

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

In the Matter of )  
 )  
Connect America Fund ) WC Docket No. 10-90  
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**COMMENTS OF NTCA—THE RURAL BROADBAND ASSOCIATION  
AND WTA-ADVOCATES FOR RURAL BROADBAND**

NTCA—The Rural Broadband Association (“NTCA”) and WTA-Advocates for Rural Broadband (“WTA”)<sup>1</sup> hereby submit these Comments in response to two separate Public Notices<sup>2</sup> released by the Wireline Competition Bureau (the “Bureau”).

**I. COMMENTS ON THE *MODEL NOTICE***

In the *Model Notice*, the Bureau announced that version four of the Connect American Fund Cost Model (“CACM”) will soon be available, and that this most recent version will reflect “additional adjustments to address the unique circumstances and operating conditions in the non-contiguous areas of the United States.”<sup>3</sup> The Bureau seeks comment on whether this version of CACM, including the revised inputs, should be adopted for purposes of distributing Connect America Fund (“CAF”) Phase II support in areas served by price cap-regulated carriers.

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<sup>1</sup> NTCA represents nearly 900 rural rate-of-return regulated local exchange carriers that provide broadband, as well as wireless, video, and/or other telecom services in many cases. WTA is a national trade association that represents more than 250 rural telecommunications carriers providing voice, video and data services.

<sup>2</sup> *Wireline Competition Bureau Announces Availability of Version 4.0 of the Connect America Fund Phase II Cost Model and Seeks Comment on Adopting Current Default Inputs in Final Version of Model*, WC Docket No. 10-90, DA 13-2304 (rel. Dec. 2, 2013) (the “*Model Notice*”); *Wireline Competition Bureau Seeks Comment on Additional Connect America Fund Phase II Issues*, WC Docket No. 10-90, DA 13-2317 (rel. Dec. 3, 2013) (the “*Distribution Notice*”).

<sup>3</sup> *Model Notice* at 1.

NTCA and WTA appreciate the work by the Bureau, other Commission staff, and interested stakeholders that has gone into the construction and refinement of the CACM. Although by Commission rule this model does not apply to the distribution of support in areas served by association members and other rate-of-return-regulated rural local exchange carriers (“RLECs”), as discussed in prior filings,<sup>4</sup> NTCA and WTA have a sincere and substantial interest in ensuring that the model will ultimately be developed with proper attention to accuracy and particular recognition of the challenges faced by smaller operators given that some RLEC members may have an interest in voluntarily availing themselves of some form of model-based support in the future.

As the latest adjustments described in the *Model Notice* confirm, however, there remains real concern about the capability of any cost model to capture “the unique circumstances and operating conditions” that individual carriers face in delivering reasonably comparable voice and broadband services in high-cost rural areas. While a model’s “rough edges” may be fine for a company the size of AT&T and Verizon, or even tolerable for companies with multiple larger study areas across multiple states like Windstream or Frontier, there is little, if any, opportunity to “smooth out the rough edges” of a model in the case of a company that serves a single study area or many smaller, more rural study areas. Thus, as the Bureau attempts to adjust the model to better capture unique operating conditions that distinguish the nature of serving areas like the Virgin Islands or Alaska, NTCA and WTA urge the Commission and the Bureau to recognize that, even within such states and territories – and even within the “lower 48” – there is significant

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<sup>4</sup> See, e.g., *Ex Parte* Letter from Michael R. Romano, Sr. Vice President-Policy, NTCA, to Marlene H. Dortch, Secretary, Commission, WC Docket No. 10-90, *et al.* (filed Sept. 12, 2013), at 9; Reply Comments of NTCA, *et al.*, WC Docket No. 10-90 (filed July 15, 2013), at 10-11; Comments of NTCA, *et al.*, WC Docket Nos. 10-90 and 05-337 (filed June 17, 2013), at 11-27.

diversity that can easily be missed by models that are built around averaging of assumptions and broad categories of inputs, and that are not otherwise carefully calibrated to take more precise account of the unique challenges faced by small companies serving distinct areas.<sup>5</sup>

Many of the issues that must be resolved as conditions precedent to the voluntary use of a model by RLECs for universal service fund (“USF”) or CAF distribution have been identified and discussed in other pleadings,<sup>6</sup> and the associations will not repeat those points at length here. These concerns can be summarized, however, into several categories, a number of which are implicated in or highlighted by specific adjustments made in the *Model Notice* to reflect unique operating conditions in certain areas. Specifically, the issues that require resolution and that make it such that *this* model (*i.e.*, the CACM), even as adjusted by the *Model Notice*, cannot yet be considered *the* model for purposes of USF/CAF distribution for RLECs include:

- **Generic Model Design Built for Larger Carriers**

CACM development has understandably been focused on the much larger carriers that would utilize the model immediately for CAF Phase II distributions. While there are “placeholders” in the model that can generate results for RLECs, the CACM has not been specifically designed, vetted, or tested for the purpose of application to smaller companies or the study areas they serve. To the contrary, current individual inputs within the CACM clearly do not reflect the operating challenges faced by RLECs.

