December 16, 2013

***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; *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:

This letter is submitted on behalf of NTCA–The Rural Broadband Association ("NTCA"), the United States Telecom Association, WTA, and the National Exchange Carrier Association to provide supplemental information in response to questions raised by staff of the Federal Communications Commission (the "Commission") during a November 22, 2013 meeting.

First, in connection with the consideration of a targeted 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, we provide with this letter certain materials describing the anticipated effects of the proposals on Connect America Fund ("CAF") support flows, current universal service mechanisms, and adoption of voice and broadband services under different assumptions. We also provide herewith again, for convenience of review, certain materials summarizing the proposed rules that have been filed, a copy of these rules, and a depiction of the effect on consumers' rates depending on whether such CAF support is or is not available.

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Second, in connection with the proposal to establish a Capital Budget Mechanism ("CBM") as an alternative to and substitute for the current application of the quantile regression analysis-based caps, we provide with this letter sample calculations showing how this mechanism would establish transparent and clearly defined prospective investment constraints that reflect local plant conditions for 26 different RLECs. The materials provided herewith to help explain this proposal also include a worksheet showing the relatively straightforward means by which to calculate prospective investment budgets for other companies pursuant to the CBM and a brief summary of the mechanism.

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

Enclosures

cc: Carol Mattey
Steve Rosenberg
Kalpak Gude
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Joe Sorresso
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STAND ALONE BROADBAND SUPPORT

Rural consumers require an immediate solution that makes predictable and sufficient USF support available when a consumer chooses to purchase Data-Only Broadband services but declines to purchase voice telephone service offered by the RLEC**.**

Such support would be consistent with, and is in fact compelled by, the Transformation Order, which found that while ETCs are required "to offer voice telephony service as a standalone service throughout their designated service area" (¶80), Section 254 also grants the authority "to support . . . the facilities over which it is offered" (¶64). The FCC further found that ETCs must, as a condition of such support, offer broadband over those same facilities "at rates that are reasonably comparable to offerings of comparable broadband services in urban areas." (¶86) The Connect America Fund for larger, price-cap regulated services, in turn, provides support for broadband-capable networks regardless of the service selection of any given customer in the area (voice or broadband). By contrast, consumers in areas served by smaller companies risk being left behind in the IP Evolution absent a similar construct.

Proposal:

Data-Only Broadband Service is a stand-alone broadband Internet access transmission service sold without voice service that requires the use of the same loop facility that has the ability to provide access to the PSTN, or its functional equivalent.

A Broadband Subscriber Line Charge (BBSLC), together with a tariffed wholesale transmission rate, forms a benchmark to ensure consumers in rural areas pay a reasonably comparable amount for broadband Internet access service when they do not purchase POTS with the Broadband service. Support for Data-Only Broadband Service loop cost funding would be calculated as the difference between the loop-related cost to provide the service and the revenues from the BBSLC.

- Data-Only transmission service would require RLECs to recover (or impute) two separate benchmark components from the end user and/or ISP: (1) a Broadband Subscriber Line Charge of capped at $26 per month that helps to recover loop-rated costs; and (2) the NECA tariff wholesale data-only transmission rate, or equivalent, that helps to recover network-related transmission costs on a Title II Common Carrier basis.
- As customers migrate to Data Only Broadband Service, HCL support and ICLS decrease while support for Data-Only Broadband Service loops increases.
- Neither this support mechanism nor the benchmark components would provide for recovery of middle mile and other non-network ISP operational costs. This is in contrast to the price cap model, which includes some middle mile costs and some non-network ISP operational costs in both the applicable benchmark and the Connect America Fund support mechanism itself.

Narrow Rule Changes:

- Proposed Rule language (attached) was included in June 17, 2013 Association Joint Comments
- No modification would be needed to Part 36 Separations Rules.
- Limited addition of language would be needed to Part 54 defining and establishing support for Data-Only Broadband Service.
- Limited changes would be needed to existing Part 69 Rules to modify assignment of interstate loop costs from Special Access to Common Line element for Data-Only Broadband Service and creation of a Broadband Subscriber Line Charge

Proposed Data-Only Broadband Service Support Rule Language *[New Rule Language Underlined]*

§ 54.5 Terms and Definitions

Data Only Broadband Service is defined as transmission service from an end user to a connection point with an ISP sold without voice service, but over a facility that has the ability to provide voice grade service with access to the PSTN or its equivalent..

§ 54.302 Monthly per-line limit on universal service support.

(a) Beginning July 1, 2012 and until June 30, 2013, each study area's universal service monthly support, including data-only broadband support, (not including Connect America Fund support provided pursuant to § 54.304) on a per-line basis shall not exceed $250 per-line plus two-thirds of the difference between its uncapped per-line monthly support and $250. Beginning July 1, 2013 and until June 30, 2014, each study area's universal service monthly support on a per-line basis shall not exceed $250 per-line plus one third of the difference between its uncapped per-line monthly support and $250. Beginning July 1, 2014, each study area's universal service monthly per-line support shall not exceed $250.

(b) For purposes of this section, universal service support is defined as the sum of the amounts calculated pursuant to §§ 36.605 and 36.631, of this chapter and §§ 54.301, 54.305, 54.322 and 54.901 through .904. Line counts for purposes of this section shall be as of the most recent line counts reported pursuant to § 36.611(h) of this chapter plus data-only broadband lines.

