

**Before the
Federal Communications Commission
Washington, D.C. 20554**

| | | |
|---|---|----------------------|
| In the Matter of: |) | |
| |) | |
| Connect America Fund |) | WC Docket No. 10-90 |
| |) | |
| A National Broadband Plan for Our Future |) | GN Docket No. 09-51 |
| |) | |
| Establishing Just and Reasonable Rules for Local Exchange Carriers |) | WC Docket No. 07-135 |
| |) | |
| High-Cost Universal Service Support |) | WC Docket No. 05-337 |
| |) | |
| Developing an Unified Intercarrier Compensation Regime |) | CC Docket No. 01-92 |
| |) | |
| Federal-State Joint Board on Universal Service |) | CC Docket No. 96-45 |
| |) | |
| Lifeline and Link-Up |) | WC Docket No. 03-109 |

**FURTHER INQUIRY INTO CERTAIN ISSUES IN THE UNIVERSAL SERVICE
INTERCARRIER COMPENSATION TRANSFORMATION PROCEEDING**

**COMMENTS OF
ALEXICON TELECOMMUNICATIONS CONSULTING**

Alexicon Telecommunications Consulting (“Alexicon”) hereby submits its Comments in response to the Federal Communications Commission (“FCC” or “Commission”) Notice of Further Inquiry¹ (“Notice” or “Inquiry”), for which Comments are due August 24, 2011. In this Inquiry, the Commission seeks comment on certain proposals filed in the record².

¹ Released August 3, 2011.

² Comments by the State Members of the Federal-State Joint Board on Universal Service, WC Docket No. 10-90 et al. (filed May 2, 2011) (State Member Comments); Comments of NECA, NTCA, OPASTCO, and WTA, WC Docket No. 10-90 et al. (filed May 2, 2011) (RLEC Plan); Letter from Robert W. Quinn, Jr., AT&T, Steve Davis,

GENERAL

Alexicon provides a range of professional management, financial and regulatory services to a variety of small rate-of-return (RoR) Incumbent Local Exchange Carriers (“ILECs”)³ who serve diverse geographical areas characterized by rural, insular or Native American Tribal Lands. These ILECs, similar to most other small RoR regulated ILEC’s, currently provide a wide range of technologically advanced services to their customers. In addition, through participation in various State and Federal high cost funding programs, and with their continued investment in network infrastructure, these small ILECs are providing customers in rural, insular and Tribal lands with services equal to or greater than urban areas, and at comparable pricing. These ILECs are committed to providing their customers with innovative solutions, by adapting technologies that fit rural America, including Broadband and IP-enabled services. The stated and implied purposes of, and the issues raised in, the NPRM and the Comments to this proceeding are of critical importance to our clients who are all highly dependent upon Universal Service Funding to recover the higher cost of providing services to their customers.

Alexicon’s clients range in geographic size from single wire-center companies to larger providers with multiple wire-centers. All of Alexicon’s clients are dependent upon the flow of funds from the Federal High-Cost Universal Service Fund (“USF”) to assist in serving their rural customers at reasonable rates for local exchange and access services. Most of Alexicon’s client companies are also contributors to the USF fund.⁴ All provide their consumers with an assortment of modern telecommunications services, including (but not limited to) voice, wireless, broadband and Internet access availability. These companies generate a large part of their revenues from Intercarrier charges, mostly in connection with switched access and special access charges paid by interconnecting carriers. These charges are classified as either interstate (usually rates charged based upon individual tariffs or as filed by the National Exchange Carrier Association (“NECA”)), or intrastate (rates based upon various state-specific tariff(s)) in nature.

As a macro note to these comments, Alexicon firmly believes it has the best solution for the industry by way of a plan we introduced in March 2011. Over the past several months, Alexicon has been involved

CenturyLink, Michael T. Skrivan, FairPoint, Kathleen Q. Abernathy, Frontier, Kathleen Grillo, Verizon, and Michael D. Rhoda, Windstream, to Marlene H. Dortch, FCC, WC Docket No. 10-90 et al. (filed July 29, 2011) (ABC Plan). *See also* Letter from Walter B. McCormick, Jr., United States Telecom Association, Robert W. Quinn, Jr., AT&T, Melissa Newman, CenturyLink, Michael T. Skrivan, FairPoint, Kathleen Q. Abernathy, Frontier, Kathleen Grillo, Verizon, Michael D. Rhoda, Windstream, Shirley Bloomfield, NTCA, John Rose, OPASTCO, and Kelly Worthington, WTA, to Chairman Julius Genachowski, Commissioner Michael J. Copps, Commissioner Robert M. McDowell, Commissioner Mignon Clyburn, FCC, WC Docket No. 10-90 et al. (filed July 29, 2011) (Joint Letter).

³ As defined by the Telecommunications Act of 1996 (“ACT”)

⁴ Consistent with Section 254 (d), 47 U.S.C. 151, with the exception of any ILEC whose contribution(s) qualifies for the *de minimus* exemption.

in a number of ex parte proceedings with the Commission and Bureau staff to emphasize our model, which clearly provides for the most comprehensive (and fair) solution to RoR, Wireless, and Price Cap reforms. We will go into our model and associated solutions further in these comments.

COMMENTS

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INTRODUCTION

All of Alexicon's clients meet the definition of being a "small business within the commercial census category of Wired Telecommunications Carriers."⁵ Because our clients are small and rural in nature, they would without exception be strongly impacted by the proposals presented. While Alexicon applauds the effort of the industry members and this Commission in presenting methods of implementing comprehensive reforms of both the Universal Service Fund (USF) and Intercarrier Compensation (ICC), there are significant elements of concern with the proposals which we feel compelled to note.

The proposals represent a great deal of progress towards viable restructuring of the USF into a new Connect America Fund (CAF) for both Price Cap and RoR carriers but also contain certain elements which are unproven or even detrimental to the very existence of the fund. The proposals discuss removing voice from the fund as a supported service⁶, yet voice services remain the primary basis for fund revenues and the benchmark from which revenues are generated or imputed.

Significantly, the ABC plan offers a reverse procurement auction resolution but is contingent on a significant and substantial change in the current regulatory structure: removal of the obligations to serve ("POLR" or "COLR"). When given the opportunity, any unsubsidized company will logically serve only profitable markets, which offers little hope for Americans living in high cost rural, insular or Native American Tribal Lands. This issue cannot be ignored. While the arguments are well presented, it is unclear that the relief sought will in any way enhance the provision of service within the currently underserved areas of these carriers. It is counterintuitive that the removal of an obligation to provide service would somehow increase the deployment of said service. Section 214(e)(4) of the Act⁷ provides guidance for how a carrier may relinquish the ETC designation⁸.

It is not clear what purpose would be served by removing references to rural and non-rural carriers in the rules, and, even more problematic, there are implications well beyond universal service, particularly in Section 251(f)⁹. There are and have been two separate approaches for determining support based on

⁵ 13 CFR § 121.201, North American Industry Classification System ("NAICS") code 517110

⁶ ABC Plan at 3, RLEC plan at 33

⁷ 47 USC § 214(e)(4).

⁸ See 47 CFR § 54.205 RELINQUISHMENT OF UNIVERSAL SERVICE

⁹ See 47 USC § 251(f) Suspensions and modifications for rural carriers

whether a carrier is subject to price cap or RoR regulation. Further refinement of the price cap methods seems sensible, but should not—because it cannot-- change the definitions in the Act¹⁰.

I. Universal Service

A. Mobility Fund

Alexicon continues to support the concept of a separate Mobility Fund that recognizes that Mobile Broadband and Fixed Broadband are both necessary and not mutually exclusive. As with any budget development process, we urge the Commission to consider carefully not just the ‘cost’ elements of the budget, but the ‘revenue’ portion as well. Whatever model the Commission may develop for the Mobility Fund, it likely will bear little resemblance to either RoR or Price Cap as many, if not most, of the business metrics for a Mobile provider are quite different from a Fixed provider. These include considerations for mobility itself, roaming, spectrum allocations and reuse, among others. Furthermore, in the Alexicon Plan referenced later in these comments, Alexicon has set aside \$500M for wireless providers, as opposed to \$300M stated in the NPRM, ABC Plan, and other comments.

B. Elimination of Rural and Non-Rural Distinctions

While modifying Price Cap models may be long overdue, refining the models to incorporate the rural nature of portions of the carrier’s service territory is not the same as changing the definitions of the carriers themselves. Congress clearly recognized this when they placed unambiguous definitions of what constituted a Rural Telephone Company¹¹. These distinctions are carried throughout the Act in recognizing the economies of scale realized by the larger carriers governed under Price Cap regulations. While the Commission can modify the rules associated with non-rural carriers’ Universal Support mechanisms, removal of the distinction between rural and non-rural carriers as specifically expressed by Congress goes beyond this.

C. CAF Funding

1. ETC Requirements

Eligible Telecommunications Carrier designations are not merely ‘agreements’ to provide service; Congress has mandated ETC designations in order to both provide service and to receive Universal Service Support. Renaming the existing Universal Support Fund to Connect America Fund will not,

¹⁰ See 47 USC § 153(37)

¹¹ Id

indeed cannot, change this statutory requirement. Congress was clear in its intent when it enacted the Telecommunications Act that a common carrier must be designated by a State as an eligible telecommunications carrier¹². The obvious result of allowing a carrier to decline this designation would be a need to test the authority granted under section 214(e)(3)¹³, which, as the Commission has previously noted¹⁴, has never previously been invoked.

The ‘Price Cap Legal Paper’¹⁵ discusses how certain requirements of Section 254 have been interpreted by some States to require ‘legacy’ services to be made available. However, there is neither reference to the 47 USC § 214 requirements of common carriers nor how to account for the significant requirements of 47 CFR Parts 36 and 64 that would be impacted by the implementation of the recommendations in the ABC Plan.

The NOI¹⁶ asked what other changes might be needed in the regulations in order to implement the proposal allowing the use of ‘any technology’ as proposed in the ABC Plan and the current NPRM. It is Alexicon’s contention that no changes are needed, as 47 CFR § 54.201(h) already explicitly requires States to designate an ETC ‘irrespective of the technology used by such carrier.’¹⁷

D. Reforms for RoR Carriers

1. “The Alexicon Plan”

In March 2011, Alexicon first introduced a reform plan that would solve a number of issues.¹⁸ Since that time, at the request of Commissioner Legal Advisors and both USF & ICC Bureau members, Alexicon has continued to modify, update, and improve our model to provide a solution that is comprehensive in nature.¹⁹ In summary, “The Alexicon Plan” does the following:

- Modernizes USF and ICC Mechanisms
- Creates incentives for small RoR carriers to deploy broadband
- Modernizes USF and ICC rules to advance IP technology
- Provides efficiency within the USF system

¹² 47 USC § 214(e)(1) and 47 USC 214(e)(2)

¹³ 47 USC § 214(e)(3) providing for the State or the FCC to designate a carrier and order them to provide service.

¹⁴ *Connect America Fund*, WC Docket No. 10-90, *A National Broadband Plan for Our Future*, GN Docket No. 09-51, *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135, *High-Cost Universal Service Support*, WC Docket No. 05-337, *Developing an Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Lifeline and Link-Up*, WC Docket No. 03-109, Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, FCC 11-13 (rel. Feb. 9, 2011), ft. 151

¹⁵ Legal Authority White Paper, filed as Attachment to ‘ABC Plan’ in WC Docket 10-90, July 29, 2011

¹⁶ NOI at 5

¹⁷ 47 CFR § 54.201(h)

¹⁸ Alexicon ex parte filed by Greenberg Traurig, presented March 25th, 2011 to members of Wireline Competition Bureau

¹⁹ Alexicon ex parte’s filed by Greenberg Traurig, presented May 9, 2001; May 26, 2011; and letter filed June 23, 2011

- Sets aside \$500M in USF funding for Mobile carriers
- Sets aside \$750M in USF funding for Non-Rural carriers
- Accomplishes these goals in a manner that is consistent with current rulemaking and broadband-centric USF algorithms
- Removes regulatory arbitrage opportunities that lead to phantom traffic and improper access stimulation
- Enacts reforms that enact the fundamental shifts in technology, consumer behavior, and competition
- Does the above with a \$4.882B budget, which Alexicon believes will: provide specific, predictable, and sufficient funding; provide reasonable comparability to urban rates; and allow for consumer affordability in accordance with Sections 254(b)(5); 254(b)(3); and Section 254(b)(1) of the Act.

