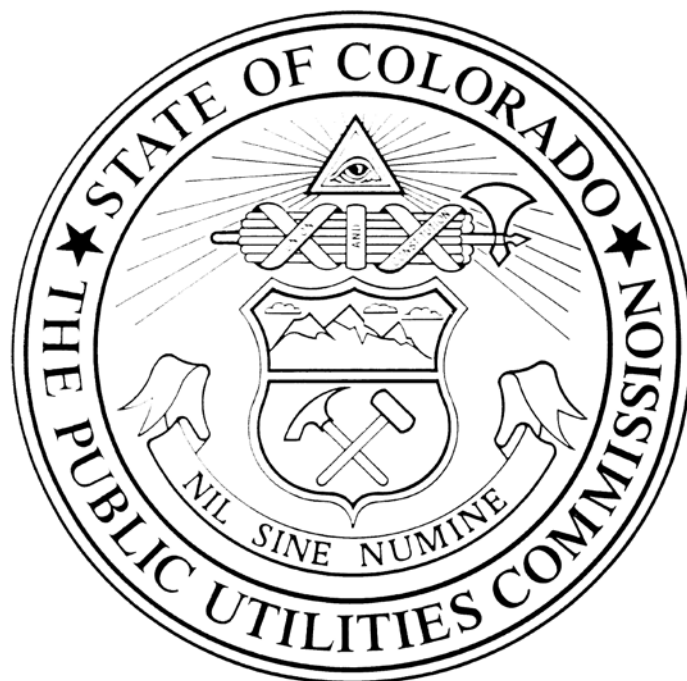


2014 Annual Report of the  
Colorado High Cost Support Mechanism



Prepared by:

The Colorado Public Utilities Commission Staff

December 1, 2014



**COLORADO**

**Department of  
Regulatory Agencies**

Public Utilities Commission

Joshua B. Epel, Chairman  
Pamela J. Patton, Commissioner  
Glenn A. Vaad, Commissioner  
Doug Dean, Director

Barbara J. Kelley, Executive Director  
John W. Hickenlooper, Governor

December 1, 2014

The General Assembly  
State Capitol Building  
Denver, Colorado 80203

Dear General Assembly Member:

The attached report on the Colorado High Cost Support Mechanism (HCSM) for 2014 is hereby submitted to the House Economic and Business Development and the Senate Business, Labor and Technology Committee, in accordance with section 40-15-208, C.R.S. The full report contains an accounting of the operation of the HCSM for 2014 and proposed operations for calendar year 2015. An executive summary is provided at pages three and four and includes a discussion of the affect of declining contributions on the fund.

The HCSM was created in House Bill 95-1335 to provide financial assistance to local exchange providers to help make basic local exchange service affordable and allow such providers to be fully reimbursed for the difference between the reasonable costs incurred in making basic service available to their customers within a rural, high cost geographic support area and the price charged for such service.

If I can be of further assistance to you, please let me know.

Sincerely,

Doug Dean  
Director



**Annual Report of the  
Colorado High Cost Support Mechanism  
to the General Assembly  
December 1, 2014**

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## Executive Summary

The High Cost Support Mechanism (HCSM) fund for the first time will be facing a negative balance in 2015 that must be addressed by the beginning of the second quarter. In 2014, the HCSM fund was negatively affected by a significant decline in contributions. That trend appears to be a permanent situation.

While the current fund balance is approximately \$4.4 million and there will be sufficient funds to meet the 4th quarter 2014 and 1st quarter 2015 fund obligations, the fund will have a negative balance by the 2nd quarter next year with insufficient funds to meet the disbursement requirements. This is because contributions in 2014 based on telecom providers' intrastate revenues declined generally by approximately 10 percent. Total projected contributions in 2015 to the HCSM fund are estimated to be \$46.6 million while projected distributions are estimated to total \$53.1 million. There continues to be a steady decline in wireline revenues as consumers abandon wireline service. Additionally, highly competitive wireless price plans and the proliferation of consumer data packages have resulted in a significant decline in wireless contributions.

In 2014 the Colorado General Assembly enacted five Telecom Reform Bills, two of which affected the HCSM directly. House Bill (HB) 14-1328 and HB 14-1331 generally deregulated many services including basic voice service, with enumerated exceptions, while retaining the HCSM fund. These bills introduced some uncertainty as to the requirement for contributions to the fund. At the same time, the newly created Broadband Fund enacted by HB 14-1328, enables the Commission to transfer HCSM funds to the Broadband Fund, but sets limits that only allows funds to be transferred that were collected at the surcharge rate in effect on May 10, 2014, and that are no longer needed to support universal basic service in Colorado in areas determined to be effectively competitive. The Commission must balance this intent to aid the

development of broadband services with the continued need to fund voice service in high cost rural areas.