(c) The Administrator, in order to limit support to $250 for affected carriers, shall reduce safety net additive support, high-cost loop support, safety valve support, interstate common line support, and data-only broadband support in proportion to the relative amounts of each support the study area would receive absent such limitation.

§ 54.322 High Cost Support for Data Only Broadband Service

For rural rate of return ILEC study areas, each Data-Only Broadband Service transmission line meeting the criteria outlined in §54.5 shall receive Data-Only Broadband Support based on the difference between the cost of providing the loop facilities as determined by the provisions of § 36.621 (a)(1) through (a)(4) of the Commission's rules, or its Category 2 equivalent cost, and the revenue from the Data-Only Broadband Service Charge pursuant to § 69.132(a). Preliminary support amounts will be based on projected costs and revenues and trued-up when actual data becomes available in pursuant to the schedule set forth in § 54.323.

§ 54.323 Obligations of rate–of–return carriers and the Administrator for Data Only Broadband Service

(a) To be eligible for Data-Only Broadband Support, each rate-of-return carrier shall make the following filings with the Administrator

1) Each rate-of-return carrier shall submit to the Administrator annually on March 31st projected data necessary to calculate the carrier's prospective Data Only Broadband Support, for each of its study areas in the upcoming funding year. The funding year shall be July 1 of the current year through June 30 of the next year. Each rate-of-return carrier will be permitted to submit a correction to the projected data filed on March 31 until June 30 for the upcoming funding year. On June 30 each rate-of-return carrier will be permitted to submit to the Administrator an update to the projected data for the funding year ending on that date.

2) Each rate-of-return carrier shall submit to the Administrator on December 31st of each year the data necessary to calculate a carrier's Data-Only Broadband Support, including cost and revenue data, for the prior calendar year. Such data shall be used by the Administrator to make adjustments to monthly Data-Only Broadband Support amounts in the final two quarters of the following calendar year to the extent of any differences between the carrier's Data-Only Broadband Support received based on

projected data and the Data-Only Broadband Support for which the carrier is ultimately eligible based on its actual data during the relevant period.

§ 69.132 Data-Only Broadband Service charges for non-price cap incumbent local exchange carriers.

(a) This section is applicable only to incumbent local exchange carriers that are not subject to price cap regulation as that term is defined in § 61.3(ee) of this chapter. A charge that is expressed in dollars and cents per line per month shall be assessed upon end users that subscribe to Data-Only Broadband Service. The maximum monthly charge for each Data-Only Broadband Service line shall be the lesser of one-twelfth of the projected annual revenue requirement for the Data-Only Broadband Service in §69.501(g)(ii) divided by the projected average number of Data-Only Broadband Service lines in use during such annual period or $26.00.

§ 69.501 General

(f) Until December 31, 2013, the Common Line element revenue requirement shall be apportioned between End User Common Line and Carrier Common Line pursuant to § 69.502. The Common Line element annual revenue requirement shall be described as the base factor portion for purposes of this subpart.

(g) Beginning January 1, 2014, the Common Line element revenue requirement shall be apportioned to End User Common Line, Data-Only Broadband Service, and Carrier Common Line.

(1) The Common Line element annual revenue requirement less Data-Only Broadband Service determined pursuant to §69.501(g)(ii) shall be described as the base factor portion for purposes of this subpart and apportioned between End User Common Line and Carrier Common Line pursuant to §69.502.

(2) The Data-Only Broadband Service revenue requirement shall consist of a shift from the Special Access Element, §69.114, to the Common Line Element equal to the loop cost of providing the service as determined pursuant to §54.322.

§ 54.901 Calculation of Interstate Common Line Support.

(a) Interstate Common Line Support available to a rate-of-return carrier shall equal the Common Line Revenue Requirement per Study Area less the Data-Only Broadband Service as calculated in accordance with §69.501 of this chapter minus:

(1) the study area revenues obtained from end user common line charges at their allowable maximum as determined by §§ 69.104(n) and 69.104(o) of this chapter;

(2) the carrier common line charge revenues to be phased out pursuant to § 69.105 of this chapter;

(3) the special access surcharge pursuant to § 69.115 of this chapter;

(4) the line port costs in excess of basic analog service pursuant to § 69.130 of this chapter; and

(5) Any Long Term Support for which the carrier is eligible or, if the carrier ceased participation in the NECA common line pool after October 11, 2001, any Long Term Support for which the carrier would have been eligible if it had not ceased its participation in the pool.

EFFECT ON RURAL CONSUMERS OF PROVIDING OR NOT PROVIDING STANDALONE BROADBAND SUPPORT

Benchmark Component	Benchmark/Retail Rate/Other Amount Needed for Cost Recovery From Individual Consumer		Relevant Costs Covered
	Provide Support Per Group Proposal	Not Providing Support	
Broadband SLC	$26.00		Regulated Local Loop Costs (developed on Title II basis pursuant to Parts 32, 36, 64, and 69)
Wholesale Transmission Tariff Rate	$15.05[1]		Regulated Costs of Non-Loop Transmission Facilities and Equipment to Enable Broadband Internet Access (developed on Title II basis pursuant to Parts 32, 36, 64, and 69)
Wholesale Transmission Tariff Rate		$77.63[2]	Regulated Facilities-Based Network Costs of Loop and Transmission to Enable Broadband Internet Access (developed on Title II basis pursuant to Parts 32, 36, 64, and 69)
Total Cost Recovery from Consumer for Supported/Regulated Network Elements	$41.05[3]	$77.63[2]	Regulated Facilities-Based Network Costs of Loop and Transmission to Enable Broadband Internet Access
Middle Mile Costs[4]	$6.50	$6.50	Unsupported unregulated network costs for transmission from Broadband Access Service Connection Point and connections to Internet backbone
Other ISP Costs	**$X**[5]	**$X**[5]	Unsupported unregulated non-network costs associated with provision of Broadband Internet Access to consumers (e.g., marketing, help desk)
Total Approximate Consumer Rate for Finished Broadband Internet Access	$47.55 **PLUS** (banded)	$84.13 **PLUS** (banded)	Finished Broadband Internet Access Service

