October 10, 2014

***Ex Parte* Notice**

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

Re: ***Connect America Fund*, WC Docket No. 10-90; *Universal Service Reform – Mobility Fund*, WT Docket No. 10-208; *ETC Annual Reports and Certification*, 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**

Dear Ms. Dortch:

On Wednesday, October 8, 2014, the undersigned, on behalf of NTCA–The Rural Broadband Association ("NTCA"), met with Suzanne Yelen, Ted Burmeister, Jim Eisner, Alexander Minard, Joseph Sorresso, and Craig Stroup to discuss matters in the above-referenced proceedings.

Specifically, we discussed an alternative proposal to modify the way in which High Cost Loop Support ("HCLS") distributions are calculated. In a recent further notice of proposed rulemaking, the Federal Communications Commission (the "Commission") proposed a "near-term" adjustment to HCLS distributions that would "freeze" the National Average Cost Per Loop and then apply a percentage ratio reduction to each carrier's anticipated support to fit total support within the capped HCLS mechanism. *See Connect America Fund*, 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 (rel. June 10, 2014), at ¶262. NTCA proposed an alternative to this calculation that, while still achieving the Commission's desired effect of spreading reductions in support proportionally among all carriers and addressing concerns about carriers "falling off the cliff" in terms of HCLS receipts, would also mitigate the harms to relatively higher-cost companies associated with potentially substantial losses of HCLS support associated with prior investments, particularly as those shifts in support compound over time through the application of a percentage reduction. In the attached document (a copy of which was provided during the meeting), NTCA explained the alternative proposal and provided examples of how this calculation would still achieve the Commission's desired outcomes while helping to promote distributional equity and reasonable cost recovery among high-cost carriers of all kinds.

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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: Suzanne Yelen
Ted Burmeister
Jim Eisner
Alexander Minard
Joseph Sorresso
Craig Stroup

<u>ALTERNATIVE "FROZEN NACPL" PROPOSAL</u>

In recent filings, the Rural Associations suggested that, if the FCC were going to "freeze" the National Average Cost Per Loop ("NACPL") and adjust support percentages proportionately, "the Commission should be mindful that such percentage reduction methods may have unintended impacts on the ability of relatively higher-cost companies to continue providing universal service and thus may not be consistent with the statutory requirement that universal service support be 'sufficient.'" *Comments of NTCA, et al.*, WC Docket No. 10-90, *et al.* (filed Aug. 8, 2014), at 64-65.

In this submission, NTCA–The Rural Broadband Association proposes an alternative approach to the proportional adjustments that attempts to mitigate the serious effects – especially as compounded over time – of any such change on relatively higher-cost companies, while at the same time preserving and promoting the basic directional impacts and incentives sought by the FCC's proposal.

To explain this proposal, consider an example for 2015 in which the frozen NACPL is $603.90, the funding requirement (*i.e.*, Total HCLS Payments for all study areas based strictly upon loop costs) is $788M, and the Annual Fund Cap on HCLS is $734 Million.

The FCC's current "frozen NACPL" proposal can be summarized in 4 steps:

1. The 2014 frozen NACPL would be used to calculate HCLS payments;
2. The Total HCLS Payments for all study areas in step 1 (*i.e.*, $788M) would be compared to the Annual Fund Cap ($734M), and if the Total exceeds the Cap (as it would here), then 2 additional steps would be taken to implement the FCC's proposed rule;
3. **<u>Additional Step 1</u>:** An adjustment factor would be developed by dividing the Annual Fund Cap by the Total HCLS Payments ($734M/$788M) for all study areas in step 1; and
4. **<u>Additional Step 2</u>:** The adjustment factor from step 3 would be applied to the Total HCLS Payments for all study areas from step 1 to get actual annual HCLS payments for each area.

Under this example, if in 2015 the Annual Fund Cap is projected to be $734M, and if a frozen NACPL of $603.90 were used instead of the $632.93 NACPL that would have been used in the absence of a freeze, an adjustment factor of .9314 would be applied to each company's HCLS support. In short, a "percentage" reduction is applied to every company's HCLS support.

