itta

The voice of mid-size communications companies

October 2, 2015

Ex Parte

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

Dear Ms. Dortch:

ITTA – the Voice of Mid-Size Communications Companies, NTCA – The Rural Broadband Association, USTelecom – The Broadband Association, and WTA – Advocates for Rural Broadband, submit the attached documents for inclusion in the record of the above-captioned proceeding.

These organizations have been working to develop a voluntary model-based universal service (USF) support mechanism for rate-of-return (RoR) carriers to consider for deploying broadband to unserved customers. This filing provides consensus recommendations by these organizations on processes for implementing a voluntary model-based plan. The attachments included herein update the proposed build-out milestones filed by ITTA on June 29, 2015, and provide a new proposal for allocating limited Connect America Fund (CAF) reserve dollars.

More specifically, the attachments include the following:

- Attachment A – a proposal for determining the allocation of CAF reserve dollars among RoR carriers electing the model-based plan based on the relative costs of companies' eligible locations and current build-out percentages.
- Attachment B – revised proposed build-out milestones, including proposed non-compliance measures, for RoR carriers electing model-based support.

We look forward to continuing to work with the Commission to implement a voluntary model-based USF support mechanism for RoR carriers.

Please contact the undersigned with any questions.

Respectfully submitted,

Genevieve Morelli

Genevieve Morelli
President

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Allocation of Connect America Fund (CAF) Reserve
<u>For Eligible Rate-of-Return Companies</u>

Policy Overview:

The FCC has indicated that a portion of CAF reserve dollars will be made available to eligible rate-of-return (RoR) companies voluntarily electing model-based support. It is necessary to allocate CAF reserve dollars in a way that (a) is consistent with the Commission's policies and objectives; and (b) is equitable to eligible companies electing model-based support and their customers. A variety of methods were investigated to allocate CAF reserves, recognizing that the available support is insufficient to fund all locations for those eligible companies likely to elect model-based support. Consistent with the Commission's stated objective to direct funding to the study areas with the lowest current build-out percentages, the recommended method incorporates both a company's current level of build-out to 10/1 M and the amount of model-based support for which the company qualifies.

The A-CAM produces average broadband costs per location in RoR service areas that are significantly greater than the average costs per location in price cap areas.[1] The Commission has recognized that in the highest cost areas served by RoR carriers, the only likely service provider is the RoR carrier and, accordingly, has agreed not to apply price cap parameters – such as the Alternative Technology Cutoff (or Extremely High Cost Threshold) — to the limited RoR CAF mechanism. Even so, in illustrative A-CAM Run 2.3, the Commission posited a monthly support cap per location of $230 that effectively limits the amount of funding very high-cost locations could receive. Thus, the Commission's policy objectives balance the need to fund more than merely the lowest-cost locations but keep funding per location at reasonable levels.

Calculation of CAF Reserves:

Since the CAF reserve allocation budget is limited, each eligible company's CAF reserve allocation is in part determined by the number of other companies electing model-based support and the methodology chosen to allocate the CAF reserve dollars. For those eligible companies selecting model support:

$CAF\ Reserves\ for\ Company_i =$

$$\frac{Model\ Support_i * (1 - Buildout\ Percentage_i)}{\sum_i^{All\ Model\ Electing\ Companies} Model\ Support_i * (1 - Buildout\ Percentage_i)} \times CAF\ Reserves$$

The amount of support a company receives, including both legacy and CAF reserve dollars, cannot exceed the company's model-based support. This requirement makes the calculation iterative. Once the calculation is performed, the resultant CAF reserve allocation plus legacy support is compared to the company's model-based support to determine any excess. Iterative calculations are done to spread any excess to the other companies electing model-based support that have no excess. Three iterations were required.

[1] Broadband costs per location are averaged within a census block.

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Policy Basis for the CAF Reserve Allocation Calculation:

This method of directing support to locations based on modeled costs ensures that scarce USF resources are distributed to those areas that have the greatest need for support. Since this method is based on a company's forward-looking model cost, it accomplishes one of the Commission's four principles. Moreover, an allocation method based on model cost provides more support to locations that are unlikely to receive broadband from a competitor or to be able to afford improved broadband from retail rates.

Distributing the CAF reserve dollars based on model support with a term reflective of the company's current build-out percentage is a reasonable estimate of how much money a company could spend to bring customers 10/1 M service. Inclusion of a term that allocates a higher percentage of CAF reserves to those companies with lower current build-out percentages will direct funds to those companies that have the greatest need to improve their infrastructure. Companies with a current build-out percentage greater than 85% would be precluded from receiving CAF reserve dollars.

Model Results:

To perform the CAF allocation analysis, it was necessary to identify the companies likely to opt for model-based support. It was assumed that a company would elect model-based support if its model support is greater than its legacy support by $1.[2] Using this assumption, the below results would occur if $200 million in annual CAF reserve dollars were distributed:

[2] The results could vary significantly if a different assumption was made.

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Build Out Percentage[3]	Company Count	Study Area Count	CAF Reserves
0% to 10%	233	263	$85,779,689
10% to 20%	50	83	28,844,370
20% to 30%	33	67	31,306,013
30% to 40%	30	49	6,598,994
40% to 50%	31	42	13,407,730
50% to 60%	39	64	11,743,190
60% to 70%	38	51	10,596,572
70% to 80%	49	61	7,740,336
80% to 85%	42	52	3,256,201
85% to 100%	314	360	0
Total	859	1,092	$199,273,095

[3] Build-out percentages are based on the total number of RoR locations lacking 10/1 M divided by the total number of those RoR locations in census blocks receiving model-based funding.

Attachment B

Revised Proposed Build-Out Milestones For Carriers Electing Model-Based Plan

Table 1

	Build-Out Milestones
Year 1	No milestone; reporting of status
Year 2	No milestone; reporting of status
Year 3	No milestone; reporting of status
Year 4	No milestone; reporting of status
Year 5	50% of company build-out requirement
Year 6	60% of company build-out requirement
Year 7	70% of company build-out requirement
Year 8	80% of company build-out requirement
Year 9	90% of company build-out requirement
Year 10	100%

Attachment B

Proposed Non-Compliance Measures

Table 2

Compliance Gap	Non-Compliance Measure
5% to less than 15%	Quarterly reporting
15% to less than 25%	Quarterly reporting + withholding of 15% of monthly support
25% to less than 50%	Quarterly reporting + withholding of 25% of monthly support
50% of more	Quarterly reporting + withholding of 50% of monthly support for 6 months; after 6 months, withholding of 100% of monthly support and recovery of percentage of support equal to the compliance gap + 10% of support disbursed to date