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1 2013 Annual Filing – DSL Voice-Data 1/6 Mbps, Rate band 9,Opt B, 3 Year – Rates for rate bands 1-15 range from $8.98 to $17.80

2 2013 Annual Filing – DSL Data-Only 1/6 Mbps, Rate band 7, Opt B, 3 Year – Rates for rate bands 1-15 range from $46.57 to $93.01

3 Note this is a rate banded total, and that the total benchmark would actually range from $34.98 to $43.80 depending on the rate band (*i.e.*, the relative distance and density of the market).

4 The cost of $6.50 per broadband line is calculated from a $26 weighted average cost per Mbps for Ethernet middle mile (from NECA's 2011 Middle Mile Data collection), multiplying by 4 (for 4 Mbps), and then dividing by 16 (for oversubscription). Although support should be provided for such costs and apparently is included to some degree in the price cap model, such costs are currently unsupported for RLECs.

5 "X" represents the additional unsupported, unregulated non-network costs that the typical ISP would incur to deliver a finished Broadband Internet Access Product to a consumer. Such costs may include sales and marketing functions, help desk operations, etc. While such costs may vary widely based upon company size, size of addressable customer market, and other factors, a typical business' sales and marketing budgets, for example, will each often equal approximately 7% to 8% of revenue.

Data-Only Broadband Support Impact Analysis

Assumes 2.5% Annual Conversion to Data Only Broadband

	Projected 2014	2014 2.5% shift to DOBB	2015 addl 2.5% shift	2016 addl 2.5% shift	2017 addl 2.5% shift	2033 50% DOBB
HCLS	$ 744,854,935	$ 726,233,562	$ 707,612,189	$ 688,990,815	$ 670,369,442	$ 372,427,468
ICLS	$ 876,916,181	$ 854,993,277	$ 833,070,372	$ 811,147,468	$ 789,224,563	$ 438,458,091
DOBB transitioned at 2.5% per year (no QRA)		$ 58,520,645	$ 117,041,290	$ 175,561,935	$ 234,082,580	$ 1,170,412,901
Total Loop Support	$ 1,621,771,117	$ 1,639,747,484	$ 1,657,723,851	$ 1,675,700,218	$ 1,693,676,585	$ 1,981,298,459
CAF ICC Support	$ 346,000,000	$ 346,000,000	$ 359,000,000	$ 369,000,000	$ 347,000,000	$ 178,026,131
Total RoR High Cost Support	$ 1,967,771,117	$ 1,985,747,484	$ 2,016,723,851	$ 2,044,700,218	$ 2,040,676,585	$ 2,159,324,590
Budget Variance @ $2B	$ (32,228,883)	$ (14,252,516)	$ 16,723,851	$ 44,700,218	$ 40,676,585	$ 159,324,590
RoR Portion of Inflation-Adjusted High-Cost USF	**$ 2,000,000,000**	**$ 2,042,600,000**	**$ 2,086,107,380**	**$ 2,130,541,467**	**$ 2,175,922,000**	**$ 3,048,573,245**
GDP-CPI	2.1300%					
Inflation-Adjusted Budget Variance	$ (32,228,883)	$ (56,852,516)	$ (69,383,529)	$ (85,841,249)	$ (135,245,415)	$ (889,248,655)

Data-Only Broadband Support Impact Analysis

Assumes 2.5% Annual Conversion to Data Only Broadband and 1% Annual Line Loss

	Projected 2014	2014 2.5% shift to DOBB	2015 addl 2.5% shift	2016 addl 2.5% shift	2017 addl 2.5% shift	2033 50% DOBB
HCLS	$ 744,854,935	$ 726,233,562	$ 707,612,189	$ 688,990,815	$ 670,369,442	$ 372,427,468
ICLS	$ 876,916,181	$ 864,191,430	$ 845,161,008	$ 825,935,476	$ 806,517,602	$ 471,796,267
DOBB transitioned at 2.5% per year (no QRA)		$ 58,824,718	$ 118,247,924	$ 178,260,604	$ 238,853,338	$ 1,277,821,245
Total Loop Support	$ 1,621,771,117	$ 1,649,249,710	$ 1,671,021,120	$ 1,693,186,895	$ 1,715,740,382	$ 2,122,044,979
CAF ICC Support	$ 346,000,000	$ 346,000,000	$ 359,000,000	$ 369,000,000	$ 347,000,000	$ 178,026,131
Total RoR High Cost Support	$ 1,967,771,117	$ 1,995,249,710	$ 2,030,021,120	$ 2,062,186,895	$ 2,062,740,382	$ 2,300,071,110
Budget Variance @ $2B	$ (32,228,883)	$ (4,750,290)	$ 30,021,120	$ 62,186,895	$ 62,740,382	$ 300,071,110
RoR Portion of Inflation-Adjusted High-Cost USF	**$ 2,000,000,000**	**$ 2,042,600,000**	**$ 2,086,107,380**	**$ 2,130,541,467**	**$ 2,175,922,000**	**$ 3,048,573,245**
GDP-CPI	2.1300%					
Inflation-Adjusted Budget Variance	$ (32,228,883)	$ (47,350,290)	$ (56,086,260)	$ (68,354,572)	$ (113,181,619)	$ (748,502,135)

