



February 19, 2014

***Ex Parte Notice***

Ms. Marlene H. Dortch, Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, S.W.  
Washington, D.C. 20554

**Re: *Connect America Fund, WC Docket No. 10-90; High-Cost Universal Service Support, WC Docket No. 05-337; AT&T Petition to Launch a Proceeding Concerning the TDM-to-IP Transition; Petition of the National Telecommunications Cooperative Association for a Rulemaking to Promote and Sustain the Ongoing TDM-to-IP Evolution, GN Docket No. 12-353; Technology Transitions Policy Task Force, GN Docket No. 13-5***

Dear Ms. Dortch:

On June 17, 2013, NTCA–The Rural Broadband Association (“NTCA”), the National Exchange Carrier Association (“NECA”), and WTA–Advocates for Rural Broadband (“WTA”) submitted a detailed plan for a targeted Connect America Fund (“CAF”) program to refine universal service support mechanisms in areas served by rate-of-return-regulated rural local exchange carriers (“RLECs”) to facilitate consumer choice and stimulate adoption of broadband. This filing included not only an explanation of the plan and the justification for its adoption, but also simple and straightforward draft rules to implement the proposal.

On November 22, 2013, NTCA, NECA, and WTA, together with the United States Telecom Association (collectively, the “Associations”), met with staff from the Wireline Competition Bureau to discuss implementation of, and to provide additional details regarding, this plan. On December 16, 2013, the Associations filed supplemental information in response to questions raised by staff during the November meeting regarding the proposal.

In response to further questions from staff of the Federal Communications Commission (the “Commission”) in the wake of the December filing, the Associations now submit additional information related to the proposal and draft rules for this new CAF. Specifically, in the attached materials, the Associations provide documentation explaining the sources of the data used in calculating support under the proposed CAF program as shown in the prior *ex partes* and related assumptions and adjustments made in such calculations to the extent not already explicitly stated on those calculations.

The Associations appreciate the interest and efforts of the Commission and staff in discussing this proposal to establish a CAF for areas served by RLECs that can be paired with the CAF initiatives already well underway in price cap carrier regions. Since this concept of a new CAF program tailored for RLECs was raised in November 2012 and discussed through numerous *ex parte* meetings and filings since then, the Associations have endeavored to work in good faith to provide the Commission and staff with the tools and data needed to understand the proposals. We look forward to continued productive conversations regarding the development of a CAF program that: (1) is tailored for smaller company operations; (2) recognizes the unique challenges associated with being a small network operator serving only rural areas; and (3) does not require complex rule changes, unpredictable shifts, or wholesale disruptions in the way in which small carriers recover the costs of providing universal service to rural consumers. Although longer-term discussions regarding alternative voluntary methods of support may be useful as well, and while the Associations are indeed interested in such conversations, such conversations could take a significant amount of time and it is clear that consumers in RLEC areas will continue to be denied the ability to participate fully in the “IP evolution” as long as affordable broadband access in such areas remains tethered to continued purchase of traditional telephone service. We are therefore hopeful that, in light of the Commission’s clear commitment to promoting and sustaining technological evolution as evidenced by its recent order, the Commission will move quickly to implement this CAF proposal to help fulfill that vision for all rural consumers.

Thank you for your attention to this correspondence. Pursuant to Section 1.1206 of the Commission’s rules, a copy of this letter is being filed via ECFS.

Sincerely,

/s/ Michael R. Romano  
Michael R. Romano  
Senior Vice President – Policy

Enclosure

cc: Carol Matthey  
Steve Rosenberg  
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## Data-Only Broadband Support Impact Analysis

### Source Documentation

#### HCLS-

Source data for the high cost loop support amounts used in the impact analysis is from NECA's Annual Submission of High Cost Loop Support data filed on September 29, 2013. The amount displayed has been adjusted to reflect support reductions attributable to the estimated impact of the QRA benchmarks on individual study areas at the appropriate transition for 2014 as well as impact of the rate floor adjustment (as of July 1, 2013) and the high cost loop support component of the \$250 monthly cap on support, if either is applicable. Support for acquired exchanges has been included in the total.

#### ICLS-

Source data for the Interstate Common Line Support (ICLS) amounts used in the impact analysis is the NECA submission of ICLS support requirements for the June 17, 2013 Access Tariff Filing (Transmittal No. 1389) to USAC on March 29, 2013. Data for 4 study areas that do not participate in the NECA Common Line Pool has been annualized and included based on monthly data reported in USAC's Quarterly Projection of High Cost support for 4th Quarter 2013 (Appendix HC-09). Where applicable, the data has been adjusted to reflect the ICLS component of the \$250 monthly cap on support.

#### DOBB Transitioned -

Source data for the loop costs and line counts used for the Data Only Broadband (DOBB) support amounts in the impact analysis are the same as used for HCLS from NECA's Annual Submission of USF data on September 29, 2013. For study areas with acquired exchanges, a weighted average loop cost was developed for use in establishing the per line DOBB support to which a study area would be entitled. Where applicable, support amounts have been adjusted to reflect the \$250 per line monthly support cap.

#### Total Loop Support-

The annual HCLS, ICLS and DOBB amounts were summed to arrive at this total.

#### CAF ICC Support-

Source data for the CAF ICC amounts used in the impact analysis is the projection of CAF-ICC for NECA TS Pool participants underlying the 2013-2014 Interstate Access Tariff (Transmittal No. 1389) filed on June 17, 2013, grown by 18 percent to reflect total rural rate of return carrier universe based on the relationship of 2013 CAF ICC amounts for NECA Traffic Sensitive Pool participants to all rural rate of return study areas. Future projections are based on underlying growth rates contained in the June 17, 2013 filing.