The overriding factor that sets “The Alexicon Plan” apart from any other plan under consideration is what we believe the Commission has wanted from the beginning of this proceeding: a comprehensive plan that addresses all aspects of current telecommunications providers. That we are aware of, none of the current plans up for comment in this further inquiry (with the exception of the Rural Broadband Alliance, which does provide for stability and a common sense transition) provide a solution except for their own agenda and constituencies. In particular, Alexicon’s solution for non-rural/price cap carriers clearly defines why those particular companies should not only retain \$2.2B (per their “CQBAT” model), but instead should receive approximately 34% of this amount, or at a maximum \$750M. Alexicon invites the Commission to review, process, and see how The Alexicon Plan indeed provides a comprehensive basis from which to provide ubiquitous broadband deployment under the auspices of the National Broadband Plan. (The Alexicon Plan is filed as Exhibit D to these comments)

2. Corporate Operations Expense Limitation Formula

Alexicon generally supports the idea of applying a similar corporate operations expense cap to interstate common line support and local switching support that is currently applied to high cost loop support with the following caveat: the clear intent of the Commission in the First Order on Reconsideration was to acknowledge that access lines would be increasing, *not decreasing*, as follows:

- In the First Order on Reconsideration, the Commission “expected that applying the formula would provide carriers with a total recoverable amount of support for corporate operating expenses that increases with the number of access lines or working loops...”²⁰
- “We conclude that these modifications will result in total recoverable support amounts that increase proportionally with the number of working loops.”²¹
- “These modifications do not reduce the amount of corporate operations expenses carriers can recover through the support mechanisms for high loop costs. The formulae continue to reflect our recognition that small study areas may experience greater amounts of corporate operations expense per working loop than large study areas.”²²

Given the above, and in the interest of both fairness and recognizing that small carriers lack economies of scale that the Commission recognized in 1997, Alexicon recommends that the thresholds presented in this Further Inquiry be applied to “connections” instead of “access lines/working loops” as it is clear access lines/working loops are significantly declining industry-wide.

3. Eliminating Support for Areas with an Unsubsidized Competitor

The concept of ‘unsubsidized’ competitor is limited in that it refers to ‘not receiving Universal Service funds’. While competitors in rural areas may operate without USF support, they may also operate without obligations or regulatory oversight, making it impossible to ensure that the competitor will continue to operate in the same fashion in the absence of a regulated carrier. The fact that a competitor may make a business decision to operate without USF and without the regulatory requirements inherent in obtaining access to such support should not penalize the ILEC that has taken on the burdens associated with such support, including State COLR obligations. The current rules provide for a competitor wishing to operate on an equal footing with an existing ILEC to make application for ETC status with the State commission where they operate.

The Jt. Board/State Members plan offers the ‘donut and hole’ concept, which is akin to a ‘reverse’ safety net additive in that new investment in the “hole” would not be allowed into the rate base for purposes of receiving Universal Service support. This concept does not address or mitigate the risk associated with a non-regulated carrier operating without service obligations.

²⁰ First Order on Reconsideration, FCC 97-246, rel July 10, 1997, para 19

²¹ Ibid, para 20

²² Ibid, para 22

E. Ensuring Consumer Equity

Total Company Earnings Review

As Alexicon has noted in prior comments, there are several legal precedents recognizing that non-regulated revenues, or even regulated revenues attributed to a separate jurisdiction, may not be used to subsidize a given jurisdiction²³. The concept of using a ‘Total Company Earnings Review’ to limit the earning potential of a carrier’s non-regulated lines of business would result in regulation of the total business by proxy. The current rules provide numerous protections intended to prevent regulated activities from subsidizing non-regulated activities²⁴. Lastly, using a total company earnings review to limit the earnings potential of a given carrier could provide perverse incentives for that carrier to discontinue business segments that are not profitable in the spirit of obtaining additional CAF funding, thus lending to a “gaming the system” mentality, which is contrary to what the Commission is hoping to accomplish.

F. Tribal Considerations for CAF

It is widely known that Native American groups and those serving Tribal lands have some of the greatest economic challenges, and specifically telecommunications-related challenges, of any service provider in the United States. This is not only evident in the pure number of customers on Tribal lands that are eligible for Lifeline support, but also the Commission has dedicated significant resources to address these challenges and recognize the economic hardships on Tribal lands.²⁵ Alexicon supports the need for the Commission to recognize the unique circumstances in Indian country and consider a different approach to address those circumstances, but cannot see that either reducing or freezing support at current levels²⁶ in areas that are currently underserved by even basic voice service can increase deployment of newer broadband services in Tribal and insular areas. We believe these Tribal entities indeed need additional funding in order to allow their customers to have a level playing field with the rest of the industry. Alexicon’s position is that the Commission provide a “carve out” for Tribal ILECs. As stated in our previous comments, this could be: a) in the form of a default Times Interest Earned Ratio (TIER) benchmark default whereby Tribal carriers that fall below this benchmark would automatically be provided additional funding assuming other criteria are met; or b) possibly in the form of additional Safety Net Additive funding, a current USF funding mechanism that could be set aside in recognition of

²³ Smith V. Illinois Bell Telephone Co., 282 U. S. 133, FPC V. United Gas Pipe Line Co., 386 U. S. 237, Michigan Bell Tel. Co. v. Engler, 257 F.3d 587, 594 (6th Cir. 2001).

²⁴ See 47 CFR § 64 Subpart I – Allocation of Costs

²⁵ Establishment of Office of Native Affairs and Policy, August 2010

²⁶ Letter from Christopher Nierman, GCI, to Marlene H. Dortch, FCC, WC Docket No. 10-90 et al. (filed Aug. 1, 2011).

necessary plant deployment in some of the most under-served and economically-challenged areas in the country.

G. Implementing Reform within a Defined Budget

The goal of implementing a budget system to control costs, while laudable, is somewhat impractical in the current dynamic and rapidly changing environment. There are several significant rule changes concurrently presented in the plans, as well as the NPRM. The country is also currently experiencing the greatest economic upheavals since the Great Depression. These changes have not yet been fully defined, much less implemented, and while there is much in the record on the impacts on the fund from a potential cost impact, there is much less information regarding the impact on revenues of the fund itself. The Commission itself asks how it can ensure that savings realized by carriers will be passed on to consumers. Savings realized by consumers is a desirable economic outcome, but may have the effect of further reducing the revenue base that is assessed Universal Service fees (or Connect America fees).

Moreover, the shift from a TDM based voice network to a broadband-based packet network proposed in the NBP, the NPRM, and the industry proposals in the NOI is destined to erode the currently defined telecommunications services that are the revenue base for the fund itself. To implement only the cost side of a budget, without defining the source of revenues to pay those costs, is an exercise doomed to fail.

We again encourage the Commission to examine, and if necessary expand, the revenue base that pays for universal service.

II. Intercarrier Compensation

A. Utilizing Alexicon's 'MAG Shift' proposal will provide a comprehensive solution for interstate and intrastate cost and rate rebalancing

Alexicon has previously proposed a method of accounting for broadband enabled plant investments that complies with the existing rules and recognizes the increased interstate nature of broadband services. This solution is clearly defined and outlined in the attached appendices. To recap, The Alexicon Plan proposes the following in the interest of addressing ICC reforms:

- One part of our plan proposes to increase the current Subscriber Plant Factor from 25% to 33.33%. This is in recognition that the interstate portion of common line usage will inherently

carry more broadband-related traffic while simultaneously reducing the cost that states will need to rebalance;

- Another part of our plan solves a number of issues associated with phantom traffic and improper access stimulation;
- Another part of our plan provides a solution in recognizing: differing rates; arbitrage; minute-of-use measurements; VoIP access assessments; reciprocal compensation; and varying treatments of different technologies.

With The Alexicon Plan, we propose to redistribute interstate switched access revenue requirements to interstate common line support. While in our ex parte's we proposed that a rate for all switched access traffic could ultimately be \$0 for RoR carriers, we also note that our model is flexible and can incorporate any "end game" access rate via an addendum to the current "MAG Shift". In other words, should the Commission opt to transition to an access rate of, for example, one cent or two cents, Alexicon's model can easily accommodate the transition into our modified MAG Shift calculation. Our model is premised off of cost recovery but also incorporates a 'per unit' measurement times a rate. With a zero access rate, offset with cost recovery for RoR carriers and other carriers eligible to receive CAF monies, the issues stated above are mitigated.

Please see attached "Exhibit C" for an example of the modified MAG Shift necessary to incorporate a downward transition to access rates.

B. End-user recovery and SLC increases for RoR Carriers

The proposal contained in the NOI²⁷ offers promise in recognizing the potentially extreme impact on rates that reducing ICC would have on the smaller carriers operating under RoR. Further, as both plans propose that VoIP originated or terminated traffic be recognized as using the PSTN, there would be a downward pressure on the uncompensated utilization of the network that exists today.

It should also be noted that while the smaller line counts of RoR carriers limits the revenue recovery opportunity offered by SLC increases in both absolute dollars and as a percentage of revenue requirements, the same holds true of direct end-user charges. There is a tremendous amount of information in the record to show that it is not feasible for small carriers to recover all current ICC revenues directly from their end-users. Also, as noted above, the Commission's own goal is to ensure that

²⁷ NOI at 4

these cost savings recognized by the larger carriers are passed onto consumers which will cause downward pressure on rates, as it is the urban rates that set the standard²⁸.

C. VoIP

1. Implementation of VoIP ICC

The proposals before the Commission recognize that interconnected VoIP calls use the PSTN like any other call. At a minimum we again urge the Commission to also recognize this and classify VoIP as telecommunications service and as such subject to Intercarrier Compensation. This would not prevent VoIP providers from making the same business decisions as any other exchange or interexchange carrier in determining if they wish to interconnect directly or indirectly with any given common carrier, and the Commission has already clarified that all carriers have an interconnection obligation under §251(a) and (b) of the Act²⁹.

2. Call Signaling and One Way VoIP providers

A one-way VoIP provider is acquiring service provided by a carrier to access the PSTN and should be subject to the same rules as any other access traffic. The one-way VoIP provider is functionally equivalent to a call center type customer. These customers acquire service from a carrier, and may even use more than one carrier. The question should not be ‘what do we do about those calls?’ rather the question should be ‘why are we routing nonconforming calls to the PSTN?’ The contention that these calls can somehow mysteriously terminate to a PSTN carrier directly contradicts the assertion that these calls can be an information service, as the protocol translation service must be performed by a carrier in the call path. In order for a non-interconnected VoIP provider to route and terminate a call to the PSTN, by definition there must be an interconnected VoIP provider involved to provide the interconnection to the PSTN. The business arrangement these carriers make to allow the call to complete should not impact the nature of the IP to PSTN interconnection as it is entirely within their control to route the nonconforming call or not. The interconnecting carrier should absolutely be required to utilize industry standards when accessing the PSTN. It is telling that Level 3 suggests that such standards not be applied ‘simply to satisfy a rule aimed at curbing abusive phantom traffic’³⁰. Clearly allowing traffic to enter the PSTN without a billing number is inviting arbitrage, and there does not appear to be evidence that this problem would grow without the direct actions of interconnected carriers.

²⁸ 47 CFR 254(b)(3)

²⁹ Declaratory Ruling WC Docket 10-143, Adopted May 25, 2011, Released May 26, 2011

³⁰ Level 3 Comments at 10

While we believe it may be necessary to address 'pure' VoIP' traffic exchange as more VoIP penetration among regulated carriers grows, that traffic is not interconnected.

III. SLC Reforms for Non-Rural and Price Cap Carriers

Alexicon would like to draw the Commission's attention to some simple mathematical statistics that we believe will bring a significant amount of light to the filed ABC plan. One will note that the ABC plan, while estimating the monetary impact their plan will have on the "Transitional Access Replacement Mechanism", does not effectuate this same exercise for their proposed increase in SLC charges. Alexicon would like to note the following (as depicted on Page 1 in Exhibit E) for the Commission's review:

- Current access lines counts for the six companies that have signed onto the ABC plan equate to approximately 93,000,000
- Assuming a 10% annual line loss for the combined group, by July 1, 2016 these companies will have about 61,000,000 access lines
- If one applies their "Receives Support from the Transitional Access Replacement Mechanism" component to annual SLC increases at \$.50/line/month, this combined group of six companies will have booked an additional \$6.3B in SLC revenues over the next five years
- If one applies their "Does Not Receive Support from the Transitional Access Replacement Mechanism" component to annual SLC increases at \$.75/line/month, this combined group of six companies will have booked an additional \$9.5B in SLC revenues over the next five years

Alexicon would like to note that these are only six companies...companies such as ACS; Pacific Bell; Citizens; and dozens of other mid-sized to large carriers will also benefit significantly from the SLC increases while RoR carriers will struggle to maintain networks using the support monies "set aside" for these small carriers as a result of the "consensus" deal. While the above numbers may not be precisely correct, they clearly paint the picture for how non-rural/price cap carriers will benefit far greater than RoR carriers serving the highest cost areas in the nation, the intent of which contradicts Congress' mandates per Section 254.

Alexicon would like to further draw the Commission's attention to Page 2 of attached Exhibit E:

- Current access line counts for Rural carriers are approximately 21,000,000. Please keep in mind that, according to data summarized on USAC's website (as of June 2011), "rural" carriers whose line counts are included in the above total are such companies as ACS; GCI; [large and small]

wireless entities; CenturyTel; Alltel; Frontier; Verizon; Pacific Bell; Qwest; Citizens; Windstream; Embarq; Centel; and others.

- Using the same assumptions as Non-Rural/Price Cap stated above, “rural” carriers will receive between \$1.4B and \$2.2B in total over the next five years.