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<sup>5</sup> Any model will of course contain some level of imperfection and imprecision. As Nobel Prize winner in Economics Lars Peter Hansen recently said of models, “I view the work I've done related to statistics and economics as roughly speaking, how to do something without having to do everything. So economic models -- how any model by definition isn't right. When someone just says, ‘Oh, your model is wrong.’ That's not much of an insight. What you want to know is, is wrong in important ways or wrong in ways that are less relevant? And you want to know what does the data really say about the model?” *Nobel Prize in Economics winner Lars Peter Hansen on imperfect models*, Marketplace Morning Report (Dec. 10, 2013) (<http://www.marketplace.org/topics/economy/nobel-prize-economics-winner-lars-peter-hansen-imperfect-models>). In the present case, however, the fact is that an in-depth analysis of what the data say about the model has not been conducted by the Commission as to RLECs such that model-based support could yet be a viable option for any such carrier.

<sup>6</sup> *See supra*, note 4.

“Rough justice” parameters in the CACM that alter certain inputs based upon overly broad size categories, for example, cannot capture the very real distinctions that can and do arise between a company with 10,000 or fewer customers and one with 100,000 or more customers. Indeed, adjustments in the *Model Notice* with respect to specific inputs for certain carriers only reinforce that this exercise will require much more intense and granular review than broad assumptions in a model that has been built for large carriers that serve multiple markets, both urban and rural.<sup>7</sup>

○ **Policy-Driven Choices That Affect Distribution**

Certain policy decisions “baked into” the distribution module of the CACM – particularly those aspects (like “low-end” benchmarks and “high-end” alternate technology cutoffs) that are being built primarily to fit price cap carrier CAF distributions into a specified budget rather than necessarily reflecting the true costs of universal service or consumer affordability – will certainly affect RLEC perspectives on model-based support. These policy factors may be of much less concern to carriers that serve *both* larger metropolitan markets and rural areas and are thus less dependent on CAF/USF support overall merely to sustain operations, but for a small carrier that operates only in a very limited number of unique rural areas, such factors will be paramount.

○ **Inaccurate/Imprecise Identification of Unsubsidized Competitors**

Substantial questions and concerns surrounding the validity of the identification of would-be, so-called “unsubsidized competitors” remain open, with some entities seeking to “water down” the process for such identification and inappropriately place the burden of guessing where a competitor actually is (without any disclosure of data by the competitor to verify such existence) upon the CAF or USF recipient.<sup>8</sup>

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<sup>7</sup> Examples abound in the *Model Notice* of “tinkering” with various inputs to account for unique circumstances faced by carriers in Alaska, Hawaii, and other non-contiguous areas. *See, e.g. Model Notice* at 3-4 (adjusting state-specific plant mix values for certain carriers) and 5 (treating ACS as a “small carrier” with fewer than 100,000 access lines and adjusting state-specific values for certain CapEx inputs attributable to the Virgin Islands). These adjustments for individual companies that are in many cases much larger than the average RLEC (and thus have at least some benefit of averaging across study areas and sizeable operations in more densely populated metropolitan markets with a far greater enterprise customer base) only underscore that the heterogeneity of the challenges faced by individual carriers serving discrete rural areas – whether within the “lower 48” or elsewhere – cannot be easily captured in a “one-size-fits-all” model, or even a model with several flavors of size and geographic differentiation.

<sup>8</sup> *See Ex Parte* Letter from Joshua Seidemann, Director-Policy, NTCA, to Marlene H. Dortch, Secretary, Commission, WC Docket No. 10-90 (filed Dec. 18, 2013).

- **Cost of Capital Concerns**

The cost of capital included within the most recent version of the CACM according to the *Model Notice* appears to have been chosen largely because it represents a simple midpoint in a range.<sup>9</sup> Although it could perhaps be argued by some that this midpoint is reflective of the operations of larger companies (or at least acceptable to them in seeking to finalize the CACM), it clearly does not reflect the much more substantial risks and challenges faced now and over time by companies whose service areas are predominantly or exclusively rural.<sup>10</sup>

- **Middle Mile Support Definitions**

Even the most robust last-mile facilities – and therefore end users’ experiences – are dependent on the quality and availability of upstream providers of middle-mile transport to the Internet backbone.<sup>11</sup> Considerable review (and re-work) is required both in terms of middle mile design and costs in the CACM before middle mile modeling results truly reflect the needs of and demands that small companies face in serving consumers in relatively isolated pockets and smaller study areas across rural America.

