

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of a Repository Docket in which to     )  
Gather Information about the Lifeline Program and     )     Case No. TW-2014-0012  
Evaluate the Purposes and Goals of the Missouri     )  
Universal Service Fund     )

**NOTICE OF COMMUNICATION**

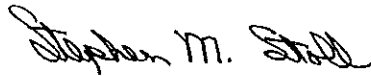
Issue Date: December 29th, 2014

The attached documents were received during a meeting with Richard Moore, Missouri Regulatory and Legislative Affairs, CenturyLink.

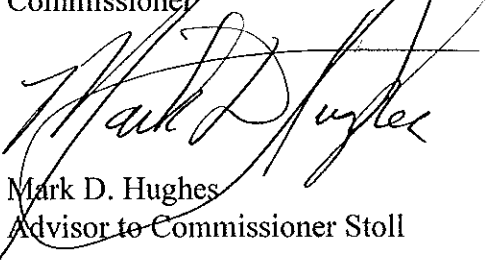
Commissioner Stoll and Mark Hughes met with Mr. Moore on Monday, December 22, 2014 at 11:00 a.m.

The Missouri Public Service Commission ("Commission") has promulgated rules denoted as the "Standards of Conduct" at 4 CSR 240-4.010 and 4.020. Section 4 CSR 240-4.20 specifically deals with Ex Parte and Extra-Record Communication Rules. This notice is filed in conformance with the rule.

Respectfully Submitted,



Stephen M. Stoll  
Commissioner



Mark D. Hughes  
Advisor to Commissioner Stoll

Dated at Jefferson City, Missouri,  
On this 29th day of December, 2014.

## Connect America Fund Phase II Order

CAF II is the FCC's program for providing support for the construction and operation of broadband capable networks in selected high cost areas served by price cap carriers<sup>1</sup> (PCC). The FCC's December 11, 2014 CAF II Order contemplates a two step process: (1) PCC will be provided a right of first refusal (ROFR) to take CAF II funding at a statewide level for a period 6-7 years; (2) If a PCC declines the ROFR, then the CAF II support and markets will be subdivided, auctioned, and the support will be paid to the winning bidder.<sup>2</sup> CAF II has the potential to benefit approximately 280,000 households in Missouri, approximately 157,000 households within CenturyLink Missouri territory.

The US Census Bureau divided the country up into census blocks<sup>3</sup> for the 2010 census, which the FCC used to determine eligibility for CAF II funds. In Missouri there are 184,400 census blocks<sup>4</sup>, resulting in approximately 3,096,205 living units which are potentially eligible for CAF II funds. The FCC then determined that if competition exists, which provides 10/1 mbps service for any single consumer in any census block, that census block would not be eligible for CAF II funds, which results in approximately 2,815,360 living units in Missouri becoming ineligible for CAF II support. This decision combined with the FCC's decision to not allow "substitution"<sup>5</sup> will result in gaps of service in relatively low cost areas to serve.<sup>6</sup> The FCC then set an extremely high cost of service threshold<sup>7</sup>, which removes any living units in these census blocks from CAF II eligibility, resulting in approximately 48,417 living units in Missouri which are ineligible for CAF II funds. The result of these limiting factors is approximately 149,837 living units in Missouri Price PCC service territory are eligible for CAF II funds.

Price Cap Carriers in Missouri (CenturyLink, AT&T, Windstream and FairPoint Communications) will have the opportunity to take CAF II funds in exchange of providing 10 mbps download / 1 mbps upload to at least 95% of living units in eligible census blocks in its service territory.<sup>8</sup> The order includes

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<sup>1</sup> CAF II only applies to Price Cap Carriers, Rate of Return Carriers will continue to receive funding as they do today until a similar program is developed in the future.

<sup>2</sup> There is no certainty that all census blocks will be bid on within the auction process, which will result in gaps of service in relatively low cost areas to serve.

<sup>3</sup> A census block is the smallest geographic unit used by the United States Census Bureau for tabulation of data. The number of blocks in the United States, including Puerto Rico, for the 2010 Census was 11,155,486. Blocks are typically bounded by streets, roads or creeks. In cities, a census block may correspond to a city block, but in rural areas where there are fewer roads, blocks may be limited by other features. The population of a census block varies greatly. There are about 2,700,000 blocks with a population of 0, while a block that is entirely occupied by an apartment complex might have several hundred inhabitants.