As it’s likely that the largest “rural” carriers comprise the majority of the access lines in this second analysis (i.e. 50% or more), the smallest rural carriers clearly do not have the economies of scale to reap SLC revenue increases that will sustain their ability to build and maintain broadband networks. Conversely, per the above Non-Rural/Price Cap analysis, mid-sized and large carriers do have the economies of scale to build out networks in their rural serving areas using SLC-generated revenues.

The ABC Plan suggests it needs \$2.2B annually in CAF monies. Alexicon’s recommendation, per the analysis contained in Exhibit E, is that this funding level will generally be available in year three or four (i.e. by 2014 or 2015). Coupled with the fact that the ABC Plan idealizes deferment of CAF funding for study areas served by particular price cap companies³¹, it further makes sense that SLC revenues by themselves will provide sufficient funding to cover these carrier’s needs. With this being said, The Alexicon Plan still sets aside \$750M annually for these carriers.

Conclusion

Alexicon appreciates the hard work necessary to arrive at the proposals presented and commends the Commission, Staff, and industry participants on tremendous progress towards workable reform. As noted in these and past comments, it is Alexicon’s position that it is possible to accomplish meaningful reform while neither risking the existing rural telecommunications networks nor removing the obligations that have served the rural consumer thus far.

We continue to encourage the Commission to expand the scope of reform to account for not just cost but also for revenue as a proper budget process must account for both.

Respectfully submitted,

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³¹ Further Inquiry Public Notice, Page 9, Part “H”

Alexicon USF/ICC Recovery Model

ABC Telecommunications

FCC Further Inquiry - Comments Due 8-24-11

PART 69-ADJUSTED

Schedule: Alt NECA Pool

EXHIBIT C

| (a) | (b) | (c) | (d) | COMMON LINE | | | SWITCHED ACCESS | | | | | SPECIAL | | (n) | (o) | (p) |
|------|---|----------|---------------|--------------|---------------------|---------------------|-----------------|-----------------|-------------|------------------|-----------------|--------------|-----------|---------------|------------|-----|
| | | | | (e) | (f) | (g) | (h) | (i) | (j) | (k) | (l) | (m) | | | | |
| Line | Account/Category | Source | Company Total | Interstate | Carrier Common Line | Base Factor Portion | Eq Acc | Local Switching | Information | Tandem Switching | Other Transport | Spcl Acc | B&C | Interexchange | Other | |
| 1 | | | | | | | | | | | | | | | | |
| 2 | Rate Base | P69 (2) | \$ 9,616,046 | \$ 4,007,741 | \$ - | \$ 1,595,278 | \$ - | \$ 516,835 | \$ - | \$ - | \$ 133,025 | \$ 1,762,603 | \$ - | \$ - | \$ - | |
| 3 | Rate of Return | P69 (3) | 10.52% | 11.25% | 11.25% | 11.25% | 11.25% | 11.25% | 11.25% | 11.25% | 11.25% | 11.25% | 11.25% | 11.25% | 11.25% | |
| 4 | Return on Rate Base | | \$ 1,011,701 | \$ 450,871 | \$ - | \$ 179,469 | \$ - | \$ 58,144 | \$ - | \$ - | \$ 14,965 | \$ 198,293 | \$ - | \$ - | \$ - | |
| 5 | | | | | | | | | | | | | | | | |
| 6 | Allowance for Funds Used During Constr | P69 (9) | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| 7 | | | | | | | | | | | | | | | | |
| 8 | Net Return on Rate Base | | \$ 1,011,701 | \$ 450,871 | \$ - | \$ 179,469 | \$ - | \$ 58,144 | \$ - | \$ - | \$ 14,965 | \$ 198,293 | \$ - | \$ - | \$ - | |
| 9 | | | | | | | | | | | | | | | | |
| 10 | Return on Rate Base, less AFUDC | P69 (13) | 1,011,701 | 450,871 | - | 179,469 | - | 58,144 | - | - | 14,965 | 198,293 | - | - | - | |
| 11 | Operating Expenses | P69 (14) | 6,360,242 | 3,409,950 | - | 889,318 | - | 1,602,824 | 608 | - | 112,296 | 782,355 | 22,550 | - | - | |
| 12 | Federal Income Taxes | P69 (15) | 480,578 | 215,418 | - | 87,810 | - | 25,054 | - | - | 6,941 | 95,614 | - | - | - | |
| 13 | State Income Taxes | P69 (16) | 112,131 | 50,263 | - | 20,488 | - | 5,846 | - | - | 1,619 | 22,309 | - | - | - | |
| 14 | Line Port Shift Adjustment | 27 | - | - | - | 214,075 | - | (214,075) | - | - | - | - | - | - | - | |
| 15 | Net Allocation of TIC Revenues | 34 | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| 16 | ICC Revenue Offset Adjustment | 39 | - | - | - | - | - | (1) | (0) | - | (0) | - | - | - | 1 | |
| 17 | ICC Reform Shift Adjustment | 46 | - | - | - | 1,608,386 | - | (1,472,450) | (606) | - | (135,330) | - | - | - | - | |
| 18 | Broadband HCL Recovery Adjustment | Bbd HCL | - | - | - | - | - | - | - | - | (183,871) | - | - | - | 183,871 | |
| 19 | Corporate Operations Expense Cap (ICLS) | td | - | - | - | (1) | - | - | - | - | - | - | - | - | 1 | |
| 20 | Revenue Requirement | | \$ 7,964,652 | \$ 4,126,501 | \$ - | \$ 2,999,543 | \$ - | \$ 5,342 | \$ 2 | \$ - | \$ 491 | \$ 914,699 | \$ 22,550 | \$ - | \$ 183,873 | |
| 21 | | | | | | | | | | | | | | | | |

Schedule: Alt NECA 2

| (a) | (b) | (c) | (d) | (e) | COMMON LINE | | | SWITCHED ACCESS | | | | | SPECIAL | | (n) | (o) | (p) |
|------|---|-----------|---------------|--------------|---------------------|---------------------|----------------|-----------------|-------------|------------------|-----------------|--------------|-----------|---------------|-------|-----|-----|
| | | | | | (f) | (g) | (h) | (i) | (j) | (k) | (l) | (m) | | | | | |
| Line | Account/Category | Source | Company Total | Interstate | Carrier Common Line | Base Factor Portion | Eq Acc | Local Switching | Information | Tandem Switching | Other Transport | Spcl Acc | B&C | Interexchange | Other | | |
| 22 | MAG SHIFT CALCULATION: | | | | | | | | | | | | | | | | |
| 23 | Revenue Requirement (before MAG) | P69 (18) | \$ 7,964,652 | \$ 4,126,501 | \$ - | \$ 1,177,084 | \$ - | \$ 1,691,867 | \$ 608 | \$ - | \$ 135,821 | \$ 1,098,570 | \$ 22,550 | \$ - | \$ - | | |
| 24 | Local Switching Support | LSS (75) | (978,285) | - | - | - | - | (978,285) | - | - | - | - | - | - | - | | |
| 25 | Net Local Switching Revenue Reqmt | | \$ 3,148,216 | \$ - | \$ 1,177,084 | \$ - | \$ 713,582 | \$ 608 | \$ - | \$ 135,821 | \$ 1,098,570 | \$ 22,550 | \$ - | \$ - | | | |
| 26 | Basis of Adjustment | RE (21) | | | | | Default | Default | | | | | | | | | |
| 27 | Line Port Shift Adjustment | | \$ - | \$ - | \$ 214,075 | \$ - | \$ (214,075) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | | |
| 28 | Rev Reqmt after Line Port Shift Adj & LSS | | \$ 3,148,216 | \$ - | \$ 1,391,159 | \$ - | \$ 499,508 | \$ 608 | \$ - | \$ 135,821 | \$ 1,098,570 | \$ 22,550 | \$ - | \$ - | | | |
| 29 | LESS: USF Contributions | I (137) | | | | (86,112) | | | | | | | | | | | |
| 30 | TIC Revenues (lesser of TIC or Rev Reqmt) | RE (24) | | | | - | | | | | | | | | | | |
| 31 | Basis for TIC Allocation | | \$ 3,039,554 | \$ - | \$ 1,305,047 | \$ - | \$ 499,508 | \$ 608 | \$ - | \$ 135,821 | \$ 1,098,570 | | | | | | |
| 32 | Percentage Distribution | | 100.0000% | 0.0000% | 42.9355% | 0.0000% | 16.4336% | 0.0200% | 0.0000% | 4.4685% | 36.1425% | | | | | | |
| 33 | TIC Revenue Allocation | | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | | | | | |
| 34 | Net Allocation of TIC Revenues | | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | | | | | |
| 35 | Revenue Requirement after MAG Shift: | | \$ 4,126,501 | \$ - | \$ 1,391,159 | \$ - | \$ 1,477,793 | \$ 608 | \$ - | \$ 135,821 | \$ 1,098,570 | \$ 22,550 | \$ - | \$ - | | | |
| 36 | | | | | | | | | | | | | | | | | |
| 37 | | | | | | | | | | | | | | | | | |
| 38 | ICC REFORM SHIFT CALCULATION: | | | | | | | | | | | | | | | | |
| 39 | Revenue or Other Offset Adjustment | | \$ 1 | \$ - | \$ - | \$ - | \$ (1) | \$ (0) | \$ - | \$ (0) | \$ - | \$ - | \$ - | \$ - | \$ 1 | | |
| 40 | Revenue Requirement after Offset | | \$ 4,126,501 | \$ - | \$ 1,391,159 | \$ - | \$ 1,477,792 | \$ 608 | \$ - | \$ 135,821 | \$ 1,098,570 | \$ 22,550 | \$ - | \$ 1 | | | |
| 41 | Percentage Distribution - Switched Access | | | | | | 0.0000% | 91.5483% | 0.0377% | 0.0000% | 8.4140% | | | | | | |
| 42 | Basis of Adjustment: | | | | | | | | | | | | | | | | |
| 43 | Target Access Rate (per minute) | YES | \$0.0007 | | | | \$ - | (1,472,450) | (606) | \$ - | (135,330) | | | | | | |
| 44 | Interstate Switched Access Minutes | 8,336,091 | \$ 5,835 | | | | | | | | | | | | | | |
| 45 | % of Traffic Sensitive Rev Reqmt | NO | 100% | | | | | | | | | | | | | | |
| 46 | ICC REFORM SHIFT ADJUSTMENT | | \$ - | \$ - | \$ 1,608,386 | \$ - | \$ (1,472,450) | \$ (606) | \$ - | \$ (135,330) | \$ - | \$ - | \$ - | \$ - | | | |
| 47 | Revenue Requirement after ICC REFORM Shift: | | \$ 4,126,501 | \$ - | \$ 2,999,544 | \$ - | \$ 5,342 | \$ 2 | \$ - | \$ 491 | \$ 1,098,570 | \$ 22,550 | \$ - | \$ 1 | | | |

Alexicon Telecommunications Consulting
Development of ABC Plan Cumulative SLC Increase
Exhibit E

NON-RURAL/PRICE CAP CARRIERS

Receives Support from the Transitional Access Replacement Mechanism

| | | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) |
|---|---|------------|---------------|---------------|--------------|---------------|--------------|--------------|----------------|------------------|
| | | Cumulative | Verizon | AT&T | FairPoint | CenturyLink | Frontier | Windstream | Monthly | Annualized |
| | | Increase | Totals | Totals | Totals | Totals | Totals | Totals | Total | Total |
| Current Access Lines | 1 | | 25,000,000 | 43,600,000 | 1,102,689 | 14,125,100 | 5,489,862 | 3,300,000 | 92,617,651 | |
| July 1, 2012 Increase | 3 | \$ 0.50 | \$ 12,500,000 | \$ 21,800,000 | \$ 551,345 | \$ 7,062,550 | \$ 2,744,931 | \$ 1,650,000 | \$ 46,308,826 | \$ 555,705,906 |
| Assume 10% Reduction in Access Lines | 2 | | (2,500,000) | (4,360,000) | (110,269) | (1,412,510) | (548,986) | (330,000) | (9,261,765) | |
| Estimated Access Lines as of July 1, 2013 | 4 | | 22,500,000 | 39,240,000 | 992,420 | 12,712,590 | 4,940,876 | 2,970,000 | 83,355,886 | |
| July 1, 2013 Cumulative Increase | 3 | \$ 0.50 | \$ 22,500,000 | \$ 39,240,000 | \$ 992,420 | \$ 12,712,590 | \$ 4,940,876 | \$ 2,970,000 | \$ 83,355,886 | \$ 1,000,270,631 |
| Assume 10% Reduction in Access Lines | 2 | | (2,250,000) | (3,924,000) | (99,242) | (1,271,259) | (494,088) | (297,000) | (8,335,589) | |
| Estimated Access Lines as of July 1, 2014 | 4 | | 20,250,000 | 35,316,000 | 893,178 | 11,441,331 | 4,446,788 | 2,673,000 | 75,020,297 | |
| July 1, 2014 Cumulative Increase | 3 | \$ 0.50 | \$ 30,375,000 | \$ 52,974,000 | \$ 1,339,767 | \$ 17,161,997 | \$ 6,670,182 | \$ 4,009,500 | \$ 112,530,446 | \$ 1,350,365,352 |
| Assume 10% Reduction in Access Lines | 2 | | (2,025,000) | (3,531,600) | (89,318) | (1,144,133) | (444,679) | (267,300) | (7,502,030) | |
| Estimated Access Lines as of July 1, 2015 | 4 | | 18,225,000 | 31,784,400 | 803,860 | 10,297,198 | 4,002,109 | 2,405,700 | 67,518,268 | |
| July 1, 2015 Cumulative Increase | 3 | \$ 0.50 | \$ 36,450,000 | \$ 63,568,800 | \$ 1,607,721 | \$ 20,594,396 | \$ 8,004,219 | \$ 4,811,400 | \$ 135,036,535 | \$ 1,620,438,422 |
| Assume 10% Reduction in Access Lines | 2 | | (1,822,500) | (3,178,440) | (80,386) | (1,029,720) | (400,211) | (240,570) | (6,751,827) | |
| Estimated Access Lines as of July 1, 2016 | 4 | | 16,402,500 | 28,605,960 | 723,474 | 9,267,478 | 3,601,898 | 2,165,130 | 60,766,441 | |
| July 1, 2016 Cumulative Increase | 3 | \$ 0.50 | \$ 41,006,250 | \$ 71,514,900 | \$ 1,808,686 | \$ 23,168,695 | \$ 9,004,746 | \$ 5,412,825 | \$ 151,916,102 | \$ 1,822,993,225 |

