August 31, 2015

***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

Dear Ms. Dortch:

This letter is submitted into the record of the above-referenced proceeding on behalf of NTCA–The Rural Broadband Association ("NTCA"), ITTA-The Voice of Mid-Size Communications Companies, the United States Telecom Association ("USTelecom"), WTA—Advocates for Rural Broadband ("WTA"), the Eastern Rural Telecom Association, and the National Exchange Carrier Association, Inc. ("NECA").

Certain of the organizations listed above have proposed or otherwise supported a Capital Budget Mechanism ("CBM") aimed at ensuring more equitable and efficient distribution of federal universal service fund ("USF") resources by linking prospective eligibility of capital expenses for USF support to carrier-specific budgets that are premised upon replacement over a series of years of depreciated plant. *See, e.g., Ex Parte* Letter on behalf of NTCA, USTelecom, WTA, NECA, WC Docket No. 10-90, *et al*. (filed Dec. 26, 2013). In an attempt to more fully achieve the above-stated objective of this mechanism and to better serve as well the principles of reform articulated by the Federal Communications Commission (the "Commission") in June 2014, *see Connect America Fund, et al*., WC Docket No. 10-90, *et al*., Report and Order, *et al*., (rel. June 10, 2014), at ¶ 269, the organizations listed above now suggest a way in which the CBM could be modified to ensure that a greater proportion of USF resources are directed not only toward areas in which network plant is depreciated, but also toward locations where consumers are lacking access to the then-current speed thresholds established by the Commission for universal service.

The specific proposal would not require material or complex changes to the CBM. Rather, the associations propose a simple adjustment to the Annual Allowed Loop Expenditure ("AALE") – essentially, each carrier's specific annual budget under the CBM proposal for eligible USF capital expenses – based upon that company's broadband availability (at then-current supported speeds). More specifically, the associations would propose a simple three-step process to: (1) determine a target broadband availability for all companies based on the national average broadband availability for all rural, rate-of-return carriers using Form 477 data; (2) calculate the difference between each company's actual broadband availability (again using Form 477 data) and the target

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broadband availability; and (3) increase or reduce the company's AALE based upon the result of that calculation. Specifically, we propose that for every percentage point that the company's broadband availability exceeds from the target national broadband availability, that company's AALE would be reduced by a half of a percentage. Likewise, if that company's broadband availability is below the target national broadband availability, its annual "budget" for USF-eligible investment would be increased by a half of a percentage point for every percentage point of difference.

To provide several examples of how this adjustment would help ensure USF resources flow to areas where more broadband is needed:

- If a company had 40% broadband availability (defined at then-current Commission speed standards) but the national target broadband availability were (for sake of these examples) 60%, that company's AALE would be *increased* by 10% (60% minus 40%, divided by 2). Thus, if that company had a $1 Million AALE, its "annual budget" for eligible investment would be increased to $1.1 Million.

- If a company had 10% broadband availability (defined at then-current Commission speed standards) but the national target broadband availability were 60%, that company's AALE would be *increased* by 25% (60% minus 10%, divided by 2). Thus, if that company had a $1 Million AALE, its "annual budget" for eligible investment would be increased to $1.25 Million.

- If a company had 90% broadband availability (defined at then-current Commission speed standards) but the national target broadband availability were 60%, that company's AALE would be *reduced* by 15% (60% minus 90%, divided by 2). Thus, if that company had a $1 Million AALE, its "annual budget" for eligible investment would be reduced to $850,000.

Such an adjustment to the original CBM proposal would, in short, help ensure that even as prospective company-specific budgets may in the first instance be developed based upon the premise of replacing aged plant, those budgets will be adjusted upward in areas where broadband is lacking and downward in areas where broadband has already been deployed. Such an approach, which will capture study-area specific states of deployment and drive distribution of USF support to those areas more in need of broadband access, will help to satisfy one of the Commission's key objectives of reform. Our analysis shows that this "availability adjustment" will have the desired effect of reasonably increasing annual "budgets" for prospective USF-eligible investment for companies with broadband availability that is lower than the national average while reasonably reducing the annual "budgets" for companies with broadband availability higher than the national average.

As one final clarification, the CBM is *not* intended to provide – and will not operate by itself as – an overall control on USF budgets. Rather, it is intended to serve as a means of determining, within a budget that is "fixed" by other means, how that budget is to then be apportioned among carriers in terms of supporting eligible investment. Several of the organizations listed above have separately proposed a mechanism that could work with any updates to existing mechanisms in serving to keep USF budgets at then-current Commission target levels. *See Ex Parte* Letter on behalf of NTCA, WTA, and NECA, WC Docket No. 10-90 (filed April 21, 2015), at Proposed Rules, p. 3. The CBM could and would work in concert with this "budget control" component, but would not itself "control" the overall budget.

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