<sup>4</sup> The 2010 Census has Missouri's population at 5,988,927 within 184,400 census blocks resulting in approximately 32.5 people per census block.

<sup>5</sup> The ability of a service provider to choose to not provide 10/1 mbps service in an extremely high cost location, despite the FCC model providing CAF II funds for such location, and instead spend those funds in a more cost effective manner and serve more living units with 10/1 mbps service to consumers who live in an ineligible census block, but does not have any provider willing to serve at 10/1 mbps speeds to the entire census block.

<sup>6</sup> Due to the fact these living units are close in proximity to 10/1 service, this may be an area where the MO PSC could utilize State High Cost Funds to receive a high return of living units being served at 10/1 mbps speeds for its investment.

<sup>7</sup> "extremely high cost" means, the census block has a monthly cost-per-location, as calculated by the cost model, at or above the extremely high-cost threshold of \$207.81.

<sup>8</sup> PCC have 120 days after the CAF II Order is effective to inform the FCC if they will accept the ROFR.

“incentives for carriers to identify upfront areas encompassing at least 2 percent out of the 5 percent of the locations that they are no longer required to serve...”<sup>9 10</sup>

Finally, in the CAF II Order the FCC stated that with the removal of frozen support for voice services, universal service obligations (ETC Status) in certain areas will be removed for PCC. For example, the requirement in “low-cost census blocks where price cap carriers are not eligible to receive Connect America support, as well as census blocks where the carriers face competition” and when “replaced through a competitive bidding process by another subsidized carrier that is required to deliver voice and 10/1 broadband.”<sup>11</sup> The FCC also indicated that the process of granting forbearance in other areas will continue as the FCC “complete[s] reforms to the section 214(a) discontinuance process.”<sup>12</sup>

Total Missouri Price Cap Locations	Total # of Price Cap Locations in Census Blocks Subject to Offer of CAF II Funding	Total # of Price Cap Locations in Census Blocks Subject to Offer of CAF II Funding which do not have 10/1 mbps Service Offered	Total # of Price Cap Locations in Census Blocks Above Extremely High Cost Threshold	Total # of Price Cap Locations in Census Blocks Subject to Offer of CAF II Funding after Limiting Factors
3,096,205	280,845	198,254	48,417	149,837

**Missouri High Cost Fund Statute**

Section 392.248, RSMo, establishes the Universal Service Fund and provides that such funds shall only be used “to ensure the provision of reasonably comparable essential local telecommunications service, as that definition may be updated by the commission by rule, throughout the state including high-cost areas, at just, reasonable and affordable rates.” “Telecommunications service” is defined in Section 386.02,0 as “the transmission of information by wire, radio, optical cable, electronic impulses, or other similar means. As used in this definition, “information” means knowledge or intelligence represented by any form of writing, signs, signals, pictures, sounds, or any other symbols.”

<sup>9</sup> Concurring Statement of Commissioner Michael O’Rielly, re Connect America Fund, WC Docket No. 10-90. December 11, 2014.

<sup>10</sup> This fact may limit the time the Missouri PSC has to take make a decision regarding how and if to provide High Cost Funds to supplement CAF II funds in areas which will not be taken if no business case can be made to provide service with CAF II funds alone.

<sup>11</sup> FCC Press Release, re Connect America Fund, WC Docket No. 10-90. December 11, 2014.

<sup>12</sup> Statement of Chairman Tom Wheeler, re Connect America Fund, WC Docket No. 10-90. December 11, 2014.