Data-Only Broadband Support Impact Analysis

Assumes 5% Annual Conversion to Data Only Broadband

	Projected 2014	2014 5% shift to DOBB	2015 addl 5% shift	2016 addl 5% shift	2017 addl 5% shift	2033 100% DOBB
HCLS	$ 744,854,935	$ 707,612,189	$ 668,531,001	$ 631,390,390	$ 594,249,779	$ -
ICLS	$ 876,916,181	$ 833,070,372	$ 786,647,427	$ 742,944,791	$ 699,242,157	$ -
DOBB transitioned at 5% per year (no QRA)		$ 117,041,290	$ 234,082,580	$ 351,123,870	$ 468,165,160	$ 2,340,825,801
Total Loop Support	$ 1,621,771,117	$ 1,657,723,851	$ 1,689,261,008	$ 1,725,459,051	$ 1,761,657,096	$ 2,340,825,801
CAF ICC Support	$ 346,000,000	$ 346,000,000	$ 359,000,000	$ 369,000,000	$ 347,000,000	$ 178,026,131
Total RoR High Cost Support	$ 1,967,771,117	$ 2,003,723,851	$ 2,048,216,008	$ 2,094,459,052	$ 2,108,657,095	$ 2,518,851,932
Budget Variance @ $2B	$ (32,228,883)	$ 3,723,851	$ 48,216,008	$ 94,459,052	$ 108,657,095	$ 518,851,932
RoR Portion of Inflation-Adjusted High-Cost USF	**$ 2,000,000,000**	**$ 2,042,600,000**	**$ 2,086,107,380**	**$ 2,130,541,467**	**$ 2,175,922,000**	**$ 3,048,573,245**
GDP-CPI	2.1300%					
Inflation-Adjusted Budget Variance	$ (32,228,883)	$ (38,876,149)	$ (37,891,372)	$ (36,082,415)	$ (67,264,905)	$ (529,721,313)

Data-Only Broadband Support Impact Analysis

Assumes 5% Annual Conversion to Data Only Broadband with 1% Annual Line Loss

	Projected 2014	2014 5% shift to DOBB	2015 addl 5% shift	2016 addl 5% shift	2017 addl 5% shift	2033 100% DOBB
HCLS	$ 744,854,935	$ 707,612,189	$ 668,531,001	$ 631,390,390	$ 594,249,779	$ -
ICLS	$ 876,916,181	$ 842,032,675	$ 800,678,849	$ 758,967,735	$ 716,904,535	$ -
DOBB transitioned at 5% per year (no QRA)		$ 117,649,436	$ 236,495,847	$ 356,521,208	$ 477,706,677	$ 2,555,642,490
Total Loop Support	$ 1,621,771,117	$ 1,667,294,300	$ 1,705,705,698	$ 1,746,879,333	$ 1,788,860,990	$ 2,555,642,490
CAF ICC Support	$ 346,000,000	$ 346,000,000	$ 359,000,000	$ 369,000,000	$ 347,000,000	$ 178,026,131
Total RoR High Cost Support	$ 1,967,771,117	$ 2,013,294,300	$ 2,064,705,698	$ 2,115,879,333	$ 2,135,860,990	$ 2,733,668,621
Budget Variance @ $2B	$ (32,228,883)	$ 13,294,300	$ 64,705,698	$ 115,879,333	$ 135,860,990	$ 733,668,621
RoR Portion of Inflation-Adjusted High-Cost USF	**$ 2,000,000,000**	**$ 2,042,600,000**	**$ 2,086,107,380**	**$ 2,130,541,467**	**$ 2,175,922,000**	**$ 3,048,573,245**
GDP-CPI	2.1300%					
Inflation-Adjusted Budget Variance	$ (32,228,883)	$ (29,305,700)	$ (21,401,682)	$ (14,662,135)	$ (40,061,010)	$ (314,904,624)