For example, the CACM appears to continue to focus narrowly on interoffice tandem transport requirements and fails to take account of the full extent of middle mile networks needed by smaller rural carriers to overcome the challenges of reaching distant “on-ramps” to Internet backbones.<sup>12</sup> Moreover, the specific adjustments identified in the *Model Notice* to submarine cable routes in non-contiguous areas<sup>13</sup> only underscore the need for more careful and comprehensive consideration of middle mile inputs and distribution as RLECs seek such support either within or outside of any cost model.<sup>14</sup>

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<sup>9</sup> *Model Notice* at 7.

<sup>10</sup> See Comments of NTCA, *et al.*, WC Docket No. 10-90, *et al.* (filed July 26, 2013); Reply Comments of NTCA, *et al.*, WC Docket No. 10-90, *et al.* (filed Aug. 26, 2013).

<sup>11</sup> See *National Broadband Plan* at 158.

<sup>12</sup> *Model Notice* at 6-7; see also <http://www.fcc.gov/blog/wcb-cost-model-virtual-workshop-2012-inter-office-transport-cost>.

<sup>13</sup> *Model Notice* at 2.

<sup>14</sup> See *Petition of the National Telecommunications Cooperative Association for a Rulemaking to Promote and Sustain the Ongoing TDM-to-IP Evolution*, WC Docket No. 12-353 (filed Nov. 19, 2012), at 15 and n.21 (urging adoption and implementation of universal service support of middle mile transport facilities for RLECs given: (1) increasing demands for bandwidth by consumers; and (2) the “significant pressure on the prices charged to rural consumers” that can result from the need for middle mile networks

## II. COMMENTS ON THE *DISTRIBUTION NOTICE*

The *Distribution Notice* seeks comment on several implementation issues regarding the transition from CAF Phase I to Phase II. Of particular interest to RLECs that might seek to avail themselves on a voluntary basis of model-based support at some future point, the *Distribution Notice* seeks comment on the manner in and pace at which such support would be received over the specified five-year period.<sup>15</sup>

As carriers who operate exclusively in rural, high-cost markets and thus rely heavily on universal service, the cash flows of distribution are essential to keeping services maintained and consumer rates reasonably comparable. Thus, here again, any decision with respect to what will happen for the very narrow purposes of CACM-based CAF Phase II support should not be viewed as precedential for purposes of any subsequent model development and the mode of support distribution from such a model. Moreover, NTCA and WTA highlight once again that the provision of broadband-capable facilities requires investment in infrastructure with useful lives far beyond five years. Indeed, it is impossible to achieve return on investment associated with rural network deployment in five years – instead, payback on rural network investment is more often measured in terms of decades, extending twenty-five to thirty years in duration.<sup>16</sup> Thus, RLECs must necessarily plan for time frames longer than five years, particularly in light of

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– particularly in light of intercarrier compensation changes that otherwise reduce cost recovery for transport networks). This is why, as well, the NTCA petition focused on the need to ensure thoughtful reconciliation between interconnection in an IP-enabled world and corresponding effects on universal service.

<sup>15</sup> *Distribution Notice* at 1-2.

<sup>16</sup> See, e.g., Letter from Jonathan Adelstein, Administrator, Rural Utilities Service, U.S. Department of Agriculture, to Marlene H. Dortch, Secretary, Commission, WC Docket No. 10-90, *et al.* (filed May 31, 2012) (stating that the Rural Utilities Service “makes loans to finance the construction and upgrade of high capacity broadband networks whose terms can exceed 20 years”).

the fact that many finance their infrastructure investments with Rural Utilities Service loans (or loans from other institutions) with amortization schedules far beyond five years.

If any model's perspective on universal service is focused on a short-term payment program to "get broadband there" in rural areas – rather than considering what it also takes to "keep broadband there" (and reasonably comparable in price and quality) – then the very purpose of the high-cost program will fail miserably in most RLEC areas. In fact, it is unclear why *any* term limits should be placed on receipt of high-cost support for an entity that continues to serve as a carrier-of-last-resort. At the very least, any limits that might be placed on the term of support distributions in future model distribution mechanisms must account for such factors if the program is to work in *both* enabling an RLEC to obtain reasonable access to capital for network deployment *and* keeping rates and service quality for consumers reasonably comparable as required by statute. Finally, rather than presuming that untested reverse auction programs will be employed at the end of any distribution term (if one is used), for RLECs that rely upon long-term network loans to operate in the hardest-to-serve areas, the Commission should instead recalibrate any model at the end of a reasonable distribution term for changed circumstances.

Respectfully Submitted,

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