Estimated Five Year SLC Increase \$ 6,349,773,535

Does Not Receive Support from the Transitional Access Replacement Mechanism

NON-RURAL/PRICE CAP CARRIERS

| | | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) |
|---|---|------------|---------------|----------------|--------------|---------------|---------------|--------------|----------------|------------------|
| | | Cumulative | Verizon | AT&T | FairPoint | CenturyLink | Frontier | Windstream | Monthly | Annualized |
| | | Increase | Totals | Totals | Totals | Totals | Totals | Totals | Total | Total |
| Current Access Lines | 1 | | 25,000,000 | 43,600,000 | 1,102,689 | 14,125,100 | 5,489,862 | 3,300,000 | 92,617,651 | |
| July 1, 2012 Increase | 3 | \$ 0.75 | \$ 18,750,000 | \$ 32,700,000 | \$ 827,017 | \$ 10,593,825 | \$ 4,117,397 | \$ 2,475,000 | \$ 69,463,238 | \$ 833,558,859 |
| Assume 10% Reduction in Access Lines | 2 | | (2,500,000) | (4,360,000) | (110,269) | (1,412,510) | (548,986) | (330,000) | (9,261,765) | |
| Estimated Access Lines as of July 1, 2013 | 4 | | 22,500,000 | 39,240,000 | 992,420 | 12,712,590 | 4,940,876 | 2,970,000 | 83,355,886 | |
| July 1, 2013 Cumulative Increase | 3 | \$ 0.75 | \$ 33,750,000 | \$ 58,860,000 | \$ 1,488,630 | \$ 19,068,885 | \$ 7,411,314 | \$ 4,455,000 | \$ 125,033,829 | \$ 1,500,405,946 |
| Assume 10% Reduction in Access Lines | 2 | | (2,250,000) | (3,924,000) | (99,242) | (1,271,259) | (494,088) | (297,000) | (8,335,589) | |
| Estimated Access Lines as of July 1, 2014 | 4 | | 20,250,000 | 35,316,000 | 893,178 | 11,441,331 | 4,446,788 | 2,673,000 | 75,020,297 | |
| July 1, 2014 Cumulative Increase | 3 | \$ 0.75 | \$ 45,562,500 | \$ 79,461,000 | \$ 2,009,651 | \$ 25,742,995 | \$ 10,005,273 | \$ 6,014,250 | \$ 168,795,669 | \$ 2,025,548,027 |
| Assume 10% Reduction in Access Lines | 2 | | (2,025,000) | (3,531,600) | (89,318) | (1,144,133) | (444,679) | (267,300) | (7,502,030) | |
| Estimated Access Lines as of July 1, 2015 | 4 | | 18,225,000 | 31,784,400 | 803,860 | 10,297,198 | 4,002,109 | 2,405,700 | 67,518,268 | |
| July 1, 2015 Cumulative Increase | 3 | \$ 0.75 | \$ 54,675,000 | \$ 95,353,200 | \$ 2,411,581 | \$ 30,891,594 | \$ 12,006,328 | \$ 7,217,100 | \$ 202,554,803 | \$ 2,430,657,633 |
| Assume 10% Reduction in Access Lines | 2 | | (1,822,500) | (3,178,440) | (80,386) | (1,029,720) | (400,211) | (240,570) | (6,751,827) | |
| Estimated Access Lines as of July 1, 2016 | 4 | | 16,402,500 | 28,605,960 | 723,474 | 9,267,478 | 3,601,898 | 2,165,130 | 60,766,441 | |
| July 1, 2016 Cumulative Increase | 3 | \$ 0.75 | \$ 61,509,375 | \$ 107,272,350 | \$ 2,713,028 | \$ 34,753,043 | \$ 13,507,119 | \$ 8,119,238 | \$ 227,874,153 | \$ 2,734,489,837 |

Estimated Five Year SLC Increase \$ 9,524,660,302

Alexicon Telecommunications Consulting

Development of ABC Plan Cumulative SLC Increase

Exhibit E

Rural Areas - Receives Support from the Transitional Access Replacement Mechanism

| | Footnotes | (a) Cumulative Increase | (b) "Rural" Monthly Totals | (c) "Rural" Annualized Totals |
|---|-----------|-------------------------------|----------------------------------|-------------------------------------|
| Current Access Lines | 1 | | 21,074,570 | |
| July 1, 2012 Increase | 3 | \$ 0.50 | \$ 10,537,285 | \$ 126,447,420 |
| Assume 10% Reduction in Access Lines | 2 | | (2,107,457) | |
| Estimated Access Lines as of July 1, 2013 | 4 | | 18,967,113 | |
| July 1, 2013 Cumulative Increase | 3 | \$ 0.50 | \$ 18,967,113 | \$ 227,605,356 |
| Assume 10% Reduction in Access Lines | 2 | | (1,896,711) | |
| Estimated Access Lines as of July 1, 2014 | 4 | | 17,070,402 | |
| July 1, 2014 Cumulative Increase | 3 | \$ 0.50 | \$ 25,605,603 | \$ 307,267,231 |
| Assume 10% Reduction in Access Lines | 2 | | (1,707,040) | |
| Estimated Access Lines as of July 1, 2015 | 4 | | 15,363,362 | |
| July 1, 2015 Cumulative Increase | 3 | \$ 0.50 | \$ 30,726,723 | \$ 368,720,677 |
| Assume 10% Reduction in Access Lines | 2 | | (1,536,336) | |
| Estimated Access Lines as of July 1, 2016 | 4 | | 13,827,025 | |
| July 1, 2016 Cumulative Increase | 3 | \$ 0.50 | \$ 34,567,563 | \$ 414,810,761 |

Estimated Five Year SLC Increase \$ 1,444,851,445

Rural Areas - Does Not Receive Support from the Transitional Access Replacement Mechanism

| | Footnotes | (a) Cumulative Increase | (b) "Rural" Monthly Totals | (c) "Rural" Annualized Totals |
|---|-----------|-------------------------------|----------------------------------|-------------------------------------|
| Current Access Lines | 1 | | 21,074,570 | |
| July 1, 2012 Increase | 3 | \$ 0.75 | \$ 15,805,928 | \$ 189,671,130 |
| Assume 10% Reduction in Access Lines | 2 | | (2,107,457) | |
| Estimated Access Lines as of July 1, 2013 | 4 | | 18,967,113 | |
| July 1, 2013 Cumulative Increase | 3 | \$ 0.75 | \$ 28,450,670 | \$ 341,408,034 |
| Assume 10% Reduction in Access Lines | 2 | | (1,896,711) | |
| Estimated Access Lines as of July 1, 2014 | 4 | | 17,070,402 | |
| July 1, 2014 Cumulative Increase | 3 | \$ 0.75 | \$ 38,408,404 | \$ 460,900,846 |
| Assume 10% Reduction in Access Lines | 2 | | (1,707,040) | |
| Estimated Access Lines as of July 1, 2015 | 4 | | 15,363,362 | |
| July 1, 2015 Cumulative Increase | 3 | \$ 0.75 | \$ 46,090,085 | \$ 553,081,015 |
| Assume 10% Reduction in Access Lines | 2 | | (1,536,336) | |
| Estimated Access Lines as of July 1, 2016 | 4 | | 13,827,025 | |
| July 1, 2016 Cumulative Increase | 3 | \$ 0.75 | \$ 51,851,345 | \$ 622,216,142 |

Estimated Five Year SLC Increase \$ 2,167,277,167

Footnotes:

1) Access line counts taken from the following websites:

AT&T (select "Networks")

<http://www.att.com/gen/investor-relations?pid=5711>

Verizon (Q2 Financial Results)

http://www2.verizon.com/investor/newsatglance/news.htm?dID=6591&dDocName=NEWS_UCM_14&xCategory=News

CenturyLink

<http://www.centurylink.com/Pages/AboutUs/CompanyInformation/CompanyStats/>

FairPoint (Investor Presentation June 2011)

<http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9NDI5NjQ4fENoaWwKsUQ9NDQ3MDA1fFR5cGU9MQ==&t=1>

Frontier (Q2 Financial Results)

<http://phx.corporate-ir.net/phoenix.zhtml?c=66508&p=irol-newsArticle&ID=1592368&highlight=>

Windstream

<http://www.windstream.com/company/coverage.html>

Rural ILECs

<http://www.universalservice.org/about/governance/fcc-filings/2011/quarter-2.aspx>

2) Illustration purposes; reflects industry trend in access line losses

3) Phased in SLC increases per ABC Plan. Calculations in columns "b thru g" for Non-Rural and column "b" for Rural reflect the cumulative increase in SLC funding through higher end user charges

4) Estimated access lines at July 1 intervals listed in ABC Plan

**Alexicon Telecommunications Consulting
FCC Ex Parte Letter
June 21, 2011**

June 21, 2011

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

**Re: WC Docket No. 10-90 Connect America Fund;
GN Docket No. 09-51 A National Broadband Plan for Our Future;
WC Docket No. 07-135 Establishing Just and Reasonable Rates for Local
Exchange Carriers;
WC Docket No. 05-337 High-Cost Universal Service Support;
CC Docket No. 01-92 Developing a Unified Intercarrier Compensation Regime;
CC Docket No. 96-45 Federal-State Joint Board on Universal Service;
WC Docket No. 03-109 Lifeline and Link-Up**

Dear Ms. Dortch,

On May 6, 2011, and May 26, 2011, Doug Kitch and Vincent Wiemer of Alexicon Telecommunications Consulting met separately with members of the Wireline Competition Bureau. *Notices of Ex Parte Presentation* were filed to document these meetings in accordance with the Commission's rules. Alexicon provides consulting services to approximately two dozen rural incumbent local exchange carriers. The purpose of these meetings was to describe how certain aspects of the Commission's Universal Service Fund and Intercarrier Compensation reform proposals would have an impact on those companies' ability to continue to provide affordable telecommunications services to their rural, lightly-populated communities and to deploy and maintain broadband infrastructure throughout their rural service areas. Alexicon presented an alternative comprehensive plan including a detailed model it has developed for Universal Service Fund and Intercarrier Compensation Reform.

During the meetings, Wireline Competition Bureau personnel asked several questions about Alexicon's proposed plan. The purpose for this letter is to supplement the record to address

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those questions and to provide the following overview of The Alexicon Plan for Universal Service Fund and Intercarrier Compensation Reform.

The Alexicon Plan for Universal Service Fund and Intercarrier Compensation Reform

Introduction

Alexicon Telecommunications Consulting provides management consulting services to approximately two dozen independent local exchange carriers serving rural areas. Alexicon's clients include privately-owned, co-operatives, and tribal companies in ten states and represent communities ranging from 250 to 40,000 access lines. Alexicon advises its clients on rate-of-return (RoR) regulation, universal service funding (USF), intercarrier compensation (ICC), and interconnection issues among other services.

Goals and Principles

The goals of The Alexicon Plan are to: (1) modernize universal service fund and intercarrier compensation mechanisms; (2) create incentive-based USF for small RoR carriers to deploy broadband; (3) modernize USF rules to advance Internet protocol (IP) technology; (4) provide efficiency within the USF system; and (5) accomplish these goals in a manner consistent with current ratemaking and Universal Service Funding algorithms.

In order to comply with the principles set forth in Section 254 of the Communications Act, Universal Service Funds must be sufficient to provide: (1) quality services at just, reasonable, and affordable rates; (2) access to advanced services; and (3) access in rural and high cost areas that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas. Furthermore, explicit funds should provide specific, predictable and sufficient support to preserve and advance universal service.