Data-Only Broadband Support Impact Analysis

Assumes 10% Annual Conversion to Data Only Broadband

	Projected 2014	2014 10% shift to DOBB	2015 addl 10% shift	2016 addl 10% shift	2017 addl 10% shift	2023 100% DOBB
HCLS	$ 744,854,935	$ 670,369,442	$ 595,883,948	$ 521,398,455	$ 446,912,961	$ -
ICLS	$ 876,916,181	$ 789,224,563	$ 701,532,945	$ 613,841,327	$ 526,149,709	$ -
DOBB transitioned at 10% per year (no QRA)		$ 234,082,580	$ 468,165,160	$ 702,247,740	$ 936,330,320	$ 2,340,825,801
Total Loop Support	$ 1,621,771,117	$ 1,693,676,585	$ 1,765,582,053	$ 1,837,487,522	$ 1,909,392,990	$ 2,340,825,801
CAF ICC Support	$ 346,000,000	$ 346,000,000	$ 359,000,000	$ 369,000,000	$ 347,000,000	$ 278,000,000
Total RoR High Cost Support	$ 1,967,771,117	$ 2,039,676,585	$ 2,124,582,053	$ 2,206,487,522	$ 2,256,392,990	$ 2,618,825,801
Budget Variance @ $2B	$ (32,228,883)	$ 39,676,585	$ 124,582,053	$ 206,487,522	$ 256,392,990	$ 618,825,801
RoR Portion of Inflation-Adjusted High-Cost USF	**$ 2,000,000,000**	**$ 2,042,600,000**	**$ 2,086,107,380**	**$ 2,130,541,467**	**$ 2,175,922,000**	**$ 2,469,240,063**
GDP-CPI	2.1300%					
Inflation-Adjusted Budget Variance	$ (32,228,883)	$ (2,923,415)	$ 38,474,673	$ 75,946,055	$ 80,470,990	$ 149,585,738

Data-Only Broadband Support Impact Analysis

Assumes 10% Annual Conversion to Data Only Broadband with 1% Line Loss Annually

	Projected 2014	2014 10% shift to DOBB	2015 addl 10% shift	2016 addl 10% shift	2017 addl 10% shift	2023 100% DOBB
HCLS	$ 744,854,935	$ 670,369,442	$ 595,883,948	$ 521,398,455	$ 446,912,961	$ -
ICLS	$ 876,916,181	$ 797,715,166	$ 711,714,533	$ 625,032,252	$ 537,678,401	$ -
DOBB transitioned at 10% per year (no QRA)		$ 235,298,871	$ 472,991,695	$ 713,042,416	$ 955,413,353	$ 2,555,642,490
Total Loop Support	$ 1,621,771,117	$ 1,703,383,479	$ 1,780,590,176	$ 1,859,473,123	$ 1,940,004,715	$ 2,555,642,490
CAF ICC Support	$ 346,000,000	$ 346,000,000	$ 359,000,000	$ 369,000,000	$ 347,000,000	$ 278,000,000
Total RoR High Cost Support	$ 1,967,771,117	$ 2,049,383,479	$ 2,139,590,176	$ 2,228,473,123	$ 2,287,004,715	$ 2,833,642,490
Budget Variance @ $2B	$ (32,228,883)	$ 49,383,479	$ 139,590,176	$ 228,473,123	$ 287,004,715	$ 833,642,490
RoR Portion of Inflation-Adjusted High-Cost USF	**$ 2,000,000,000**	**$ 2,042,600,000**	**$ 2,086,107,380**	**$ 2,130,541,467**	**$ 2,175,922,000**	**$ 2,469,240,063**
GDP-CPI	2.1300%					
Inflation-Adjusted Budget Variance	$ (32,228,883)	$ 6,783,479	$ 53,482,796	$ 97,931,656	$ 111,082,715	$ 364,402,427

NEW CAPITAL BUDGET MECHANISM ("CBM")

- **Goal: Satisfy FCC desire for fiscal responsibility in USF/CAF distribution, while also providing more predictable and transparent budgeting tools to guide RLEC network investment.**
  - Manage future investment-related growth in USF through reasonable, responsible pacing of investments tailored to local conditions and challenges
  - Avoid confusion of changing caps and complex, difficult-to-decipher formulas, while using a trigger, if needed, to identify potential "outliers" whose ability to rely upon USF/CAF to recover future investments may be limited accordingly

- **Simple Four-Step CBM Framework:**
  - **Step 1:** ***Determine Current Loop Investment***
    - Total Loop Investment for each RLEC Study Area, adjusted for inflation
  - **Step 2:** ***Determine Total Allowed Loop Expenditure ("TALE")***
    - Budget for TALE Would be Based Upon Replacement of Depreciated Plant
      - Provides transparent budget for replacement of depreciated plant by each RLEC; precludes support to replace plant that is still used and useful
      - Depreciation is already tracked as part of QRA; should therefore not be difficult to identify what portion of loop plant is depreciated
  - **Step 3:** ***Use a Trigger to Identify Alleged "Outliers" for Possible TALE Adjustment***
    - Identify Perceived "Inefficiencies" and Enable Appropriate Adjustment of TALE for Prospective Investment
      - If a trigger "flags" an alleged "outlier," FCC staff can then examine the nature of that RLEC's loop plant investment for potential adjustment specifically of prospective investment budget
  - **Step 4:** ***Use Final TALE to Establish the Annual CBM Budget for Loop Plant Investment***
    - Simple step would divide each RLEC's TALE (as possibly adjusted in Step 3) by a period of years to establish the "budget" of supported additional investment allowed for each year
    - CBM would thus spread investment efforts over time and link future investment to replacement in each case of old plant
      - RLECs could choose to invest more than CBM budget in any given year, but would do so without USF/CAF support until it fits within TALE.
  - ***Repeat Steps 1 through 4 each year to determine Annual CBM Budget for each RLEC***
    - Provide narrow, constrained exceptions for: (a) very small companies; (b) some provision for routine maintenance and upgrades; (c) greenfield builds; (d) a waiver process (*e.g.*, natural disasters, etc.); and (e) loans/stimulus projects committed prior to rules taking effect.