For the remainder of 2014 and 1st quarter of 2015, the surcharge will remain at the current rate of 2.6 percent. This rate has been in effect since April 1, 2013. The funding level in 2014 was sufficient to fund required HCSM distributions and to transfer \$200,000 of startup funding plus approximately \$3.1 million to the Broadband Fund that will be paid out in the 1st quarter of 2015. By the 2nd quarter of 2015, the Commission will have additional information to analyze the projected deficit and reconcile the competing demands of HCSM funding for voice services and the Broadband Fund. The new statutes do not allow HCSM contributions collected through a surcharge greater than the 2.6 percent in effect when the statutes became law to be transferred to the Broadband Fund. Raising the surcharge above 2.6 percent will therefore eliminate the availability of funding to the Broadband Fund in those periods that are subject to the higher surcharge in 2015. Alternatively, the Commission may reduce funding available for voice services in high cost rural areas.

## Introduction

The Commission is required to submit a written report of the HCSM to the General Assembly on or before December 1st each year pursuant to § 40-14-208, C.R.S. The report provides a detailed overview of the operations of the HCSM for the calendar year 2014 and proposed operations for the calendar year 2015. Specifically the report identifies total contributions by carrier type, a discussion of declining contributions and the impact in meeting 2015 disbursement requirements. The report also discusses HCSM distribution totals and specific distributions to telecom providers in 2014 and anticipated 2015 disbursement requirements. The report provides information regarding the Commission's administration and administrative cost of the HCSM. Appendix 1 to this report provides additional contribution and distribution financial detail. Appendix 2 provides a history of the HCSM. Appendix 3 contains detail regarding recent enacted telecom reform legislation and current Commission Proceedings. Appendix 4 provides information regarding the coordination of the HCSM and Federal universal service support.

## HCSM Fund Operations

The Commission serves as the administrator for billing, collection, and disbursement functions for the HCSM. It also collects information regarding contributing entities and end-user intrastate telecommunications revenues, submits projections of demand, determines benchmarks used, determines the amount of distributions made from the HCSM, and records the cost of administrative expenses. The goal of the HCSM Administrator is to set a surcharge rate at the appropriate level to generate projected contributions necessary to match projected distributions while maintaining a sufficient fund reserve necessary to manage cash flow and unpredicted events (e.g. new HCSM applications).

Administration of the fund consists of two primary functions - Contributions and Distributions.

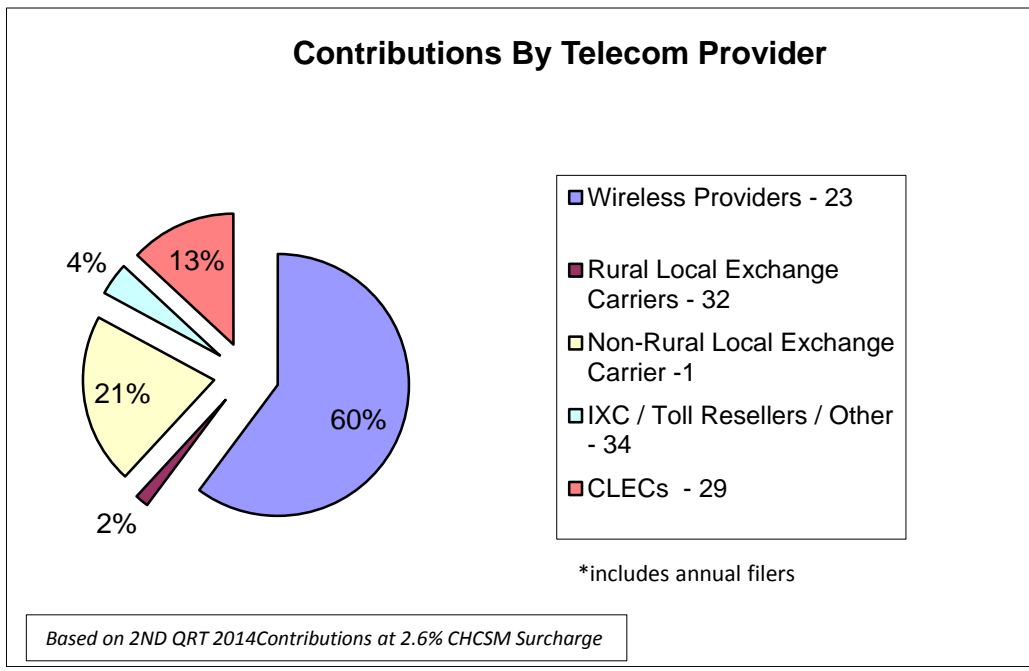
### Contributions

Contributions are made to the HCSM through a rate element assessment also known as the Colorado Universal Service Charge on telecom providers' intrastate telecommunications service revenues. Telecom providers may, and do, generally pass along the charge on their end user bills. Telecom providers are required by Public Utilities Commission of the State of Colorado (Commission or PUC) rules to report intrastate revenues on the HCSM worksheet twice a year (March 31 for the previous calendar year and September 1 for the first six months of the current year). The Administrator uses these worksheets to calculate and invoice the telecom provider on a quarterly basis based on their prior revenues reported on the HCSM worksheets. Telecom providers, other than those that are *de minimis*, are invoiced quarterly by the Administrator. Current rules do not require telecom providers that are considered *de minimis* (less than \$5,000 annual HCSM contributions which equates to \$192,308 in annual revenues), to contribute to the fund. However, any reseller of telecom services must notify its underlying carrier whether it contributes directly to

the HCSM fund or if the telecom provider should be treated as an end-user and the underlying provider of telecom services contributes the amount to the HCSM fund on behalf of the reseller.