The Commission's current focus on advanced services, specifically broadband deployment, does not relinquish it of the responsibility to preserve and support services currently supported by the USF, including local exchange telecommunications service. New support mechanisms must recognize and sufficiently provide for both traditionally-supported telecommunications services as well as advanced services. In order to address the Commission's long-term vision of ubiquitous broadband deployment, Alexicon believes that the support algorithms must recognize the causes of the higher costs of deployment and support provision of broadband service in rural, high cost areas. The higher costs of broadband deployment in rural areas are a function of

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several factors, including population density, geographic location, the costs related to economies of limited scale and scope which result in higher costs for deploying broadband-capable loops; central office, field unit and customer premises electronics; as well as bandwidth access (often referred to as “middle mile cost”).

The Alexicon Plan – Summary

The Alexicon Plan for Universal Service Fund and Intercarrier Compensation Reform consists of four parts:

The Broadband High Cost Loop Fund consists of three component funds for rural carriers, non-rural carriers serving rural areas, and mobile carriers. The Fund provides support for the deployment of broadband services as well as current voice telephony services. Support is based on actual costs and calculated through a revised high cost loop algorithm. The Broadband High Cost Loop Fund would replace the current High Cost Loop Fund for Rural Carriers, Non-rural carriers, and Competitive Eligible Telecommunications Carriers (CETCs). Identical CETC support and Safety Net Additive Support would be eliminated. Safety Valve Support is included in the Rural Carrier Broadband High Cost Loop support which would be calculated without Section 54.305 “parent trap” rule support limitations. Forward-Looking High Cost Model Support would be replaced by the Non-rural Carrier Broadband High Cost Loop Fund.

Middle Mile Support would be provided through the inclusion of middle mile costs as a 47 CFR Part 32 transmission cost (account 6232) which would allow recovery through the Broadband HCL Fund and ratemaking.

Local Switching Support would be reformed by ratcheting down the Dial Equipment Minutes (DEM) weighting threshold from the current levels to support only companies with less than 15,000 lines. Identical support for CETCs would be eliminated.

Intercarrier Compensation Reform would be accomplished through separate plans for rate-of-return and price cap carriers. RoR carriers would modify the current MAG shift adjustment to move the entire traffic sensitive switched access revenue requirement to the common line element. The common line costs are recovered through Interstate Common Line Support. Price cap carriers would transition to an IP-based compensation model by entering into commercial agreements for indirect interconnection as a “transit” provider. A default rate for any traffic received without a compensation agreement would be established as an interim measure and applied uniformly in a technology neutral manner to wired,

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wireless, circuit-switched, and Voice over the Internet Protocol (VoIP) traffic. Interstate Access Support would be eliminated.

The Broadband High Cost Loop Fund

The current high cost loop USF algorithm has been an effective tool in providing universal service support to high cost loop areas. As the Commission itself has acknowledged, the current system has enabled many rural telecommunications providers to deploy broadband-capable networks. This is because the current algorithm supports one of the primary barriers to ubiquitous broadband deployment – loop costs. Alexicon proposes that the current high cost loop algorithm be modified to support the central office and field unit circuit equipment as well as cable and wire facilities allocated to broadband services.

Furthermore, Alexicon proposes three components of the Broadband High Cost Loop Fund:

1. Rural Carrier Broadband High Cost Loop Fund
2. Non-rural Carrier Broadband High Cost Loop Fund
3. Mobile Broadband High Cost Loop Fund

Rural and Non-Rural Carrier Broadband High Cost Loop Algorithm

Each component fund is based on the same algorithm and is calculated on actual company costs. For rural carrier and non-rural carrier funds the details of the proposed Broadband High Cost Loop Data Descriptions, Cost Company Broadband Loop Algorithm, National Average Broadband Cost Per Loop (NABCL) Algorithm, Expense Adjustment Algorithm, and the Broadband High Cost Loop Recovery Adjustment are attached as Appendix B.

In summary, Alexicon proposes including the following accounts in the algorithm:

- Category 4.11 Wideband Exchange Line Circuit Equipment allocated to the Interstate jurisdiction as defined in 47 CFR § 36.126 (b) (1) (i).
- Category 4.22 Interexchange Circuit Equipment Used for Wideband Services including Satellite and Earth Station Equipment used for Wideband Service allocated to the Interstate jurisdiction as defined in 47 CFR § 36.126 (b) (2) (ii).
- Category 2 Wideband and Exchange Trunk Cable and Wire Facilities allocated to the Interstate jurisdiction as defined in 47 CFR § 36.152(a)(2) and 47 CFR § 36.155.

No revisions to Part 36 Separations Rules would be needed to accommodate the inclusion of these broadband accounts in the Broadband High Cost Loop Fund algorithm. In support, the description and accounting of broadband circuit and cable & wire facility already required of cost settlement companies is described in the National Exchange Carrier Association's Cost

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Reporting Guideline Paper entitled *Separations Treatment of ADSL and SDSL Services* (revision released December 17, 2009).

The proposed algorithm computes the gross allocators that attribute expenses to the broadband category equipment in the same manner as Category 4.13 circuit equipment and Category 1 cable & wire facility. Total Broadband Unseparated Costs equals the sum of operating expenses, depreciation, operating taxes, and return on investment attributed to Categories 1 and 2 cable & wire facility and Categories 4.11, 4.13, and 4.22 circuit equipment. Study Area Broadband Cost per Loop (SABCL) is calculated as the Broadband Unseparated Costs divided by Study Area Total Loops.

The National Average Broadband Cost per Loop (NABCL) would be calculated as total Nationwide Broadband Unseparated Costs divided by Nationwide USF Loops. The Expense Adjustment Algorithm would maintain the current 65% / 75% recovery thresholds for study areas reporting fewer than 200,000 access lines and the 10% / 30% / 60% / 75% recovery thresholds for study areas reporting 200,000 access lines or more.

Mobile Broadband High Cost Loop Algorithm

Alexicon proposes that the Broadband High Cost Loop Algorithm also be applied to mobile carriers. Mobile carriers can produce equivalent cost study data as Wireline companies. This assertion is evidenced by several wireless cost studies submitted by mobile carriers in response to the May 1, 2008 Commission Order that froze CETC support.¹ The Order provided a limited exception for CETCs that submitted their own cost data “demonstrating that its costs meet the support threshold in the same manner as the incumbent LEC.” Most recently, GVNW Consulting, Inc. refreshed the record in *Ex Parte Presentation* in WCB Docket No. 05-337 filed May 28, 2011 with regard to its WiPan proposal. Alexicon supports the WiPan proposal for the calculation of Mobile Broadband High Cost Loop support with the noted modifications of adding broadband equipment categories as proposed for Wireline carriers and the use of a mobile national average cost per loop threshold instead of an average cost per minute threshold.

The Broadband High Cost Loop Recovery Adjustment

Alexicon recognizes that the proposed broadband equipment categories are currently recovered through interstate special access charges. Consequently, an adjustment to the calculation of special access charges is needed to avoid excessive cost recovery. The proposed Broadband High Cost Loop Fund algorithm would allow the identification of the exact amount of support

¹ See *In the Matter of High-Cost Universal Service Support, Federal-State Joint Board on Universal Service, Alltel Communications, Inc., et al. Petitions for Designation as Eligible Telecommunications Carriers, RCC Minnesota, Inc. and RCC Atlantic, Inc. New Hampshire ETC Designation Amendment*, Order (“FCC Cap Order”), WC Docket No. 05-337 and CC Docket No. 96-45, released May 1, 2008.

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attributed to the broadband equipment categories. This amount can be reduced from interstate special access element revenue requirement and added to the other element revenue requirement in a manner similar to the way line port costs are shifted in the MAG adjustment. The proposed adjustment would result in decreased rates for broadband services charged to consumers by reducing the subject revenue requirement.

Benefits of the Proposed Broadband High Cost Loop Fund

Alexicon's proposed Broadband High Cost Loop Fund has several advantages. First, it would leverage an existing, proven algorithm. Second, it would provide incentives for broadband deployment by supporting the causes of higher costs for broadband deployment. Third, it also would directly reduce the cost of service to consumers through the broadband recovery adjustment. Fourth, it would provide a specific and predictable funding mechanism.

Alexicon has already developed a fully operational model capable of calculating the Study Area Broadband Cost per Loop (SABCL) of every rural and non-rural cost company in the nation which we shared with the Wireline Competition Bureau in our ex parte presentation on May 6, 2011. The model calculates Broadband High Cost Loop Support per Study Area based on the proposed data descriptions and algorithms. The model has the capability to calculate a revised National Average Broadband Cost per Loop (NABCL) in order to account for support with a capped fund. For illustrative purposes, we have loaded the model with each company's actual cost and loop data from the NECA 2010 USF Data Submission. In addition we have added estimated amounts for the proposed broadband equipment categories using costs and relative amounts from NECA's Rate of Return Prospective Cost Analysis Summary. Based on these assumptions and calculations, Alexicon estimates demand for the rural company component of the proposed Broadband High Cost Loop fund to be \$816 million. This is the type of specific and predictable funding mechanism called for in Section 254.

Removal of Artificial Mechanisms from the Fund Calculations

Alexicon also notes the need to remove artificial mechanisms from the calculations of support. These artificial mechanisms have inevitably led to consequences contrary to universal service goals. For example, identical support for CETCs has resulted in support funds provided to carriers without proof of those carriers' need for support in order to provide service at affordable rates. No carrier should be allowed to receive high cost support without a demonstration that it actually incurs high costs in order to provide service. This is one of the main reasons Alexicon is adamant that cost-based algorithms are necessary for the efficient and effective calculation of

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high cost support as opposed to proxy or model-based mechanisms. Identical support for CETCs has ballooned the demand for universal service support.

Additionally, an artificially fixed rural national average cost per loop (NACPL) has unintended consequences for the high cost loop fund. A fixed NACPL of \$240.00 is used to calculate expense adjustment levels for rural ILECs subject to the availability of funds under the indexed capping mechanism. In order to keep total rural high cost support below the fund cap, the effective NACPL is adjusted. For example, the capped NACPL calculated from calendar year 2009 data reported by rural carriers was \$458.36.² However, the actual rural NACPL was \$505.49. If no fixed rural NACPL were in place and the algorithm was instead based on the actual NACPL, the Rural High Cost Loop Support for 2011 would have totaled \$759.6 million; \$146.2 less than the capped amount.

Middle Mile Support

The 2009 report of then Acting Chairman Copps “Bringing Broadband to Rural America: Report on a Rural Broadband Strategy” includes a discussion of the issues involved with the “middle mile” that connects the last mile broadband provider to a node on the Internet backbone. This cost to obtain Internet bandwidth access is one of the largest barriers to reasonable and affordable consumer broadband rates in rural areas. For example, middle mile costs paid by rural telephone clients of Alexicon range from \$18 per megabyte per month to ten times that amount. Alexicon proposes the inclusion of middle mile costs as a part 32 transmission cost (acct 6232) which would allow for the recovery of costs through the Broadband HCL Fund and ratemaking.

Local Switching Support

In the NPRM the Commission makes the following statement: “LSS was originally created to help small telephone companies that lack economies of scale to afford large switches, but since then the industry has moved to software-based routers and switches which can be more easily scaled to a company’s size and even shared among companies.”³ Alexicon contends phasing out LSS entirely would be contrary to the Commission’s initial intent for this funding mechanism, which was “to help small telephone companies that lack economies of scale.” As discussed further below, Alexicon notes there are 910 companies that currently have less than 5,000 access lines and 186 companies that serve between 5,000 and 10,000 access lines.⁴

² National Exchange Carrier Association, Inc. Overview and Analysis of 2010 USF Data Submission

³ NPRM, Para 21

⁴ USAC website, Local Switching Support Projected by State by Study Area, Second Quarter 2011

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Alexicon believes a better alternative in addressing LSS would be to ratchet down the Dial Equipment Minutes (DEM) weighting threshold from the current levels.⁵ This recommendation focuses local switching support as it was intended to the smallest rate-of-return ILECs that still face significant fixed costs due to their limited customer base. Alexicon suggests modified thresholds of: <5,000 = weighted DEM of 3; between 5,000 and 10,000 = weighted DEM of 2.5; and between 10,000 and 15,000 = weighted DEM of 2 should be the primary focus of LSS funding, with access lines above 15,000 receiving no funding from LSS. If this recommendation had been in effect for calendar year 2011, it would have reduced the LSS fund by approximately \$190 million.

Intercarrier Compensation Reform

The Intercarrier Compensation System

ICC is a system of payments between carriers to compensate each other for the origination, transport and termination of telecommunications traffic. For RoR carriers ICC recovers the cost of the network used to perform these functions. There are two forms of intercarrier compensation: (1) access rates, a uniform mechanism to recover the cost of providing access services needed to originate or terminate interstate and foreign telecommunications, were established following the AT&T divestiture in 1984; and (2) reciprocal compensation, which is applied to the transport and termination of telecommunications within the same local calling area, was established in the 1996 Telecommunications Act.

There are several factors that complicate ICC. Rate application depends on call jurisdiction (interstate, intrastate, local); the type of carriers involved (ILECs, CLECs, IXCs, CMRS, VoIP); and the type of traffic (wireline voice, wireless voice, ISP-bound, data).