## Things for the PSC to consider in Light of the FCC CAF II Order

1. If a Price Cap Carrier accepts the CAF II support, but the CAF II support does not make the business case to provide 10/1 mbps for the last 5% of living units, the Price Cap Carriers will return the CAF II money for these living units to the FCC. It appears that unless an entire census block is returned, those living units will not be part of any future auction.
  - o Should MO State High Cost Funds be contributed to combine with CAF II funds to make the business case for providing 10/1 mbps service to these living units? (Supplement CAF II)
  - o Should State High cost Funds be made available to make the business case for providing 10/1 mbps service to living units where competition exists in the census block, but service of 10/1 mbps is not available to the living unit? (Areas Not Allowed By Substitution Within CAF II)
  - o Should State High cost Funds be made available to make the business case for providing 10/1 mbps service to living units deemed by the FCC to be “Extremely High Cost” and thus excluded from CAF II? (Extreme High Cost Areas)
  - o If no CAF II or State High Cost Funds for Broadband:
    - Should State High Cost Funds be used in high cost areas where federal ETC status no longer exists (no carrier of last resort requirement exists) to provide voice services?
    - Should State High Cost Funds be used in high cost areas where federal ETC status may still exist, but the location is outside of the “reasonableness” area established by the FCC, and thus carriers will not provide voice services without additional financial resources<sup>13</sup>?
2. If a Price Cap Carrier does not take a CAF II state-wide obligation and the census block goes to auction:
  - o For the living units within census blocks that are awarded but may remain underserved from the 10/1 mbps level (based on a possible CAF II high cost waiver similar to the 5% allowed for carriers taking the state-wide obligation), should State High Cost Funds be contributed to combine with CAF II funds to make the business case for providing 10/1 mbps service to these living units? (Supplement CAF II)

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<sup>13</sup> Today under a waiver by the FCC, certain telecommunication providers will not extend their network in a high cost area beyond what can be done for approximately \$750, unless the homeowner pays the additional expenses to establish service.

- Should State High cost Funds be made available to provide 10/1 mbps service to living units where competition exists in the census block, but service of 10/1 mbps is not available to the living unit? (Areas Not Allowed By Substitution Within CAF II)
- Should State High cost Funds be made available to make the business case for providing 10/1 mbps service to living units deemed by the FCC to be Extremely High Cost and thus excluded from CAF II? (Extreme High Cost Areas)
- For the living units within eligible census blocks that are not taken at auction, and thus no CAF II funds, should State High Cost Funds be used to provide 10/1/ service?
- If no CAF II or State High Cost Funds for Broadband:
  - Should State High Cost Funds be used in high cost areas where federal ETC status no longer exists (no carrier of last resort requirement exists) to provide voice services?
  - Should State High Cost Funds be used in high cost areas where federal ETC status may still exist, but the location is outside of the “reasonableness” area established by the FCC, and thus carriers will not provide voice services without additional financial resources<sup>14</sup>?

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## USF Assessments

- Until October 2014, the USF Assessment Rate was 0.0017 and brought in approximately \$125,000 per month.
  - Starting in November 2014, the USF Assessment Rate was lowered to 0.0010 and is estimated to bring in approximately \$73,000 per month. Case No. TO-2014-0333
  - An Assessment Rate increase of .00001 equals approximately \$730 per month.
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### Additional USF Assessments Needed for Last 5%

- Eligible CAF II Living Units: Cost<sup>1</sup>
  - o CenturyLink 52% \$881,315
  - o AT&T 40% \$677,935
  - o WindStream 7% \$118,638
  - o FairPoint Less than 1% \$16,948

Total: \$1,694,836
- Assuming CTL can take CAF II funds for approximately 103,378 Living Units and the total amount of CAF II Funds for these sites are \$70,506,559 (\$682 per living unit) per year for 7 years:
  - o CTL could return CAF II Funds for 5,169 Living Units (5%) = \$3,525,258 per year / \$24,676,806 total to the FCC.
  - o Assuming costs to deploy to the last 5% of living units is 25%<sup>2</sup> higher than the CAF II funds per living unit, the additional revenue needed to build to last 5% would be approximately \$170 per living unit, per year / \$881,315 per year for all living units.
    - A .0010065 Assessment Rate increase would be needed to generate \$73,475 per month / \$881,700 per year, for a period of 7 years.
      - This results in approximately 5 cent per month increase on a \$50 bill.

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<sup>1</sup> Based on percentage of market share x \$16,948.

<sup>2</sup> This percent is only meant to illustrate the point and the actual number could be higher or lower than 25%.