



September 25, 2015

Ex Parte

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

Re: Connect America Fund Docket No. 10-90

Dear Ms. Dortch:

USTelecom-The Broadband Association, NTCA – The Rural Broadband Association, ITTA-The Voice of Mid-Sized Communications Companies, and WTA-Advocates for Rural Broadband submit the attached ex parte document revising and updating the concepts outlined in its August 10, 2015 ex parte submission.¹

The FCC has previously suggested it may consider the use of a “bifurcated approach” to cost recovery as part of universal service reforms.² Under such an approach, separate mechanisms would be established to govern recovery of costs based on investments before or after a given date. As the associations understand it from the June 2014 FNPRM, a “bifurcated approach” to cost recovery would provide for support of prior investment and associated expenses over the remaining useful life of those investments pursuant to current rules, presumably with minimal modifications to those “old” rules. By contrast, support for new investment and associated expenses would be provided under a new universal service mechanism. The “new” mechanism would aim to provide support for all broadband and voice loops at the same level regardless of services ordered.

In the wake of an August 2015 meeting in which representatives of the associations discussed and then submitted information with respect to certain technical assumptions that might be associated with such a “bifurcated approach,” the associations have continued to review, test, and modify those technical assumptions and parameters that would be necessary to

¹ *Letter to Marlene H. Dortch, Secretary, Federal Communications Commission from USTelecom*, WC Docket No. 10-90, (August 20, 2015).

² *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd 7051 (2014).

implement the approach suggested by the FCC. This filing captures the latest efforts at review and refinement of that approach

Under a “bifurcated approach” to reform, each of the “old” and “new” mechanisms would provide support to the extent costs exceed specified benchmarks. More specifically, under the “old” mechanisms, the ICLS benchmark is earned revenue as reported to NECA for the common line pool (primarily subscriber line charges), and the HCLS benchmark is the frozen nationwide average loop cost. The new mechanism would utilize a benchmark aimed primarily at ensuring “reasonable comparability” in the rates paid by rural and urban end users for retail broadband Internet access service.

Over time, as companies depreciate and retire assets in the old mechanisms and invest in new assets, costs would organically shift from the old to the new mechanism. Companies who have more recently completed construction initiatives with greater debt obligations will transition more slowly than companies who have not made those investments since new assets have longer remaining lives and the need for subsequent investment is lower.

In order to accommodate differing levels of cost for each company in the old and new mechanisms, the benchmarks between the old and new mechanisms would need to be adjusted by the ratio of costs in each category (old and new) for that company. For example, if 90% of a company’s unseparated loop cost is in ICLS and HCLS, that company will receive ICLS to the extent that those costs exceed 90% of its SLC earned revenue and it will receive HCLS to the extent that its loop costs exceed 90% of the frozen nationwide average. Conversely, that same company would receive support from the new mechanism to the extent that its unseparated loop cost (voice and data) based on new investment only exceeded 10% of the benchmark rate.

To the extent possible, all changes under a “bifurcated approach” as outlined herein would be made in Parts 32, 54, and 69, with a goal of not disrupting or complicating existing separations. Such an approach would aim to eliminate potentially significant problems related to state universal service funds and impacts on local rates, as well as the time delay associated with a joint board referral.

Other important elements of a “bifurcated approach” include:

- Support for existing stand-alone broadband (i.e., the provision of standalone broadband using existing investments and associated costs) would be on a per line basis using the average combined HCLS and ICLS received in any given year.
- New support would be applied first against interstate costs so that no interstate costs are left unrecoverable. New mechanism support is first applied to the difference between allocated SLC and new interstate common line revenue requirement, then against the loop component of interstate broadband, and then allocated to the state jurisdiction. New Broadband only support would be allocated to and capped at the loop component of interstate broadband under the old mechanism.

The support allocations are important not only to eliminate orphaned cost, but also to prevent double recovery. Implementation of this plan will require coordination with interstate special access rates and should be coincident with any necessary tariff filing.

In addition to the summary outline we are attaching a model which can be used to estimate potential support available under the bifurcated approach described herein.

It should be noted, however, at this point no association yet endorses a “bifurcated approach” generally or the specific approach suggested herein. Instead, the information herein is submitted merely to aid in identification and discussion of issues that may require further examination and resolution arising out of this approach as previously suggested by the FCC, and because further analysis and testing remains required, this information is provided without comment or judgment at the current time as to the actual effectiveness of a “bifurcated approach” in meeting the FCC’s reform objectives as articulated in the June 2014 FNPRM or the statutory principles of universal service.

Please contact the undersigned should you have any questions.

Respectfully submitted,

UNITED STATES TELECOM ASSOCIATION



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USF Reform Proposal Bifurcated Support

The following summary outlines the key components of the latest proposal for USF reform for Rate of Return carriers based on the FCC's preferred bifurcated approach.

ALLOCATION OF INVESTMENTS AND OPERATING EXPENSES BY DATE CERTAIN

1. Existing investments in broadband capable loops will be allocated between Voice, Voice/Data, and Data Only Broadband consistent with existing rules.
2. New investments in broadband capable loops will be allocated between Voice, Voice/Data, and Data Only Broadband consistent with existing rules.
3. Operating expenses and other common costs will be allocated between existing and new investment based on gross investment in loop plant for each service (Voice, Voice/Data, and Data Only) and each vintage of plant (new or existing), consistent with current rules.

