Commission's *CAF II FNPRM*.[6] In that filing, AT&T urged the Commission to reform its current ETC regime in its order adopting CAF II rules. AT&T detailed the necessity of relieving price cap carriers of their ETC designations and obligations in areas where they do not and cannot receive CAF II support. As part of that request, AT&T also urged the Commission to separate Lifeline participation from participation in the Commission's high-cost program and to make Lifeline participation voluntary.[7] This is not a new request. In fact, the Commission sought and received comment on AT&T's proposal in its 2012 *Lifeline Modernization Further Notice of Proposed Rulemaking.*[8] The record is complete and AT&T urges the Commission to move forward by adopting AT&T's proposal.

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[4] According to the U.S. Department of Agriculture, in 2013, 21.4% of Illinois households participated in SNAP, which is just one of many public assistance programs that qualifies a household for Lifeline. *See Supplemental Nutrition Assistance Program, State Activity Report, Fiscal Year 2013*; Food and Nutrition Service, Supplemental Nutrition Assistance Program, Program Accountability and Administration Division, at p. 3 (July 2014), *available at* http://www.fns.usda.gov/sites/default/files/snap/2013-state-activity.pdf.

[5] To calculate the number of households eligible for Lifeline we used the Census Bureau data included on Line 16 as the low bound and 2011 USAC data indicating that 30% of Illinois households are eligible for Lifeline as the upper bound. We then applied the 2011 USAC participation rate for Illinois (54%) to calculate the number of households that may actually receive Lifeline benefits.

[6] Comments of AT&T, WC Docket No. 10-90 et al. (filed August 8, 2014).

[7] *Id.* at 29-33.

[8] *Lifeline and Link Up Reform and Modernization et al.*, WC Docket No. 11-42 et al., Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 6656, ¶¶ 502-04 (2012).

During the meeting, staff asked AT&T's representatives, at a high level, what further changes to the Lifeline program we thought were necessary. We responded simply that AT&T would like to treat Lifeline customers like any other customer. As AT&T has often explained over the past several years, it does not believe that service providers should be responsible for determining a consumer's eligibility for a public assistance program.[9] AT&T is unaware of any other public assistance program where a private sector entity, which has a financial interest in the outcome of the eligibility determination, makes these decisions. The FCC will be fighting an uphill compliance battle of its own making as long as it continues to rely on hundreds of private companies to implement its Lifeline eligibility rules. Taking providers out of this role and coordinating Lifeline eligibility determinations and enrollment with that of other government benefits programs would not only strengthen the program but it would likely provide consumers with a simpler application process.

Beyond the inappropriateness of carrier involvement in eligibility determinations, the Commission's current Lifeline program imposes significant administrative costs on providers. By the Commission's own estimate, participating in its Lifeline program costs providers approximately $600 million a year, or about 37% of the $1.64 billion/year program. These amounts likely understate providers' administrative costs because state-specific requirements add to administrative complexity and costs. None of a provider's administrative costs is reimbursable. Instead, for postpaid providers like AT&T's wireline ILECs, Lifeline is a mere pass-through program whereby a provider is reimbursed $9.25/month per customer for each $9.25/month discount it provides to its Lifeline customers. While AT&T's ILECs have seen their Lifeline subscriber counts plummet over the past seven or so years, their costs of administering this public assistance benefit have not correspondingly decreased. Instead, after the Commission's 2012 Lifeline reforms became effective, these costs have only increased as providers now must review customers' eligibility documentation, interface with NLAD, and recertify all of their Lifeline customers each year.

* * * * * * *

AT&T respectfully submits that its Illinois data show that, as a legal and policy matter, it is unnecessary for the Commission to compel price cap carriers to offer standalone voice and participate in the Lifeline program throughout their service area. Even in rural, high-cost areas, consumers have a multitude of competitive offerings available to them and, in overwhelming numbers, have rejected ILEC wireline service in favor of those competitive services. AT&T urges the Commission to update its ETC and Lifeline rules and requirements to better reflect the existing competitive landscape.

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[9] *See, e.g.*, AT&T *NBP Public Notice # 19* Comments, GN Docket Nos. 09-51 et al., at 31 (filed Dec. 7, 2009); AT&T *Lifeline and Link Up Reform and Modernization NPRM* Comments, WC Docket No. 11-42, et al., at 12 (filed April 21, 2011); AT&T *Lifeline and Link Up Reform and Modernization NPRM* May 10 Reply Comments, WC Docket No. 11-42, et al., at 2-9 (filed May 10, 2011); AT&T *Lifeline and Link Up Reform and Modernization FNRPM* Comments, WC Docket No. 11-42 et al., at 3-10 (filed April 2, 2012).