#### Total ROR High Cost Support-

This represents the sum of total loop support plus CAF ICC Support.

## Assumption Set

Purpose of this analysis is to provide an estimate of potential support changes related to the proposed updated support mechanism. To that end:

- 1 Corporate operations expense limit and the \$250 monthly cap have been applied to the DOBB support.
- 2 The DOBB support calculation assumes merged study areas have been created for study areas with acquired exchanges, and it is assumed that the QRA is not applicable.
- 3 Data-Only Broadband Support amounts are based on the difference between the high cost loop amount and \$312 (i.e., DOBB Subscriber Line Charge of \$26 per month). As noted on the prior page, HCLS data is from NECA's September 2013 USF submission and does not reflect Quarterly Updates or any future changes in investment or loop counts.
- 4 Safety Net Additive and CAF ICC amounts are not included in the "Total High Cost Loop Support" amount. High cost loop support has been reduced for low-rate adjustment in effect as of July 2014 (i.e., rates below \$14) and \$250 cap, where appropriate.
- 5 For the DOBB support calculation, it is assumed the network consists of consumers who have transitioned to broadband services and cease to take regulated POTS local exchange service. Beginning in 2014, the network is transitioned to "broadband-only" customer elections at "X"% per year to the extent shown on each scenario. Annual cap on high cost loop support is adjusted by the current rural growth factor reduced by an additional "X"% annually to reflect the transition of the network to broadband elections by consumers. It is assumed that the entire capped HCLS support amount will be distributed to the remaining high cost loops.
- 6 ICLS amount is reduced by a percentage of the original amount to reflect lines moving from voice to the updated (DOBB) support mechanism.

## Calculations Used in Producing Impact Estimates

### High Cost Loop Support

- 1 The initial step in the process requires extraction of the data for acquired exchanges from the original exchanges in the data files. This is done by using the "sort & filter" function on Column DC in the Cost file and Column AE in the Average Schedule file. Move the data for the acquired properties to an unused section of the spreadsheet for later use (DOBB support calculation).  
Note: Alternatively these lines of data can be moved to a separate worksheet.
- 2 Calculation of high cost loop support for 2014 and beyond in the data analysis uses the SACPL data (Col M from both the Cost and Average Schedule Data Files) and the Category 1.3 Loops (Column S in the Cost data file and Column R in the Average Schedule Data File). These data represent study area loop costs with corporate operations support limits applied and will be the basis for Data Only Broadband support (except with those study areas having acquired exchanges) in other calculations. NACPL used was the filed value of \$596.17.
- 3 Apply QRA test to high cost loop support data for 2014 to determine which study areas are impacted by QRA benchmarks and calculate revised preliminary high cost support amounts for those study areas based on the 2014 transition step. (i.e., support limited to a reduction of no more than 15% of total support or 50% of the support differential.)
- 4 Re-compute high cost support for study areas not impacted by QRA limits, by redistributing support dollars removed from study areas impacted by QRA cap transition. Recycled NACPL value used was \$586.65
- 5 Apply rate floor adjustment to study areas having local rates below \$14.00
- 6 Develop monthly high cost loop support amount per line- adjusted for QRA and rate floor adjustment.
- 7 Develop Monthly ICLS amount per line. (Monthly Amount in USAC Appendix HC-09 x Access Lines / Category 1.3 Loops)
- 8 Sum amounts in lines 6 and 7 above to test for \$250 cap on combined HCLS and ICLS
- 9 Apply 2014 \$250 support limitation to combined amounts (6 months at \$250 plus 33% of difference above \$250 plus six months at \$250).
- 10 Develop pro rata share of limitation to be applied to High Cost Loop Support and ICLS for 2014 and 2015 and beyond
- 11 Apply pro rata limitation to 2014 High Cost Loop Support

- 12 Develop total high cost loop support baseline amount by multiplying 2014 adjusted high cost support per line per month by DL 070 Cat 1.3 Loops by 12 months and sum results for all study areas. Add annual support for acquired exchanges to total support amount.

#### Updated Broadband Support

- 1 The initial step in the process of calculating DOBB support requires the calculation of weighted average study area loop costs for study areas with acquired exchanges. Using the data that were extracted in step 1 of the High Cost Loop Support process in conjunction with the "original" study area data for each study area with acquired exchanges, a weighted average cost per loop is developed by multiplying the SACPL by the DL 060 Total Loops for each of the study areas and summing the resulting amounts for each study area and its acquired exchanges.  
  
The total cost amount (product of loop cost multiplied by loops) is then divided by the total loops to produce the weighted average loop cost. For each of the study areas with acquired exchanges, this amount is used in the determination of the Data Only Broadband Support.
- 2 For each study area (including the results of Step 1, above) the SACPL is reduced by \$312 to produce the preliminary per line Data Only Broadband Support amount. Two tests are then performed on the preliminary data. If the per line Data Only Broadband Support is less than zero it is set at zero. If the per line Data Only Broadband Support is greater than \$3,000, it is set at \$3,000.
- 3 For purposes of quantifying the potential size of the fund, Total Loops were used as a surrogate to capture Data Only Broadband lines. Thus, to estimate the total Data Only Broadband Support for each study area, the amounts calculated in Step 2 were multiplied by the DL060 Total Loops.
- 4 Post Transition DOBB support (assumes 100% conversion of all lines to DOBB) equals the sum of the results of step 3 above.