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February 6, 2013

Via ECFS

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

**Re: American Cable Association (“ACA”) *Ex Parte* Filing on the Connect America Cost Model, WC Docket Nos. 10-90 and 05-337**

Dear Ms. Dortch:

Yesterday, Ross Lieberman (ACA) and the undersigned, Thomas Cohen (Kelley Drye & Warren LLP), had a telephone call with Michael Steffen, Legal Advisor to Chairman Genachowski. The purpose of the call was to discuss next steps in the Commission’s Connect America Fund Phase II cost model proceeding. In the near term, ACA intends to analyze the most recent version of the cost model developed by the Commission and provide comments on key issues that make a significant difference in the models determination of the cost to provide service to locations without broadband and the amount of support required. These key issues include:

1. **Model Design: Brownfield versus Greenfield Build:** A brownfield model fits both the actual network build and provides sufficient recovery for investment by price cap carriers. (The cost floor should be analyzed and determined after the model design is finalized.)
2. **Capital Recovery for Locations with Existing Broadband Service by a Price Cap Carrier:** Regardless of whether a brownfield or greenfield model is chosen, locations with existing broadband that meet the 4/1 Mbps performance requirement should not receive support for any portion of the network investment as it is already operational.
3. **Definition of Competitive Locations:** Given the recent deployment/availability of fixed LTE broadband in certain rural areas, extending the definition of competitive locations from areas with competitive cable providers to those with cable or fixed

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wireless providers would reduce the number of eligible locations, allowing support to be concentrated in the areas that need it most.

4. **Alternative Technology Cutoff:** Based on an analysis of modeled costs for unserved locations, there is a significant variance in the modeled estimates for the most costly locations. The model appears to be less accurate for these “tail” locations, and therefore could result in a larger margin of error for the most costly per-location subsidies. By decreasing the alternative technology cutoff, the model can be used for areas where its estimates are most accurate, and an alternate mechanism can be used to determine support for the highest cost areas.
5. **Weighted Average Cost of Capital (WACC):** The modeled WACC is too high given low interest rates and analyst projections for the price cap carriers’ actual cost of capital.
6. **SG&A Costs:** SG&A costs are likely overstated as they are linearly linked to capital expenses. Price cap carriers, who are large operators with scale, generally have operating leverage for SG&A costs and, as revenues increase, the incremental SG&A expense per dollar of revenue declines. The cost model does not account for this reality. Moreover, the Commission should not provide an incentive for inefficient structures.
7. **Plant Mix:** The plant mix assumptions should include a greater proportion of aerial plant which is less costly to build and is likely more appropriate for less dense areas.

This letter is being filed electronically pursuant to section 1.1206 of the Commission’s rules.

Sincerely,



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cc: Michael Steffen, Steve Rosenberg, Carol Matthey, David Zesiger