- **The CBM Strikes an Appropriate and Desirable Balance Between the Need for Fiscal Responsibility and Predictability in USF/CAF Distribution.**
  - The CBM Framework Would Demand Accountability of RLECs, and Give the FCC Tools to Adjust Budgets for Found Inefficiencies in Prior Investment
  - The CBM Framework Would Help Remedy Uncertainty Arising Out of Current Constraint Mechanisms, and Give RLECs Clearer Guidance in Understanding What They Can Do to Deliver Upgraded Broadband-Capable Loop Plant for the Benefit of End Users.

Worksheet to Calculate the Total Loop Investment for Capital Budget Mechanism (CBM)

Determination of Total Loop Plant - Current View at Current Dollars

Company SAC: 000000 **Company Name** ABC Telephone Company

Step 1

	OSP Calculation	COE Calculation	Current Depreciable Life (in years)
1. Original Investment Cost of Current Loop Plant (Data Year Account Value)			
1a. Category 1 {Cable & Wire Facilities} Local Loop Portion	$ -	NA	20
1b. Category 2 {Cable & Wire Wideband} Local Loop Portion	$ -	NA	20
1c. Category 4.1 1 {Circuit Equipment Wideband} Local Loop Portion	NA	$ -	10
1d. Category 4.13 {Circuit Equipment} Local Loop Portion	NA	$ -	10
1e. Total Original Investment Cost of Current Loop Plant (based on data year end account balances) *(enter local loop portion on lines 1a.-1d. above for the Category 1 {Cable & Wire Facilities}, Category 2 {Cable & Wire Wideband}, Category 4.11 {Circuit Equipment Wideband}, and Category 4.13 {Circuit Equipment} from Part 36 of the Cost Study)*	$ -	$ -	
2. Total Accumulated Depreciation on Current Loop Plant (Data Year Account Value)			
2a. Accumulated Depreciation Percentage (Total Accm. Depr. Reserve / Total Investment)			
Total Cable and Wire Facilities Accumulated Depreciation Reserve	$ -	NA	
Total Cable and Wire Facilities Investment	$ -	NA	
2b. Accumulated Depreciation Percentage (Total Accm. Depr. Reserve / Total Investment)			
Total COE Transmission Accumulated Depreciation Reserve	NA	$ -	
Total COE Transmission Investment	NA	$ -	
2c. Total Accumulated Depreciation on Current Loop Plant per Category *(Investment Costs from Lines 1a.-1d. above multiplied by the calculated Accumulated Depreciation Percentages on Lines 2a. And 2b.)*	$ -	$ -	
3. Calculate the Accumulated Depreciation to Current Loop Plant Factor Accumulated Depreciation (Line 2c.) Divided by Total Local Loop Plant (Line 1e.)			
4. Current Depreciable Life on Loop Plant			
5. Calculated Average Age of Plant (Average Year Plant in Service) 2012 - (Years Total Plant has been Depreciated)			
6. GDP-CPI Factor - Based on Est. Year Plant in Service GDP-CPI Factor * : I Table B-7: Chain-type price indexes for gross domestic product, 1964-2012			
7. Total Loop Investment (TLI) Per Category Original Investment Cost of Current Loop Plant (Line 1.) multiplied by the GDP-CPI Factor (Line 6.)			
8. Total Loop Investment (TLI) *(Amount carried over to Company Worksheet)*			

* http://www.gpo.gov/fdsys/granule/ERP-2013/ERP-2013-table7/content-detail.html

Annual Allowed Loop Expenditure for Capital Budget Mechanism (CBM)

Company Worksheet

Company SAC:	000000	**Company Name**	ABC Telephone Company

Step 1 (Carried over from Previous Worksheet)

Calculate the *Total* Loop *Investment (TLI)*

1.	**Total Loop Investment (TLI)**	$ -
	(total cost of loop plant as calculated on Investment Amount worksheet line 8)	

Step 2

Determine the *Total Allowed Loop Expenditure (TALE)*

2a.	**Original Investment Cost of Current Loop Plant**	$ -
	(loop portion of total plant as calculated on Investment Amount Worksheet, Line 1e.)	
2b.	**Total Accumulated Depreciation on Current Loop Plant**	$ -
	(loop portion of total Accumulated Depreciation as calculated on Investment Amount Worksheet, Line 2c.)	
2c.	**Calculate the Loop Depreciation Factor**	
	Total Loop Accumulated Depreciation (Line 2b.) divided by Cost of Current Loop Plant (Line 2a.)	
2d.	**Total Allowed Loop Expenditure (TALE)**	
	Estimated Total Loop Investment (Line 1.) multiplied by Loop Depreciation Factor (Line 2c.)	$ -

Step 3*

Step 4

Determine Current Year Annual Allowed Loop Expenditure (AALE)

4a.	**Calculate AALE Factor**	
	(0.15 * Loop Depreciation Factor + 0.05) ; not to exceed 0.20	
4b.	**Annual Allowed Loop Expenditure (AALE)**	$ -
	Total Loop Investment (Line 1.) multiplied by the AALE Factor (Line 4a.)	
4c.	**Actual/Planned Loop Capital Expenditures**	$ -
4d.	**Accumulated Excess Loop Expenditure (ELE), if any, from prior years**	$ -
4e.	**Supported Loop Expenditures (Current Year)**	
	(Line 4c + 4d) Not to exceed the AALE	
4f.	**Excess Loop Expenditure (ELE) Carry Forward for Future Years**	
	(If (4c + 4d) > 4b then (4c + 4d) - 4b, if (4c + 4d) < 4b then 0)	

Notes: The calculations above do not take in to consideration the adjustments to AALE for expenditures associated with exceptions for (a) very small companies; (b) some provision for routine maintenance and upgrades; (c) greenfield builds; (d) a waiver process (e.g., natural disasters, etc.); and (e) loans/stimulus projects committed prior to rules taking effect.

