December 6, 2013

Via ECFS

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Room TW-A325
Washington, D.C. 20554

Re: WC Docket No. 10-90

Dear Ms. Dortch:

This is to notify you, as required by 47 CFR § 1.1206(b)(1), that the undersigned, along with Michael Katzenstein of FTI Consulting; Shawn O’Donnell, President of Virgin Islands Telephone Corporation d/b/a Innovative Communications; and Don Parrish of Parrish, Blessing & Associates, made an oral presentation regarding the above-referenced proceeding on December 3, 2013, to Carol Mattey, Alexander Minard, Katie King, Talmage Cox, and Steven Rosenberg of the Wireline Competition Bureau staff.

During the presentation, Innovative discussed its network modernization program and the need for ongoing Federal universal service support for the financing, operation, and maintenance of its broadband network due to the extreme high-cost characteristics of the U.S. Virgin Islands. Innovative will have invested $95 million over three years to upgrade its network to make broadband capability available to every resident and business in the USVI. Upon completion, the territory will go from last in the Nation in broadband availability (with no wireline broadband of 1 Mbps or higher capacity available as of the end of 2011) to 99% availability. Despite this progress, broadband adoption remains a significant challenge in the USVI due to economic and demographic factors, and the company intends to focus ongoing efforts on educating the public about the value and benefits of broadband Internet access.

As a price cap carrier, Innovative’s eligibility for ongoing high-cost support will depend on the results of the Connect America Cost Model, which is under development by the Wireline Competition Bureau. As Innovative has stressed in past filings in this docket, and as the Commission recognized in paragraph 193 of the Transformation Order in November 2011, the cost of network construction and operation in insular territories such as the USVI is markedly higher than in the contiguous United States, and the model must recognize these economic characteristics of the territory if it is to produce meaningful results that will result in sufficient support.
Innovative explained that since it has rebuilt nearly all its network within the past two calendar years, its actual costs provide good evidence of the forward-looking cost of constructing broadband-capable networks in the USVI. It described a number of challenges that increased its capital and maintenance costs, including (among others) the very difficult, mountainous, rocky terrain of the islands; the climate; high material and equipment costs due to shipping, customs duties, and other factors; high labor costs due to the limited supply of skilled labor in the territory, and the added cost of recruiting off-island workers due to the high cost of living; and the high cost and unreliable supply of electricity in the USVI. As a result, the cost per node to construct a broadband-capable network on the three main islands of the USVI exceeded the cost to construct similar networks in the most expensive business districts of the mainland United States, including Manhattan.

Innovative also discussed the proposed input cost factors it filed on September 19, 2013, for use in the cost model. Innovative appreciates the fact that the staff has incorporated a portion of these inputs into the most recent version of the model, but urged the staff to give further consideration to the labor costs included in that submission, and undertook to submit additional documentation to support these cost inputs. Innovative also noted that the inter-island submarine cable distances used in CACM version 4.0 differ from the actual distances that it had provided to the Commission’s contractor, and stated that it was seeking an explanation of this discrepancy from the contractor. Innovative further noted that it has focused its efforts on documenting discrete cost inputs for which its recent construction activities provide direct, real-world evidence of forward-looking costs, but that this approach cannot be applied to all elements of the CACM because of differences between the model’s assumed network design and the actual design used by Innovative. Thus, even if the Bureau accepts all of Innovative’s proposed inputs, some adjustment to the regional cost factor may be necessary to capture the cost differences between the contiguous states and the USVI. Innovative intends to propose further specific adjustments to the model in the near future.
Sincerely yours,

/s/ Russell M. Blau

Russell M. Blau

cc: Carol Mattey
    Alexander Minard
    Katie King
    Talmage Cox
    Steven Rosenberg
    Michael Katzenstein
    Shawn O'Donnell
    Don Parrish