All material shared during this meeting is attached. Please do not hesitate to contact me should you have any questions.

Sincerely,

/s/ Mary L. Henze

Mary L. Henze

Attachments

cc: Carol Mattey
Alex Minard
Jonathan Lechter
Heidi Lankau
Katie King

ILLINOIS: Analysis of Voice Telephony in AT&T ILEC Service Area

		AT&T ILEC Service Area or *Statewide	CBs in AT&T ILEC Svc Area w/No CAF II Funded Locations	CAF II Eligible CBs in AT&T ILEC Svc Area	Alt Tech-Remote Area CBs in AT&T ILEC Svc Area
1	Number of Census Blocks (CBs)	182,389	175,640	6,749	1,311
2	Number of Households (HHs)	3,894,043	3,860,815	33,228	2,159
3	Number of CAF II Funded Locations	-	-	32,159	-
4	Number of Alt Tech/Remote Area Locations	-	-	-	2,351
5	Amount of Annual CAF II Support	-	-	$14,545,731	-
6	Amount of Annual Frozen High-Cost Support	$0	$0	$0	$0
7	Number of ETCs per AT&T ILEC Wire Center	6 to 13	At least 6	At least 6	At least 6
8	Number of Retail Wireline Carriers in IL	128*	-	-	-
9	Number of Wireline ILECs in IL	40*	-	-	-
10	Number of Wireline CLECs in IL	88*	-	-	-
11	Percent of Retail Wireline Lines in IL that are CLEC	39%*	-	-	-
12	Percent of IL Adults in Wireless-only Households	38%*	-	-	-
13	Percent of Households in AT&T ILEC Service Area with:				
	a. Cable Modem Coverage	96.4%	97.2%	6.3%	0.5%
	b. Fixed Wireless Coverage	99.4%	99.4%	93.9%	91.1%
	c. Wireless Broadband Coverage	100%	100%	99.8%	99.4%
	d. 4+ Wireless Carriers or Cable Modem or Fixed Wireless	100%	100%	97.3%	93.3%
14	Percent of Lifeline Disbursements in IL to Wireline ETCs	4%*	-	-	-
15	Percent of Lifeline Disbursements in IL to Wireless ETCs	96%*	-	-	-
16	Percent of Households in AT&T IL Svc Area with Cash Public Assistance or SNAP (see Note)	11.8 %	11.9%	9.4%	9.7%
17	Percent of Households w/AT&T Wireline Lifeline	0.4%	0.4%	0.4%	0.6%
18	Percent of Households w/AT&T Wireline Voice Service	20.0%	19.8%	41.9%	46.7%
	a. % of HHs w/AT&T Wireline and AT&T Wireless Voice	2.6%	2.6%	7.3%	8.8%
	b. % of HHs w/AT&T Wireline Voice and AT&T Broadband (DSL or U-Verse)	4.1%	4.1%	4.1%	3.2%
	c. % of HHs w/AT&T Wireline Voice and 2 or More Other AT&T Services	3.5%	3.5%	2.6%	4.3%
	d. % of HHs with Standalone Wireline Voice from AT&T	9.7%	9.6%	27.9%	30.4%

Note: The data provide in Line 16 is included only as a surrogate for the potential Lifeline eligible population in and among the CB groupings. It is not intended to portray actual Lifeline eligibility or subscribership rates. In fact, the data significantly understates current SNAP participation. The public assistance/SNAP households by CB were calculated from the Census Bureau's 5-year average (2006-2010) census tract data. In 2013, USDA data indicates that 21.4% of households in Illinois participated in SNAP. In addition, this line item does not include data for all programs that would qualify a household for Lifeline.

Table Sources by Row:

1-5. FCC CAM 4.1.1 (10Mbps/768kbps) output associated to CB-level based on FCC funded CB list. Alt-Tech/Remote Area CBs are unserved CBs with no CAF II funded locations and average cost above $172.51. CBs and HHs in RAF category are also included in the CBs with No CAF II Funded Locations category.
2. Information on the number of households in each CB is from the 2010 U.S. Census
6. Universal Service Administrative Company
7. AT&T analysis of documents filed with and issued by the Illinois Commerce Commission (ICC). Every AT&T wire center in Illinois has at least six and up to 13 designated ETCs (high-cost and lifeline). Counts do not include AT&T ILEC ETC.
9-11. Annual Report on Communications Markets in Illinois; ICC, July 30, 2014
12. Ibid, citing Centers for Disease Control data
13 a-d. National Broadband Map, June 2013
14-15. Universal Service Administrative Company
16. US Census Bureau, American Community Survey 2010, 5 year estimate 2006-2010 data, Table – Income: Public Assistance Income or Food Stamps/SNAP in the past 12 months for Households at the Census Tract Level
17. Households who received a Lifeline benefit from AT&T IL in May 2014, AT&T consumer customer data
18 a-d. May 2014 AT&T consumer customer data. Line 18 is the percent of households that subscribe to AT&T wireline voice service either as part of a bundle or as a standalone service. Lines 18 a-d are subsets of Line 18. Line 18a includes data only for AT&T wireless customers who choose to include wireless charges on their wireline phone bill.