** Step 3 note: See written summary for details on Step 3 (Trigger to Identify Outliers and Possible TALE Adjustment) of the process. This would be handled outside of these calcuations but taken into account prior to step 4*

Proposal for Allowed Loop Plant Expenditures

CBM Summary of Company Results for Data Year 2012

Company	A	B	C	D
Total Original Loop Investment *(Line 2a of Company Worksheet)*	$ 2,345,985	$ 2,376,118	$ 2,545,434	$ 4,140,651
Total Accumulated Depreciation on Current Loop *(Line 2b of Company Worksheet)*	$ 1,211,253	$ 663,422	$ 460,857	$ 3,560,867
Accumulated Depreciation to Current Loop Factor *(Line 2c of Company Worksheet)*	52%	28%	18%	86%
Total Loop Investment (at current value) *(Line 1 of Company Worksheet) = TLI*	$ 2,868,638	$ 2,580,802	$ 2,677,909	$ 5,994,642
Allowed Future Loop Expenditure *(Line 2d of Company Worksheet) = TALE*	$ 1,481,103	$ 720,571	$ 484,842	$ 5,155,257
Annual Allowed Loop Expenditure for 2013 *(Line 4b of Company Worksheet) = AALE*	$ 365,597	$ 237,126	$ 206,622	$ 1,073,021
2013 Planned Loop Expenditures * *(Line 4c of Company Worksheet)*	$ -	$ -	$ -	$ -
Excess Loop Expenditures Carried Forward (Line 4f of Company Worksheet) = ELE **	$ -	$ -	$ -	$ -

* The amount a company is planning on investing year end 2013. If nothing was planned at projections, it is $0.

** Numbers assume no prior year ELE carried forward. Numbers do not take into consideration any of the exceptions listed as notes on the associated Company Worksheet or New Capital Budget Mechanism (CBM) written summary

Proposal for Allowed Loop Plant Expenditures

CBM Summary of Company Results for Data Year 2012

Company	E	F	G	H
Total Original Loop Investment *(Line 2a of Company Worksheet)*	$ 5,195,128	$ 5,464,662	$ 5,735,791	$ 5,997,327
Total Accumulated Depreciation on Current Loop *(Line 2b of Company Worksheet)*	$ 2,101,009	$ 3,753,868	$ 3,345,948	$ 1,274,661
Accumulated Depreciation to Current Loop Factor *(Line 2c of Company Worksheet)*	40%	69%	58%	21%
Total Loop Investment (at current value) *(Line 1 of Company Worksheet) = TLI*	$ 6,069,498	$ 7,120,667	$ 7,091,792	$ 6,373,911
Allowed Future Loop Expenditure *(Line 2d of Company Worksheet) = TALE*	$ 2,454,621	$ 4,891,435	$ 4,136,965	$ 1,354,699
Annual Allowed Loop Expenditure for 2013 *(Line 4b of Company Worksheet) = AALE*	$ 671,668	$ 1,089,749	$ 975,134	$ 521,900
2013 Planned Loop Expenditures * *(Line 4c of Company Worksheet)*	$ 3,500,000	$ 1,186,250	$ 50,000	$ -
Excess Loop Expenditures Carried Forward (Line 4f of Company Worksheet) = ELE **	$ 2,828,332	$ 96,501	$ -	$ -

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Proposal for Allowed Loop Plant Expenditures

CBM Summary of Company Results for Data Year 2012

Company	I	J	K	L
Total Original Loop Investment *(Line 2a of Company Worksheet)*	$ 6,819,288	$ 6,850,864	$ 8,291,126	$ 8,773,497
Total Accumulated Depreciation on Current Loop *(Line 2b of Company Worksheet)*	$ 3,104,699	$ 2,367,725	$ 6,239,794	$ 2,534,775
Accumulated Depreciation to Current Loop Factor *(Line 2c of Company Worksheet)*	46%	35%	75%	29%
Total Loop Investment (at current value) *(Line 1 of Company Worksheet) = TLI*	$ 8,026,043	$ 7,441,015	$ 11,042,067	$ 9,529,268
Allowed Future Loop Expenditure *(Line 2d of Company Worksheet) = TALE*	$ 3,654,113	$ 2,571,687	$ 8,310,116	$ 2,753,126
Annual Allowed Loop Expenditure for 2013 *(Line 4b of Company Worksheet) = AALE*	$ 949,419	$ 757,804	$ 1,798,621	$ 889,432
2013 Planned Loop Expenditures * *(Line 4c of Company Worksheet)*	$ -	$ -	$ 50,000	$ 112,512
Excess Loop Expenditures Carried Forward (Line 4f of Company Worksheet) = ELE **	$ -	$ -	$ -	$ -

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Proposal for Allowed Loop Plant Expenditures