Problems with the ICC System

The NPRM notes the following fundamental problems with the intercarrier compensation system:

- The per-minute structure is outdated;
- Rates vary for different types of providers or origination location despite same function performed (and facilities used);
- Above cost rate structure creates incentives to retain old technologies and engage in regulatory arbitrage;
- Technological changes result in declining compensable minutes.

⁵ CFR Part 36.125

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Alexicon notes the following additional problems for RoR carriers:

- Compensation agreements are designed for direct interconnection situations and most RoR companies are indirectly connected with IXC, VoIP, CLECS, and CMRS carriers
- Indirect business relationships create compensation issues
- Vast balance of traffic differences for small carriers
- Separations rules create disparate Interstate/Intrastate rates for RoR carriers

Intercarrier Compensation Reform Goals and Principles

ICC reforms should reflect the fundamental shifts in technology, consumer behavior, and competition; create proper incentives for carriers to invest in broadband technologies; and eliminate regulatory arbitrage opportunities that lead to phantom traffic and improper access stimulation.

Alexicon believes the following principles should apply to ICC reform:

- Reforms must be technology-neutral and jurisdictionally consistent to create a level field for competition and regulation. A unified rate should apply to all carriers (ILEC, CLEC, CMRS, VoIP) and all jurisdictions (interstate, intrastate, local) to eliminate regulatory arbitrage opportunities.
- Rules must be flexible to account for continually changing technologies as well as the different incentives of Price Cap and RoR carriers; they should be consistent with the transition to an all-IP network.
- Explicit support mechanisms are needed to maintain affordable service in high-cost, insular, and Tribal areas.
- The distribution channel for voice and broadband should be paid for by the cost causers/beneficiaries.
- Bill-and-Keep is not appropriate because most carrier relationships have uneven balances of traffic originated/terminated.

Furthermore, the recovery of costs/revenues affected by ICC reform should not be “offset” by non-regulated revenues for the following reasons:

- FCC does not have the authority to require recovery of costs of Telecommunications Services subject to Title II with revenues of Title I services;
- Cross-subsidization of regulated services by non-regulated services is specifically contrary to the 1996 Act and Part 64 rules;
- Would create a perverse incentive to reduce/eliminate non-regulated revenues; and

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- Would disregard business realities and affiliate transaction rules. Non-regulated services already pay the higher of cost or market for the use of any regulated service/facility.

Alexicon's ICC Reform Proposal – Rate of Return Carriers

Interstate Common Line Support (ICLS) helps to offset interstate access charges and is designed to permit each rate-of-return carrier to recover its common line revenue requirement, while ensuring that its subscriber line charges remain affordable to its customers. ICLS recognizes that a portion of the common line is used for interstate purposes. Because the Commission is including broadband as an advanced universal service and declaring its authority over broadband as an interstate service, the interstate usage of the common line will increase in the future. Interstate Common Line Support (ICLS) is the obvious mechanism for recovery of other access rate amounts shifted due to Intercarrier Compensation Reform. Alexicon recommends modifying the current MAG shift adjustment for RoR carriers to move all traffic sensitive switched access revenue requirement to the common line element in order to meet the Commission's access rate goal. This will provide an explicit, predictable and sufficient support mechanism that preserves current universal service policies.

Special access services can be offered on a tariffed or de-tariffed basis as they are currently. The transition to special access IP services is well underway and does not have the same per-minute measurement issues as switched access services.

Advantages to Alexicon's Rate-of-Return ICC Reform Proposal

Moving all traffic sensitive switched access revenue requirements to common line would provide RoR carriers an effective switched access rate of \$0. The \$0 switched access rate would solve phantom traffic and VoIP compensation issues because there would be no access rate to avoid. It also would solve improper access stimulation issues because increased access minutes would have no effect on revenues. It would also eliminate the Commission's expressed concerns of decreasing minutes and increasing access rates. In addition, the billing costs saved can be passed down to consumers.

Alexicon's proposal also properly focuses RoR ICC reform on cost recovery. It permits each RoR carrier to recover its common line and traffic sensitive switched access revenue requirements. This is consistent with the 1996 Act's dual goals of "moving toward cost-based rates and protecting universal service."

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The proposal is also technology neutral and forward-looking. It allows for a seamless transition to an all-IP network because the traffic measurement issues associated with IP-traffic would be eliminated. It would also remove disincentives to transition to IP networks.

Using ICLS for recovery would efficiently leverage an existing explicit support mechanism. Alexicon's plan also does not require a transition period. It can also be quantified: the traffic sensitive revenue requirement for NECA pool members according to NECA 7/1/10 – 6/30/11 Tariff Review Plan is \$506,149,000. This does not include RoR carriers filing their own tariffs which we estimate may be additional \$100 million.

Challenges to Alexicon's RoR Proposal

The Commission has recognized the need for complimentary State reforms and that States may need support to do so. Interstate/intrastate access parity, which would be needed to avoid arbitrage situations, would result in significant lost ICC revenues.

Current separations rules recognize that a portion of the common line is used for interstate purposes (25% Subscriber Plant Factor allocation of common line). Due to broadband, the interstate portion of common line usage will increase so the allocation to interstate should also increase. Alexicon proposes to increase the Subscriber Plant Factor from its current frozen 25% level to 33.33%. This change would shift \$474,876,000 from state/local jurisdiction to interstate (based on NECA 7/1/10 to 6/30/11 TRP Common Line Pool Revenue Requirement) and would reduce the costs that states will need to rebalance. State ICC Reforms could be accomplished through a combination of state universal service funds and rebalanced local rates. Increased ICLS could be funded through a combination of increased SLCs and increased FUSCs levied equitably on an expanded broadband contribution base.

Alexicon's ICC Reform Proposal – Price Cap Carriers

Price cap carriers would transition to an IP-based compensation model by entering into commercial agreements for indirect interconnection as a "transit" provider. A transit provider is paid to arrange delivery of Network Customer traffic to anywhere and to accept delivery of traffic from anywhere for Network Customer. Alexicon believes some regulation and oversight will always be necessary.

A default rate for any traffic received without a compensation agreement would be established as an interim measure and applied uniformly in a technology neutral manner to wired, wireless, circuit-switched, and VoIP traffic.

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ICC Reform should be technology neutral - there should be no difference between wired or wireless; circuit-switched or VoIP compensation for terminating other providers' traffic. Technology neutrality and unified rates eliminate regulatory arbitrage scenarios. The Commission should impose regulatory obligations that are necessary to protect public safety and achieve other important public-interest objectives, such as CALEA, E-911, number portability, and access for persons with disabilities to all carriers.

Fund Size

Alexicon contemplates the proposed funds would be sized as follows:

| | |
|-----------------------------------|-------------------|
| Broadband High Cost Loop Support: | |
| Rural Carriers (capped) | \$ 1,250 M |
| Non-Rural Carriers (capped) | \$ 750 M |
| Mobile Fund (capped) | \$ 500 M |
| Broadband HCL Subtotal | \$ 2,500 M |
| Local Switching Support | \$ 200 M |
| Interstate Common Line Support | \$ 2,182 M |
| Total High Cost Support | \$ 4,882 M |

A detailed comparison of the current High Cost Fund components with Alexicon's proposed funds is attached as Appendix A. In summary, Alexicon proposes:

The Broadband High Cost Loop Fund which consists of three component funds for rural carriers, non-rural carriers serving rural areas, and mobile carriers. The Fund provides support for the deployment of broadband services as well as support for voice telecommunications services. Support for each component fund is based on actual costs and calculated through a revised high cost loop algorithm and actual component national average cost per loop. The components would initially be capped at \$1,250 million for rural carriers, \$750 million for non-rural carriers, and \$500 million for mobile carriers. The Broadband High Cost Loop Fund components replace the current High Cost Loop Fund for rural carriers, Non-rural carriers, and Competitive Eligible Telecommunications

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Carriers (CETCs); Safety Net Additive; Safety Valve Support and Forward-Looking High Cost Model Support. Identical support for CETCs and Section 54.305 “parent trap” rule support limitations for acquired exchanges are eliminated.

Local Switching Support featuring a revised Dial Equipment Minute weighting system that would focus on support to carriers with fewer than 15,000 access lines. This proposal would reduce the size of the current fund by approximately \$190 million. Identical support for CETCs is eliminated reducing the fund by an additional \$92.5 million.

Interstate Common Line Support would be the mechanism to permit each rate-of-return carrier to recover its interstate common line and traffic sensitive revenue requirements, while ensuring that its subscriber line charges remain affordable to its customers. The proposed shift of traffic sensitive revenue requirement would increase the annual size of ICLS funds by an estimated \$600 million. The proposed increase in the Subscriber Plant Factor from 25% to 33% would result in an additional \$475 million shift from state recovery to interstate recovery annually.

Conclusion

The Alexicon Plan for Universal Service Fund and Intercarrier Compensation Reform provides a comprehensive solution to meet the Commission’s goals to:

- Modernize universal service fund and intercarrier compensation mechanisms;
- Create proper incentives to deploy broadband;
- Modernize USF and ICC rules to advance IP technology;
- Provide efficiency within the USF system and Intercarrier Compensation regime;
- Enact reforms that reflect the fundamental shifts in technology, consumer behavior, and competition; and
- Remove regulatory arbitrage opportunities that lead to phantom traffic and improper access stimulation.

The Plan efficiently leverages the successful parts of current programs. Substantial public resources have already been invested in rural networks, participation in the rule making proceeding, and related mechanisms. These investments should be leveraged for the public benefit whenever possible. Technology neutral applications and the recognition of differences between rural and non-rural carriers provide solutions for all carriers. Furthermore, our suggested fund reconfiguration, fund sizes and actual cost methodology will promote ubiquitous broadband deployment with a total annual fund size increase of 17.5%.

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Sincerely,

A handwritten signature in black ink, appearing to read "Douglas K. Kitch". The signature is stylized with a large initial "D" and a prominent "K".

Douglas K. Kitch, CPA, Principal
Alexicon Telecommunications Consulting

APPENDIX A

**Current High Cost Support Mechanism
Fund Size Projections for 2011**

| | Total 2011 <i>in millions</i> | 1Q2011 <i>in millions</i> | 2Q2011 <i>in millions</i> | 3Q2011 <i>in millions</i> | 4Q2011 (est.) <i>in millions</i> |
|---|---|-------------------------------------|-------------------------------------|-------------------------------------|--|
| High Cost Loop Support: | | | | | |
| Rural Carriers (capped) | \$ 905.93 | \$ 226.35 | \$ 226.37 | \$ 226.47 | \$ 226.74 |
| CETCs (capped) | 323.55 | 79.28 | 77.81 | 83.23 | \$ 83.23 |
| Non-Rural Carriers | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Safety Net Additive | 90.02 | 20.62 | 22.64 | 23.38 | 23.38 |
| Safety Valve Support | 7.68 | 1.45 | 1.57 | 2.33 | 2.33 |
| Total High Cost Loop Support | \$ 1,326.91 | \$ 327.70 | \$ 328.39 | \$ 335.41 | \$ 335.41 |
| Local Switching Support: | | | | | |
| Incumbent Carriers | \$ 292.41 | \$ 73.04 | \$ 73.11 | \$ 73.13 | \$ 73.13 |
| CETC (capped) | 92.56 | 21.97 | 22.79 | 23.90 | 23.90 |
| Total Local Switching Support | \$ 384.97 | \$ 95.01 | \$ 95.90 | \$ 97.03 | \$ 97.03 |
| Interstate Common Line Support: | | | | | |
| Incumbent Carriers | \$ 1,106.57 | \$ 279.89 | 278.06 | \$ 274.31 | \$ 274.31 |
| CETC (capped) | 510.21 | 123.80 | 122.31 | 132.05 | 132.05 |
| Total Interstate Common Line Support | \$ 1,616.78 | \$ 403.69 | \$ 400.37 | \$ 406.36 | \$ 406.36 |
| Interstate Access Support Mechanism | 533.65 | 137.55 | 134.02 | 131.04 | 131.04 |
| Forward-Looking High Cost Model Support | 293.60 | 75.04 | 73.84 | 72.36 | 72.36 |
| Total High Cost Support | \$ 4,155.91 | \$ 1,038.99 | \$ 1,032.52 | \$ 1,042.20 | \$ 1,042.20 |

**Alexicon Proposed Support Mechanism
Annual Fund Sizes**

| | <i>in millions</i> | Notes: |
|---|--------------------|--|
| Broadband High Cost Loop Support: | | |
| Rural Carriers (capped) | \$ 1,250.00 | Funds based on Broadband High Cost Loop algorithm |
| CETCs | - | Included in Rural Carrier Fund; funds based on own costs |
| Non-Rural Carriers (capped) | 750.00 | Funds based on Broadband High Cost Loop algorithm |
| Mobility Fund (capped) | 500.00 | Funds based on Mobile Broadband High Cost Loop algorithm |
| Safety Net Additive | - | Fund eliminated |
| Safety Valve Support | - | Included in Rural Carrier Fund, acquired exchanges funded 100% |
| Total Broadband High Cost Loop Support | \$ 2,500.00 | |
| Local Switching Support: | | |
| Incumbent Carriers | \$ 200.00 | DEM weighting ratched down as proposed |
| CETC | - | Identical support eliminated |
| Total Local Switching Support | \$ 200.00 | |
| Interstate Common Line Support: | | |
| Incumbent Carriers | \$ 1,106.57 | |
| Incumbent Carriers Traffic Sensitive Shift | \$ 600.00 | TS Switched Access moved to Common Line |
| ICLS State Cost Shift | \$ 475.00 | SPF increased from 25% to 33% (\$475M) |
| CETC | - | Identical support eliminated |
| Total Interstate Common Line Support | \$ 2,181.57 | |
| Interstate Access Support Mechanism | - | Fund eliminated |
| Forward-Looking High Cost Model Support | - | Fund eliminated, included in Broadband Non-Rural Carrier Fund |
| Total High Cost Support | \$ 4,881.57 | |

**BROADBAND HIGH COST LOOP FUND
DATA COLLECTION DESCRIPTION**

I. EXCHANGE CARRIER/DATA IDENTIFICATION

- (010) Exchange Carrier Study Area Code.
- (020) Contact Name: Person to contact for questions about this data.
- (030) Contact Telephone Number: Number of the person identified in Data Line (020).
- (040) Data Collection Period.