NTCA's alternative proposal starts from this same approach but would change the final mode of calculation (the "Additional Steps" above) to apply the reductions both on a "per-line" and "percentage" basis across HCLS recipients. <u>Specifically, NTCA would propose to apply the first 2 steps above just as the FCC proposes, but then one would take the following "Additional Steps" instead of the "Additional Steps" noted above to apply support reductions based upon a frozen NACPL and the capped fund</u>:

1. **<u>Additional Step 1</u>:** Divide in half the amount that the Total HCLS Payments for all study areas as calculated in step 1 above exceed the cap (*i.e.*, $54M), and add that divided amount (*i.e.,* $27M) to the Annual Fund Cap. This amount ($761M) is the "Adjusted Fund Cap";

2. **<u>Additional Step 2</u>:** Develop an "Imputed NACPL" using the Adjusted Fund Cap (*i.e.,* $618.25) and calculate revised HCLS support payments to satisfy the Adjusted Fund Cap from Additional Step 1;

3. **<u>Additional Step 3</u>:** Calculate an adjustment factor by dividing the Adjusted Fund Cap by the Total HCLS Payments for all study areas using the Imputed NACPL derived in Additional Step 2 (*i.e.,* $734M/$761M);

4. **<u>Additional Step 4</u>:** Apply the adjustment factor from Additional Step 3 to each study area's HCLS payments to derive actual annual HCLS payments for each study area.

Using the same 2015 figures noted above, using this Imputed NACPL approach would generate an adjustment factor of .9645, rather than an adjustment factor of .9314 as noted above. Put another way, this Imputed NACPL approach is intended to have the effect of applying half of the reductions to HCLS on a "per-line" basis, with the remainder of support reductions applying on a "percentage" basis through the same kind of adjustment factor as contemplated in the FCC's proposed rules.

This approach would achieve the effects that the FCC desired in making its proposal with respect to setting specific incentives and creating certain impacts within the HCLS mechanism, but it would attempt to mitigate substantial adverse effects on relatively higher-cost companies – particularly over time as the effects of a freeze begin to compound.

Alternative NACPL Methodologies
Company Impact Comparions

Illustrative Examples of NACPL Methodologies

The table below provides illustrative examples of 2015 Support under the FCC Proposal to Freeze the NACPL and the NACPL imputed for a 50/50 split to the Support under Current Rules. Data is provided for lower cost medium cost and higher cost study areas. The 2015 impacts represent the initial year of changes that will accumulate over time.

Cost	2015 Study Area Loop Cost	2015 Support Current Rules	Support per Line per Month*	2015 Support at Frozen NACPL	Difference from Current Rules	Percent Change	Support change per Line per Month*	2015 Support at Imputed NACPL	Difference from Current Rules	Percent Change	Support change per Line per Month*
		NACPL $632.93		NACPL $603.90	Adjustment Factor 93.14%			NACPL $618.25	Adjustment Factor 96.45%		
Lower	$730.44	$16,083	$0.14	$209,523	$193,440	1203%	$1.67	$117,388	$101,304	630%	$0.88
	$735.11	$24,393	$0.39	$127,468	$103,075	423%	$1.66	$78,380	$53,987	221%	$0.87
Medium	$950.33	$13,601	$12.06	$14,948	$1,347	10%	$1.19	$14,312	$711	5%	$0.63
	$1,054.27	$358,018	$18.55	$372,460	$14,442	4%	$0.75	$365,730	$7,712	2%	$0.40
Higher	$2,527.18	$931,786	$110.61	$884,856	-$46,930	-5%	-$5.57	$907,599	-$24,187	-3%	-$2.87
	$3,539.45	$1,122,555	$173.88	$1,058,549	-$64,006	-6%	-$9.91	$1,089,505.69	-$33,048.97	-3%	-$5.12

10/7/2015