JURISDICTIONAL ALLOCATION AND RECOVERY OF EXISTING INVESTMENT AND ASSOCIATED OPERATING EXPENSES/COMMON COSTS

4. Existing investment associated with Voice only and Voice/Data loops will continue to be allocated 75% Intrastate/25% Interstate.
 - a. Loop related cost recovery continues to come from a combination of the SLC, ICLS, HCLS, and local rates.
5. Existing investment associated with Data Only Broadband loops will continue to be allocated 100% Interstate and assigned to Special Access.
 - a. Loop related cost recovery will come from a combination of special access rates and a new broadband support mechanism, Broadband Common Line Support ("BCLS").
 - i. BCLS for existing investment associated with Data Only Broadband loops will be based on the average support on a per loop basis that the carrier receives from the combination of HCLS and ICLS.
 - ii. BCLS will be recalculated annually based on the then current average support per loop for both HCLS and ICLS based on the most recent annual submissions of each.
 1. The current definition of loops will continue to be used in the calculation of HCLS and ICLS; Data Only Broadband loops are not included.
 - iii. BCLS will be an offset to the Interstate Special Access Revenue Requirement.
 - iv. BCLS will not exceed the existing loop cost of Data Only Broadband assigned to Interstate Special Access.

JURISDICTIONAL ALLOCATION AND RECOVERY OF NEW INVESTMENTS AND ASSOCIATED OPERATING EXPENSES/COMMON COSTS

6. A new support mechanism, Broadband Universal Service Support ("BUSS"), will be developed to provide support as described below for new investment in broadband capable loops (regardless of service offered atop those loops) and associated costs.
7. New investment associated with Voice only and Voice/Data loops will be allocated 75% Intrastate/25% Interstate.
 - a. The 25% of costs allocated to Interstate will be assigned to a new common line rate element in Part 69 and recovered through a combination of the SLC and BUSS.

- i. The SLC will be allocated between new and existing investment based on the New Common Line Revenue Requirement divided by Total Common Line Revenue Requirement, consistent with current rules.
 - ii. Any costs not recovered from the Allocated SLC will be recovered from BUSS.
 - b. The 75% of costs assigned to Intrastate will be recovered through local rates, BUSS and state universal service funding.
 - c.
- 8. New investment associated with Data Only Broadband loops will be allocated 100% Interstate and assigned to Special Access.
 - a. Loop related cost recovery will come from a combination of special access rates and BUSS.
 - i. BUSS is equal to the unseparated cost per loop for new investment in broadband capable loops, including allocated operating expenses and common costs, less the allocated broadband benchmark, times the total number of working loops (excluding special access).
 - b. BUSS associated with the new loop cost of Data Only Broadband will not exceed the new loop cost of Data Only Broadband assigned to Interstate Special Access.

FURTHER DETAILS ON APPLICATION OF BUSS COST RECOVERY MECHANISM AND DETERMINATION OF BUSS SUPPORT

- 9. BUSS is a joint Interstate and Intrastate cost recovery mechanism, but will first offset loop costs assigned to Interstate before any remaining support is assigned to Intrastate.
 - a. BUSS is first calculated and applied to new common line loop costs that are not recovered from the Allocated SLC.
 - i. To the extent that the calculated BUSS is not sufficient to recover all new common line loop costs that are not recovered from the Allocated SLC, BUSS will be increased to make up for any shortfall.
 - b. Any BUSS remaining after recovery of new common line loop costs will next be calculated and applied to new special access loop costs. Any remaining unrecovered new special access loop costs after such BUSS calculation and application will be recovered from special access rates.
 - c. Any BUSS remaining after the costs assigned to Interstate are recovered will be applied to loop costs assigned to Intrastate.
- 10. To the extent that the combination of BCLS and BUSS offset the entire cost of the Data Only Broadband loop, Voice/Data and Data Only Broadband rates will be the same, with the BCLS and BUSS offsetting the loop costs assigned to Interstate Special Access.
 - a. If, however, BCLS and BUSS are not sufficient to cover the cost of the Data Only Broadband loop due to insufficient universal service budgets, and some remaining interstate loop costs must therefore be assigned to Special Access, carriers will by definition continue to have different rates for Voice/Data and Data Only Broadband.
- 11. Benchmarks
 - a. For purposes of calculating HCLS for recovery of existing investment going forward, the NACPL will continue to be frozen at the current level and will be assigned to existing investment based on the SACPL for the existing investment divided by the total SACPL for existing and new investment.
 - b. The SLC will be allocated between existing and new investment based on the relative Common Line Revenue Requirement assigned to each.
 - c. For purposes of calculating BUSS support for new loop costs, a Broadband Benchmark will be established to determine the cost below which BUSS is not provided and will be

assigned to new investment based on the unseparated cost per loop for new investment divided by the total unseparated loop cost for existing and new Investment.

12. Cost/Recovery Limitations

- a. Any additional/different capital expenditure and operating expense limitations and other budget controls that would apply to any reformed universal service mechanisms is already the active subject of separate but related discussion in this proceeding.
- b. In addition to making this approach as simple as possible and avoiding the requirement for a joint board referral, the use of current separations rules for both the old and new mechanisms should eliminate the potential for double recovery of costs. As an additional precaution, carriers will be required to certify that there is no double recovery of costs.