II. WORKING LOOPS

Working loops reported for USF must be as of the end-of-period identified on Data Line (040).

- (060) Total Loops: Enter the count of total Loops defined as Exchange Line Cable and Wire Facilities Subcategories 1.1 through 1.3. [Part 36.154 (a)]
- (070) Category 1.3 Loops: Enter the count of Category 1.3 Loops excluding Category 1.3 TWX (Teletypewriter Exchange service) loops. [Part 36.154 (a)]

III. INVESTMENT, PLANT OPERATIONS EXPENSE AND TAXES

Net Plant Investment

- (160) Account 2001 - Telecommunication Plant in Service
[Part 32.2001]
- (170) Account 1220 - Material and Supplies
[Part 32.1220]
- (190) Account 3100 - Accumulated Depreciation
[Part 32.3100]
- (195) Account 3400 - Accumulated Amortization - Tangible
[Part 32.3400]
- (210) Account 4340 - Net Non-current Deferred Operating Income Taxes
[Part 32.4340]

Note: Net Non-current Deferred Operating Income Taxes associated with the use of accelerated depreciation should be included in the amount reported for Account 4340 in the USF data collection.

- (220) Net Plant Investment -
Sum of Data Lines (160) + (170) minus Data Lines (190) through (210)

**BROADBAND HIGH COST LOOP FUND
DATA COLLECTION DESCRIPTION**

Selected Plant Accounts

- (230) Account 2210 - Central Office Switching Equipment
[Part 32.2210]

- (235) Account 2220 - Operator System Equipment
[Part 32.2220]

- (240) Account 2230 - Central Office Transmission Equipment
[Part 32.2230]

- (245) Total Central Office Equipment
Sum of Data Lines (230) through (240)

- (250) Circuit Equipment - Category 4.13
[Part 36.126]
Enter the investment in Central Office Equipment Category 4.13 including power and common equipment. Development of this amount must be consistent with Responsible Accounting Officer Letter 21, dated September 8, 1992.

- (255) Account 2410 - Cable and Wire Facilities - Total
[Part 32.2410]

- (260) Account 3100 (2210) - Accumulated Depreciation - Central Office Switching Equipment
[Part 32.3100]

- (265) Account 3100 (2220) Accumulated Depreciation - Operator System Equipment
[Part 32.3100]

- (270) Account 3100 (2230) - Accumulated Depreciation - Central Office Transmission Equipment
[Part 32.3100]

- (275) Account 3100 (2210 through 2230) - Total Accumulated Depreciation - Central Office Equipment
Sum of Data Lines (260) through (270)

- (280) Account 3100 (2410) - Accumulated Depreciation - Cable and Wire Facilities
[Part 32.3100]

**BROADBAND HIGH COST LOOP FUND
DATA COLLECTION DESCRIPTION**

Selected Plant Accounts - continued

(285) Circuit Equipment - Category 4.11 Wideband Exchange Line Circuit Equipment - Interstate

[Part 36.126 (b) (1) (i)]

Enter the investment in Central Office Equipment Category 4.11 including power and common equipment allocated or assigned to the Interstate jurisdiction.

(290) Circuit Equipment - Category 4.22 Interexchange Circuit Equipment Used for Wideband Services including Satellite and Earth Station Equipment used for Wideband Service - Interstate

[Part 36.126 (b) (2) (ii)]

Enter the investment in Central Office Equipment Category 4.22 including power and common equipment allocated or assigned to the Interstate jurisdiction.

(310) Account 4340 (2210) - Net Non-current Deferred Operating Income Taxes - Central Office Switching Equipment
[Part 32.4340]

(315) Account 4340 (2220) - Net Non-current Deferred Operating Income Taxes - Operator System Equipment
[Part 32.4340]

(320) Account 4340 (2230) - Net Non-current Deferred Operating Income Taxes - Central Office Transmission Equipment
[Part 32.4340]

(325) Account 4340 (2210 through 2230) - Net Non-current Deferred Operating Income Taxes - Central Office Equipment
Sum of Data Lines (310) through (320)

(330) Account 4340 (2410) - Net Non-current Deferred Operating Income Taxes - Cable and Wire Facilities
[Part 32.4340]

Plant Specific Operations Expense

(335) Account 6110 - Network Support Expense - Total
[Part 32.6110]

(340) Account 6110 - Benefits - Network Support Expense
The amount of Benefits included in Account 6110

(345) Account 6110 - Rents - Network Support Expense
The amount of Rents included in Account 6110

**BROADBAND HIGH COST LOOP FUND
DATA COLLECTION DESCRIPTION**

Plant Specific Operations Expense - continued

- (350) Account 6120 - General Support Expense - Total
[Part 32.6120]

- (355) Account 6120 - Benefits - General Support Expense
The amount of Benefits included in Account 6120

- (360) Account 6120 - Rents - General Support Expense
The amount of Rents included in Account 6120

- (365) Account 6210 - Central Office Switching Expense - Total
[Part 32.6210]

- (370) Account 6210 - Benefits - Central Office Switching Expense
The amount of Benefits included in Account 6210

- (375) Account 6210 - Rents - Central Office Switching Expense
The amount of Rents included in Account 6210

- (380) Account 6220 - Operator Systems Expense - Total
[Part 32.6220]

- (385) Account 6220 - Benefits - Operator Systems Expense
The amount of Benefits included in Account 6220

- (390) Account 6220 - Rents - Operator Systems Expense
The amount of Rents included in Account 6220

- (395) Account 6230 - Central Office Transmission Expense - Total
[Part 32.6230]

- (400) Account 6230 - Benefits - Central Office Transmission Expense
The amount of Benefits included in Account 6230

- (405) Account 6230 - Rents - Central Office Transmission Expense
The amount of Rents included in Account 6230

- (410) Accounts 6210-6230 - Central Office Expense - Total
Sum of Data Lines (365) + (380) + (395)

- (430) Account 6410 - Cable and Wire Facilities Expense - Total
[Part 32.6410]

**BROADBAND HIGH COST LOOP FUND
DATA COLLECTION DESCRIPTION**

Plant Specific Operations Expense – continued

(435) Account 6410 - Benefits - Cable and Wire Facilities Expense
The amount of Benefits included in Account 6410

(440) Account 6410 - Rents - Cable and Wire Facilities Expense
The amount of Rents included in Account 6410

(445) Total Plant Specific Expense -
Sum of Data Lines (335) + (350) + (365) + (380) + (395) + (430)

Plant Nonspecific Operations Expense

(450) Account 6530 - Network Operations Expense - Total
[Part 32.6530]

(455) Account 6530 - Benefits - Network Operations Expense
The amount of Benefits included in Account 6530

Depreciation and Amortization Expense

(510) Account 6560 (2210) - Depreciation and Amortization Expense -
Central Office Switching Equipment
[Part 32.6560]

(515) Account 6560 (2220) - Depreciation and Amortization Expense -
Operator System Equipment
[Part 32.6560]

(520) Account 6560 (2230) - Depreciation and Amortization Expense -
Central Office Transmission Equipment
[Part 32.6560]

(525) Account 6560 (2210 through 2230) - Depreciation and Amortization -
Central Office Equipment
Sum of Data Lines (510) through (520)

(530) Account 6560 (2410) - Depreciation and Amortization Expense -
Cable and Wire Facilities
[Part 32.6560]

**BROADBAND HIGH COST LOOP FUND
DATA COLLECTION DESCRIPTION**

Corporate Operations Expense

(535) Account 6710 - Executive and Planning Expense - Total
[Part 32.6710]

(540) Account 6710 - Benefits - Executive and Planning Expense
The amount of Benefits included in Account 6710

(550) Account 6720 - General and Administrative Expense - Total
[Part 32.6720]

(555) Account 6720 - Benefits - General and Administrative Expense
The amount of Benefits included in Account 6720

(565) Total Corporate Operations Expense
Sum of Data Lines (535) + (550)
Note: Corporate Operations Expense will be limited in accordance with §36.621(a)(4)

Other Expense and Revenues

(600) Benefits - The Benefits Portion included in all Plant Specific Operations Expense, Plant Non-specific Operations Expense, Customers Operation Expense and Corporate Operations Expense.

Note: Include the following accounts in the total reported for Data Line (600):

Account 6110 - Benefits - Network Support Expense [Data Line (340)]
Account 6120 - Benefits - General Support Expense [Data Line (355)]
Account 6210 - Benefits - Central Office Switching Expense [Data Line (370)]
Account 6220 - Benefits - Operator Systems Expense [Data Line (385)]
Account 6230 - Benefits - Central Office Expense - Transmission Equipment [Data Line (400)]
Account 6410 - Benefits - Cable and Wire Facilities Expense [Data Line (435)]
Account 6510 - Benefits - Other Property Plant and Equipment Expense [Not separately reported]
Account 6530 - Benefits - Network Operations Expense [Data Line (455)]
Account 6540 - Benefits - Access Expense [Not separately reported in Data Collection]
Account 6610 - Benefits - Marketing Expense [Not separately reported in Data Collection]
Account 6620 - Benefits - Service Expense [Not separately reported in Data Collection]
Account 6710 - Benefits - Executive and Planning Expense [Data Line (540)]
Account 6720 - Benefits - General and Administrative Expense [Data Line (555)]

**BROADBAND HIGH COST LOOP FUND
DATA COLLECTION DESCRIPTION**

Other Expense and Revenues

(610) Rents - The Rents portion included in all Plant Specific Operations Expense.

Note: Include the following accounts in the total reported for Data Line (610):

- Account 6110 - Rents - Network Support Expense [Data Line (345)]
- Account 6120 - Rents - General Support Expense [Data Line (360)]
- Account 6210 - Rents - Central Office Switching Expense [Data Line (375)]
- Account 6220 - Rents - Operator Systems Expense [Data Line (390)]
- Account 6230 - Rents - Central Office Expense - Transmission Equipment [Data Line (405)]
- Account 6410 - Rents - Cable and Wire Facilities Expense [Data Line (440)]

Operating Taxes

(650) Account 7200 - Operating Taxes

Include the sum of all Account 72xx subaccounts.

[Part 32.7200]

IV. PART 36 - COST SEPARATIONS STUDY DATA

(700) Cost Study Average Investment in Cable and Wire Facilities

Enter the average investment in Account 2410.

(710) Cost Study Average in Cable and Wire Facilities - Category 1: Exchange Line
Cable and Wire Facilities excluding Wideband

Enter the average investment assigned to Exchange Line Cable and Wire Facilities excluding Wideband - Category 1 (total Categories 1.1 through 1.3). Development of this amount must be consistent with Responsible Accounting Officer Letter 21, dated September 8, 1992.

[Part 36.152(a)(1)]

**(720) Cost Study Average in Cable and Wire Facilities - Category 2: Wideband and
Exchange Trunk Cable and Wire Facilities (Interstate)**

Enter the average investment assigned to Wideband and Exchange Trunk Cable and Wire Facilities - Category 2 (Interstate).

[Part 36.152(a)(2) and Part 36.155]

V. AMORTIZABLE TANGIBLE ASSETS

Complete this section if any portion of a study area's unseparated Cable & Wire Facilities - Category 1 or Category 2 and/or Central Office Equipment - Categories 4.11, 4.13 and 4.22 has been acquired under a capital lease.

(800) Account 2680 - Amortizable Tangible Assets

[Part 32.2680]

**BROADBAND HIGH COST LOOP FUND
DATA COLLECTION DESCRIPTION**

AMORTIZABLE TANGIBLE ASSETS - continued

(805) Account 2680 (2230) - Amortizable Tangible Assets - Central Office Transmission Equipment

Enter amount for equipment acquired under a capital lease (Account 2681). The type of equipment, if owned, would be booked to Account 2230.