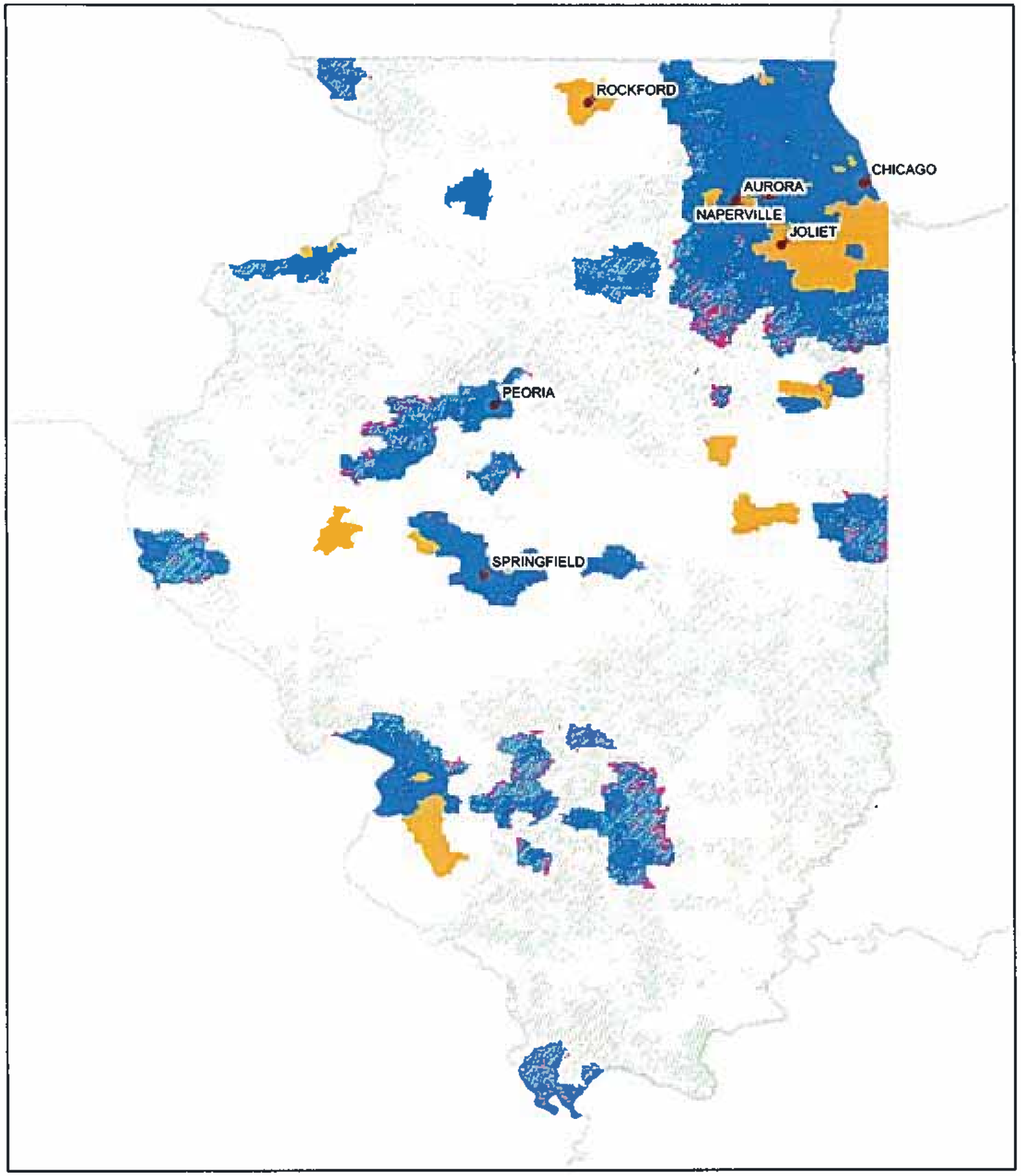
Maps

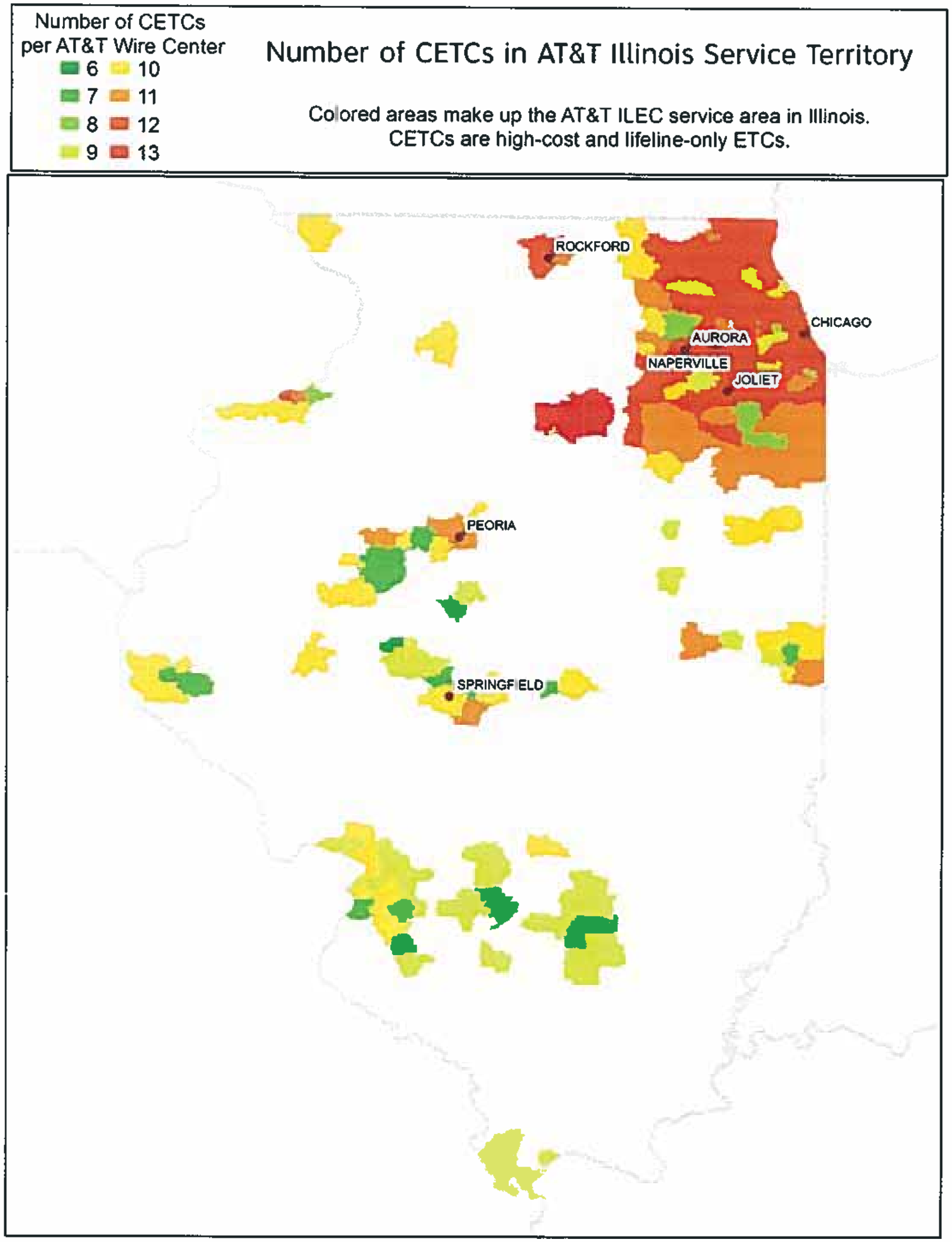
A. CAF II Eligible Areas in Illinois vs. AT&T Illinois Service Territory
B. Number of CETCs in AT&T Illinois Service Territory

CAF II Eligible Areas in Illinois vs. AT&T Illinois Service Terriroty

Solid colored areas make up the AT&T ILEC service area in Illinois.
Hatched overlay indicates all CAF II eligible census blocks in Illinois.

Legend
- AT&T Wire Centers with no CAF II funded locations
- AT&T Wire Centers with CAF II funded locations
- CAF II Eligible Census Blocks
- AT&T RAF only Census Blocks
- City Points - Major




Number of CETCs in AT&T Illinois Service Territory
Colored areas make up the AT&T ILEC service area in Illinois.
CETCs are high-cost and lifeline-only ETCs.
Number of CETCs per AT&T Wire Center
6
7
8
9
10
11
12
13
ROCKFORD
CHICAGO
AURORA
NAPERVILLE
JOLIET
PEORIA
SPRINGFIELD