



FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON

OFFICE OF  
THE CHAIRMAN

June 16, 2014

The Honorable Mark Begich  
United States Senate  
111 Russell Senate Office Building  
Washington, D.C. 20510

Dear Senator Begich:

Thank you for your letter expressing views about the development of the forward looking cost model to determine ongoing universal service support to areas served by price cap carriers, known as Connect America Fund (CAF) Phase II. I understand your concerns about the impact of the universal service fund (USF) reforms on carriers serving Alaska given the unique challenges of expanding broadband infrastructure in your state. Your letter also will be included in the record of the proceeding.

On April 22, 2014, after conducting an open, transparent, and deliberative process to adopt a cost model, the Commission's Wireline Competition Bureau released an *Order* adopting the cost model platform. Throughout this process, the Bureau solicited feedback on model design and inputs through Public Notices and a "virtual workshop," made available model documentation and illustrative results multiple times, and made several presentations regarding the model and CAF Phase II implementation. The Bureau also released multiple working versions of the proposed forward-looking cost model, with each successive version containing refinements and improvements over the prior version.

A number of outside parties, including Alaska Communications System (ACS), actively participated in the model development process. The information provided in the carrier's numerous filings was given full consideration as the cost model was developed. Bureau staff also met extensively with representatives of ACS and responded to the carrier's concerns by incorporating additional inputs to the model to take into account the unique challenges of serving Alaska, such as: allowing for buried plant to be placed in conduit systems in non-contiguous areas to provide additional protection from harsh conditions; modifying the methodology for determining terrain in non-contiguous areas; amending the cost and investment associated with undersea cables; and classifying ACS as a small carrier for purposes of calculating its operating expenses.

The Bureau's *Order* also provided carriers serving non-contiguous areas, such as Alaska, with the option of continuing to receive frozen high-cost support rather than model-based support. In addition, as part of a *Further Notice of Proposed Rulemaking (CAF Phase II FNPRM)* the Commission adopted on April 23, 2014, we are seeking comment on what public interest obligations should attach to the acceptance of those funds. We look forward to hearing from interested parties as we continue to move forward on the implementation of the CAF.

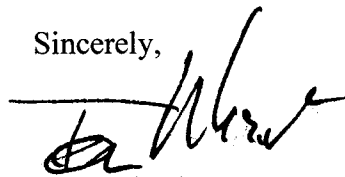
Because there has been rapid private sector expansion of mobile broadband service since 2011, the Commission is exploring whether to retarget Mobility Fund Phase II support to ensure best possible use of the funds and the preservation of mobile voice and broadband service in areas that otherwise would not have such service through marketplace forces. The *CAF Phase II FNPRM* adopted in April specifically seeks comment on measures to provide stability regarding the amount of competitive eligible telecommunications carriers support for providers serving remote Alaska, and asks whether to preserve the existing amount of Mobility Fund Phase II budget for Tribal lands throughout the nation, including those in Alaska.

In the 2011 *USF/ICC Transformation Order*, the Commission eliminated and phased out safety net additive support (SNA) because the majority of incumbent carriers qualified for SNA due to line loss rather than additional network investment. The recent *Seventh Order on Reconsideration* permits carriers that would have qualified for SNA based on increased investment in 2010 or 2011 to receive such support. However, the Commission declined to extend the phase down of SNA support for carriers that had previously received SNA support due to line loss, such as Ketchikan Public Utilities.

With respect to your concerns on the rate floor, while the Commission's rules do not require carriers to raise their local rates, we recognized concerns over potential rate increases and possible difficulties some carriers may experience in making any rate adjustments at the state level in a short period of time. To address these concerns, the Commission *Order* adopted in April implements a multi-year phase-in for any potential universal service support reductions associated with the rate floor. The Commission delayed support reductions stemming from the new rate floor until January 2015. Between January and July 2016, universal service support reductions will only occur for those lines with rates below \$16. Any future support reductions associated with the rate floor (which will be updated annually) will be phased in gradually through 2018.

I appreciate your interest in these matters. Please let me know if I can be of any further assistance.

Sincerely,



Tom Wheeler



FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON

OFFICE OF  
THE CHAIRMAN

June 16, 2014

The Honorable Lisa Murkowski  
United States Senate  
709 Hart Senate Office Building  
Washington, D.C. 20510

Dear Senator Murkowski:

Thank you for your letter expressing views about the development of the forward looking cost model to determine ongoing universal service support to areas served by price cap carriers, known as Connect America Fund (CAF) Phase II. I understand your concerns about the impact of the universal service fund (USF) reforms on carriers serving Alaska given the unique challenges of expanding broadband infrastructure in your state. Your letter also will be included in the record of the proceeding.

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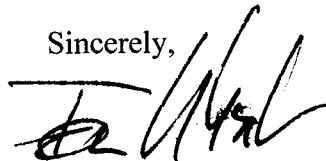
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I appreciate your interest in these matters. Please let me know if I can be of any further assistance.

Sincerely,

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Tom Wheeler



FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON

OFFICE OF  
THE CHAIRMAN

June 16, 2014

The Honorable Don Young  
U.S. House of Representatives  
2314 Rayburn House Office Building  
Washington, D.C. 20515

Dear Representative Young:

Thank you for your letter expressing views about the development of the forward looking cost model to determine ongoing universal service support to areas served by price cap carriers, known as Connect America Fund (CAF) Phase II. I understand your concerns about the impact of the universal service fund (USF) reforms on carriers serving Alaska given the unique challenges of expanding broadband infrastructure in your state. Your letter also will be included in the record of the proceeding.

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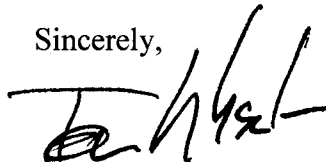
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