CBM Summary of Company Results for Data Year 2012

Company	M	N	O	P
Total Original Loop Investment *(Line 2a of Company Worksheet)*	$ 11,653,147	$ 12,225,272	$ 13,132,412	$ 16,440,015
Total Accumulated Depreciation on Current Loop *(Line 2b of Company Worksheet)*	$ 6,666,735	$ 6,864,264	$ 11,155,844	$ 9,398,152
Accumulated Depreciation to Current Loop Factor *(Line 2c of Company Worksheet)*	57%	56%	85%	57%
Total Loop Investment (at current value) *(Line 1 of Company Worksheet) = TLI*	$ 14,632,824	$ 15,039,952	$ 18,003,628	$ 20,038,556
Allowed Future Loop Expenditure *(Line 2d of Company Worksheet) = TALE*	$ 8,371,400	$ 8,444,654	$ 15,293,889	$ 11,455,305
Annual Allowed Loop Expenditure for 2013 *(Line 4b of Company Worksheet) = AALE*	$ 1,987,351	$ 2,018,696	$ 3,194,265	$ 2,720,224
2013 Planned Loop Expenditures * *(Line 4c of Company Worksheet)*	$ 125,000	$ -	$ 80,000	$ 8,255,000
Excess Loop Expenditures Carried Forward (Line 4f of Company Worksheet) = ELE **	$ -	$ -	$ -	$ 5,534,776

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Proposal for Allowed Loop Plant Expenditures

CBM Summary of Company Results for Data Year 2012

Company	Q	R	S	T
Total Original Loop Investment *(Line 2a of Company Worksheet)*	$ 20,854,522	$ 21,311,116	$ 39,810,234	$ 48,866,731
Total Accumulated Depreciation on Current Loop *(Line 2b of Company Worksheet)*	$ 18,540,108	$ 9,706,609	$ 19,340,542	$ 34,759,322
Accumulated Depreciation to Current Loop Factor *(Line 2c of Company Worksheet)*	89%	46%	49%	71%
Total Loop Investment (at current value) *(Line 1 of Company Worksheet) = TLI*	$ 29,784,159	$ 25,140,892	$ 49,458,458	$ 65,830,633
Allowed Future Loop Expenditure *(Line 2d of Company Worksheet) = TALE*	$ 26,478,743	$ 11,450,964	$ 24,027,826	$ 46,825,890
Annual Allowed Loop Expenditure for 2013 *(Line 4b of Company Worksheet) = AALE*	$ 5,461,019	$ 2,974,689	$ 6,077,097	$ 10,315,415
2013 Planned Loop Expenditures * *(Line 4c of Company Worksheet)*	$ 200,000	$ 744,230	$ 1,253,805	$ 4,415,128
Excess Loop Expenditures Carried Forward (Line 4f of Company Worksheet) = ELE **	$ -	$ -	$ -	$ -

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Proposal for Allowed Loop Plant Expenditures

CBM Summary of Company Results for Data Year 2012

Company	U	V	W	X
Total Original Loop Investment *(Line 2a of Company Worksheet)*	$ 50,765,264	$ 58,663,113	$ 63,045,327	$ 73,369,096
Total Accumulated Depreciation on Current Loop *(Line 2b of Company Worksheet)*	$ 32,870,593	$ 26,634,346	$ 29,824,856	$ 47,967,913
Accumulated Depreciation to Current Loop Factor *(Line 2c of Company Worksheet)*	65%	45%	47%	65%
Total Loop Investment (at current value) *(Line 1 of Company Worksheet) = TLI*	$ 72,103,042	$ 67,385,341	$ 73,626,695	$ 111,680,643
Allowed Future Loop Expenditure *(Line 2d of Company Worksheet) = TALE*	$ 46,686,839	$ 30,594,430	$ 33,374,067	$ 73,015,583
Annual Allowed Loop Expenditure for 2013 *(Line 4b of Company Worksheet) = AALE*	$ 10,608,178	$ 7,958,432	$ 8,663,232	$ 16,536,370
2013 Planned Loop Expenditures * *(Line 4c of Company Worksheet)*	$ -	$ 10,030,908	$ 100,000	$ 2,552,951
Excess Loop Expenditures Carried Forward (Line 4f of Company Worksheet) = ELE **	$ -	$ 2,072,476	$ -	$ -

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Proposal for Allowed Loop Plant Expenditures

CBM Summary of Company Results for Data Year 2012

Company	Y	Z
Total Original Loop Investment *(Line 2a of Company Worksheet)*	$ 81,559,103	$ 91,067,410
Total Accumulated Depreciation on Current Loop *(Line 2b of Company Worksheet)*	$ 71,627,387	$ 51,665,624
Accumulated Depreciation to Current Loop Factor *(Line 2c of Company Worksheet)*	88%	57%
Total Loop Investment (at current value) *(Line 1 of Company Worksheet) = TLI*	$ 112,851,279	$ 108,880,287
Allowed Future Loop Expenditure *(Line 2d of Company Worksheet) = TALE*	$ 99,109,014	$ 61,771,473
Annual Allowed Loop Expenditure for 2013 *(Line 4b of Company Worksheet) = AALE*	$ 20,508,916	$ 14,709,735
2013 Planned Loop Expenditures * *(Line 4c of Company Worksheet)*	$ 1,300,000	$ 9,000,000
Excess Loop Expenditures Carried Forward (Line 4f of Company Worksheet) = ELE **	$ -	$ -

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