[Part 32.2680, Part 32.2681]

(810) Account 2680 (2230) Amortizable Tangible Assets - Central Office Transmission Equipment Assigned to Category 4.13

Enter amount for equipment assigned to Category 4.13, acquired under a capital lease (Account 2681). The type of equipment, if owned, would be booked to Account 2230 and assigned to Category 4.13 in the Part 36 Cost Study.

[Part 32.2680, Part 32.2681]

(811) Account 2680 (2230) Amortizable Tangible Assets - Central Office Transmission Equipment Assigned to Category 4.11

Enter amount for equipment assigned to Category 4.11, acquired under a capital lease (Account 2681). The type of equipment, if owned, would be booked to Account 2230 and assigned to Category 4.11 in the Part 36 Cost Study.

[Part 32.2680, Part 32.2681]

(812) Account 2680 (2230) Amortizable Tangible Assets - Central Office Transmission Equipment Assigned to Category 4.22

Enter amount for equipment assigned to Category 4.22, acquired under a capital lease (Account 2681). The type of equipment, if owned, would be booked to Account 2230 and assigned to Category 4.11 in the Part 36 Cost Study.

[Part 32.2680, Part 32.2681]

(815) Account 2680 (2410) Amortizable Tangible Assets - Cable & Wire Facilities

Enter amount for equipment acquired under a capital lease (Account 2681). This type of facility, if owned, would be booked to Account 2410.

[Part 32.2680, Part 32.2681]

(820) Account 2680 (2410) - Amortizable Tangible Assets - Cable & Wire Facilities Assigned to Category 1

Enter amount for equipment assigned to Category 1 and acquired under a capital lease (Account 2681). This type of facility, if owned, would be booked to Account 2410 and assigned to Category 1 in the Part 36 Cost Study.

[Part 32.2680, Part 32.2681]

(830) Account 6560 (2680) Depreciation and Amortization Expense - Amortizable Tangible Assets

[Part 32.6560]

**Broadband High Cost Loop Fund
Loop Cost and Expense Adjustment Algorithms**

COST COMPANY BROADBAND LOOP COST ALGORITHM

| Line | Formula | Description |
|-------------|--|--|
| 1. | $(DL255 * (DL710/DL700)) + DL820$ | Cable & Wire Facilities plus C&WF portion of Capital Leases assigned to Category 1 |
| 1a. | $(DL255 * (DL720/DL700)) + DL821$ | Cable & Wire Facilities plus C&WF portion of Capital Leases assigned to Category 2 |
| 2. | $DL250 + DL810$ | Central Office Equipment plus COE portion of Capital leases assigned to Category 4.13 |
| 2a. | $DL285+DL290 +DL811+DL812$ | Central Office Equipment plus COE portion of Capital leases assigned to Category 4.11 and Category 4.22 |
| 3. | $AL1/(DL255 + DL815)$ | "A" Factor Cable & Wire Facilities. C&WF Category 1 divided by Total C&WF |
| 3a. | $AL1a/(DL255 + DL815)$ | "A2" Factor Cable & Wire Facilities. C&WF Category 2 divided by Total C&WF |
| 4. | $AL2/(DL230 + DL235 + DL240 + DL805)$ | "B" Factor Central Office Equipment. COE Category 4.13 divided by Total COE |
| 4a. | $AL2a/(DL230 + DL235 + DL240 + DL805)$ | "B2" Factor Central Office Equipment. COE Categories 4.11 & 4.22 divided by Total COE |
| 5. | $AL1/DL160$ | "C" Factor Cable & Wire Facilities Category 1(Gross Allocator) C&WF Category 1 divided by Total Plant in Service |
| 5a. | $AL1a/DL160$ | "C2" Factor Cable & Wire Facilities Category 2 (Gross Allocator) C&WF Category 2 divided by Total Plant in Service |
| 6. | $AL2/DL160$ | "D" Factor Central Office Equipment Category 4.13 (Gross Allocator) COE Category 4.13 divided by Total Plant In Service |
| 6a. | $AL2a/DL160$ | "D2" Factor Central Office Equipment Categories 4.11 & 4.22 (Gross Allocator) COE Categories 4.11 & 4.22 divided by Total Plant In Service |

Broadband High Cost Loop Fund
Loop Cost and Expense Adjustment Algorithms

| Line | Formula | Description |
|-------------|--|--|
| 7. | $AL5 * DL170$ | Materials & Supplies assigned to Cable & Wire Facilities Category 1 |
| 7a. | $AL5a * DL170$ | Materials & Supplies assigned to Cable & Wire Facilities Category 2 |
| 8. | $AL6 * DL170$ | Material & Supplies assigned to Central Office Equipment Category 4.13 |
| 8a. | $AL6a * DL170$ | Material & Supplies assigned to Central Office Equipment Categories 4.11 & 4.22 |
| 9. | $AL3 * ((DL280 + DL330) + (DL815/DL800) * DL195)$ | Accumulated Depreciation plus Accumulated Amortization plus Net Noncurrent Deferred Operating Income Taxes assigned to C&WF Category 1 |
| 9a. | $AL3a * ((DL280 + DL330) + (DL815/DL800) * DL195)$ | Accumulated Depreciation plus Accumulated Amortization plus Net Noncurrent Deferred Operating Income Taxes assigned to C&WF Category 2 |
| 10. | $AL4 * ((DL260 + DL265 + DL270 + DL310 + DL315 + DL320) + (DL805/DL800) * DL195)$ | Accumulated Depreciation plus Accumulated Amortization plus Net Noncurrent Deferred Operating Income Taxes assigned COE Category 4.13 |
| 10a. | $AL4a * ((DL260 + DL265 + DL270 + DL310 + DL315 + DL320) + (DL805/DL800) * DL195)$ | Accumulated Depreciation plus Accumulated Amortization plus Net Noncurrent Deferred Operating Income Taxes assigned COE Categories 4.11 & 4.22 |
| 11. | [Reserved] | |
| 12. | [Reserved] | |
| 13. | $AL3 * (DL430 - DL435 - DL440)$ | Cable & Wire Facilities Maintenance Expense assigned to Category 1 |
| 13a. | $AL3a * (DL430 - DL435 - DL440)$ | Cable & Wire Facilities Maintenance Expense assigned to Category 2 |
| 14. | $AL4 * (DL365 + DL380 + DL395 - DL370 - DL375 - DL385 - DL390 - DL400 - DL405)$ | Central Office Equipment Maintenance Expense assigned to Category 4.13 |
| 14a. | $AL4a * (DL365 + DL380 + DL395 - DL370 - DL375 - DL385 - DL390 - DL400 - DL405)$ | Central Office Equipment Maintenance Expense assigned to Categories 4.11 & 4.22 |

Broadband High Cost Loop Fund
Loop Cost and Expense Adjustment Algorithms

| Line | Formula | Description |
|-------------|---|---|
| 15. | $(AL5 + AL6) * (DL335 + DL350 - DL340 - DL345 - DL355 - DL360)$ | Network Support Expenses plus General Support Expenses assigned to C&WF Category 1 and COE Category 4.13 |
| 15a. | $(AL5a + AL6a) * (DL335 + DL350 - DL340 - DL345 - DL355 - DL360)$ | Network Support Expenses plus General Support Expenses assigned to C&WF Category 2 and COE Categories 4.11 & 4.22 |
| 16. | $(AL5 + AL6) * (L450 - L455)$ | Network Operations Expenses assigned to C&WF Category 1 and COE Category 4.13 |
| 16a. | $(AL5a + AL6a) * (L450 - L455)$ | Network Operations Expenses assigned to C&WF Category 2 and COE Categories 4.11 & 4.22 |
| 17. | $AL3 * (DL530 + ((DL815/DL800) * DL830))$ | Depreciation and Amortization Expense assigned to C&WF Category 1 |
| 17a. | $AL3a * (DL530 + ((DL815/DL800) * DL830))$ | Depreciation and Amortization Expense assigned to C&WF Category 2 |
| 18. | $AL4 * ((DL510 + DL515 + DL520) + ((DL805/DL800) * DL830))$ | Depreciation and Amortization Expense assigned to COE Category 4.13 |
| 18a. | $AL4a * ((DL510 + DL515 + DL520) + ((DL805/DL800) * DL830))$ | Depreciation and Amortization Expense assigned to COE Categories 4.11 & 4.22 |
| 19. | $(AL5 + AL6) * (DL535 + DL550)$ (Adjusted for Corporate Operations Expense Limitation) | Corporate Operations Expense assigned to C&WF Category 1 and COE Category 4.13, limited in accordance with §36.621(a)(4) |
| 19a. | $(AL5a + AL6a) * (DL535 + DL550)$ (Adjusted for Corporate Operations Expense Limitation) | Corporate Operations Expense assigned to C&WF Category 2 and COE Categories 4.11 & 4.22, limited in accordance with §36.621(a)(4) |
| 20. | $(AL5 + AL6) * DL650$ | Operating Taxes assigned to C&WF Category 1 and COE Category 4.13 |
| 20a. | $(AL5a + AL6a) * DL650$ | Operating Taxes assigned to C&WF Category 2 and COE Categories 4.11 & 4.22 |
| 21. | $(AL5 + AL6) * (DL600 - DL540 - DL555)$ | Benefits other than Corporate Operations Expense assigned to C&WF Category 1 and COE Category 4.13 |
| 21a. | $(AL5a + AL6a) * (DL600 - DL540 - DL555)$ | Benefits other than Corporate Operations Expense assigned to C&WF Category 2 and COE Categories 4.11 & 4.22 |

**Broadband High Cost Loop Fund
Loop Cost and Expense Adjustment Algorithms**

| Line | Formula | Description |
|-------------|---------------------------------|--|
| 22. | $(AL5 + AL6) * DL610$ | Rents assigned to C&WF Category 1 and COE Category 4.13 |
| 22a. | $(AL5 + AL6) * DL610$ | Rents assigned to C&WF Category 2 and COE Categories 4.11 & 4.22 |
| 23. | $(AL1 + AL7 - AL9) * 0.1125$ | Return Component for C&WF Category 1 |
| 23a. | $(AL1a + AL7a - AL9a) * 0.1125$ | Return Component for C&WF Category 2 |
| 24. | $(AL2 + AL8 - AL10) * 0.1125$ | Return Component for COE Category 4.13 |
| 24a. | $(AL2 + AL8 - AL10) * 0.1125$ | Return Component for COE Categories 4.11 & 4.22 |
| 25. | Sum of AL13 thru AL24 | Total Broadband Unseparated Costs |
| 26. | $AL25/DL060$ | Study Area Broadband Cost per Loop (SABCL) |

**Broadband High Cost Loop Fund
Loop Cost and Expense Adjustment Algorithms**

NATIONAL AVERAGE BROADBAND COST PER LOOP (NABCL) ALGORITHM

- **Cost Study Area Broadband Unseparated Costs =**
$$\text{Total Broadband Unseparated Costs} * (\text{Study Area USF Loops} / \text{Study Area Total Loops})$$

- **Nationwide Broadband Unseparated Costs =**
$$\begin{aligned} &\text{Sum of Cost Study Area Broadband Unseparated Costs} \\ &+ \text{Sum of Average Schedule Study Area Broadband Unseparated Costs} \end{aligned}$$

- **National Average Broadband Cost Per Loop (NABCL) =**
$$(\text{Nationwide Broadband Unseparated Costs}) / (\text{Nationwide USF Loops})$$

**Broadband High Cost Loop Fund
Loop Cost and Expense Adjustment Algorithms**

EXPENSE ADJUSTMENT ALGORITHM

Study Areas Reporting 200,000 or Fewer Loops

- In excess of 115% NABCL, but not greater than 150% NABCL, 65% SABCL x USF Loops
- In excess of 150% NABCL, 75% SABCL x USF Loops

Study Areas Reporting More Than 200,000 Loops

- In excess of 115% NABCL, but not greater than 160% NABCL, 10% SABCL x USF Loops
- In excess of 160% NABCL, but not greater than 200% NABCL, 30% SABCL x USF Loops
- In excess of 200% NABCL, but not greater than 250% NABCL, 60% SABCL x USF Loops
- In excess of 250% NABCL, 75% SABCL x USF Loops

**Broadband High Cost Loop Fund
Loop Cost and Expense Adjustment Algorithms**

BROADBAND HIGH COST LOOP RECOVERY ADJUSTMENT

- **Interstate Categories Unseparated Costs =**

Sum of 13a, 14a, 15a, 16a, 17a, 18a, 19a, 20a, 21a, 22a, 23a, 24a

Note: Sum of Unseparated Broadband Costs attributed to CWF Category 2 and
COE Categories 4.11 & 4.22

- **Interstate Categories Broadband Cost per Loop =** Interstate Categories Unseparated Costs / USF Loops

- **Percentage of SABCL attributed to Interstate Categories =**

Interstate Categories Broadband Cost per Loop / SABCL

- **Broadband High Cost Loop Recovery Adjustment =**

Percentage of SABCL attributed to Interstate Categories

x Total Broadband HCL Support per Loop

x USF Loops