In 2014, an average of 119 telecom providers contributed to the HCSM fund, an increase from the 110 carriers contributing in 2013. Although the number of telecom providers contributing to the fund in 2014 is higher than in 2013, the estimated 2014 total contribution amount is \$47,683,649 which is \$5.2 million or 10 percent less than contributed in 2013. The Colorado universal service rate element is currently 2.6 percent. The rate element has been 2.6 percent since April 1, 2013.

The chart below depicts the approximate 2014 number of contributors by telecom provider type and percentage of contributions to the fund.





In 2014, contributions from all telecom providers except Competitive Local Exchange Carriers (CLECs), decreased.<sup>1</sup> Twenty nine CLECs, including Comcast Phone of Colorado, LLC that offers Voice over Internet Protocol (VoIP) services, continue to pay into the fund. Comparing the second quarter 2014 contributions to fourth quarter 2013 contributions, CLEC contributions increased approximately four percent whereas other telecom providers contributions decreased: wireless approximately nine percent, Rural Local Exchange Carriers (RLECs) five percent, Qwest Corporation, doing business as CenturyLink QC (Qwest) four percent, and interexchange carriers (IXCs) and toll resellers eight percent.

The decrease in contributions is not unique to Colorado, but is also occurring on a national level. The Federal Universal Service Fund (USF) revenues for 2014 are forecasted to be the lowest in history, resulting in the most recent increase in the Federal USF contribution factor from 15.7 percent to 16.1 percent. The Federal Communications Commission (FCC) recently opened a proceeding (FCC 14-116) to address any necessary changes in the USF contributions base and/or methodology and referred it to the USF Joint Board. The FCC requested that the Joint Board present its recommendations to the Commission no later than April 7, 2015.

Commission Staff (Staff) is analyzing the underlying factors contributing to the decreasing contributions. Preliminary investigation indicates that wireless contribution decreases are the result of both competitive pricing which leads to reduced revenues, and the trend of wireless providers offering data packages that include voice minutes for free. The offering of data packages, with the data being the primary revenue driver, appears to be driving declining voice revenue on which the HCSM surcharge is assessed. The wireline industry is also experiencing declining contributions as customers abandon traditional landline service.

Also putting pressure on contributions for 2015 and beyond is the deregulation of services pursuant to HB 14-1329 and HB 14-1331 that are subject to the Colorado

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<sup>1</sup> Based on 2nd Quarter 2014 contributions.

Universal Service Charge.<sup>2</sup> It is unclear whether there will be further impacts to the contributions to the fund. Should certain providers decline to collect the Colorado Universal Service Charge and pay into the HCSM because of the recent legislation, the total contributions could further fall short of predicted distributions.

Other states are also actively investigating this issue. The Nebraska Public Service Commission (Nebraska Commission) has found that the assessable base for contributions continues to erode as customers migrate to services on which the Nebraska state surcharge is not remitted and therefore, not contributing to the state fund. The Nebraska Commission also found that competitive distortions permitted by the federal USF mechanism have also resulted in differing contribution obligations for the same services and that due to the strain on the federal universal service mechanism to generate surcharge revenues to meet all federal USF obligations, safe harbor allocations<sup>3</sup> have resulted in more and more surcharge revenues being captured by federal rather than by state support mechanisms. As a result, the Nebraska Commission is considering an option which would move the contributions base to a number-based system rather than revenue based system. This would involve assessing a flat amount for each telephone number.

Most recently, the California Public Utilities Commission (CA-PUC) approved an order almost doubling the California High Cost Fund-A (CHCF-A) surcharge rate from 1.8% to 3.5% effective January 1, 2015. All telecommunications carriers and interconnected Voice over Internet Protocol (VoIP) service providers must charge the CHCF-A surcharge rate assessed on revenues collected from end users for intrastate telecommunications service. The CA-PUC noted that if the surcharge rate remains at 1.8%, the CHCF-A fund balance would decrease from approximately \$20 million as of June 30, 2014, to zero by around October 2015, completely depleting the fund, and compromising the CHCF-A program's ability to provide support to the small ILECs. The CA-PUC Staff stated that the fund has already been reduced to less than a reasonable

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<sup>2</sup> See Appendix 2 for more information on the 2014 legislation.

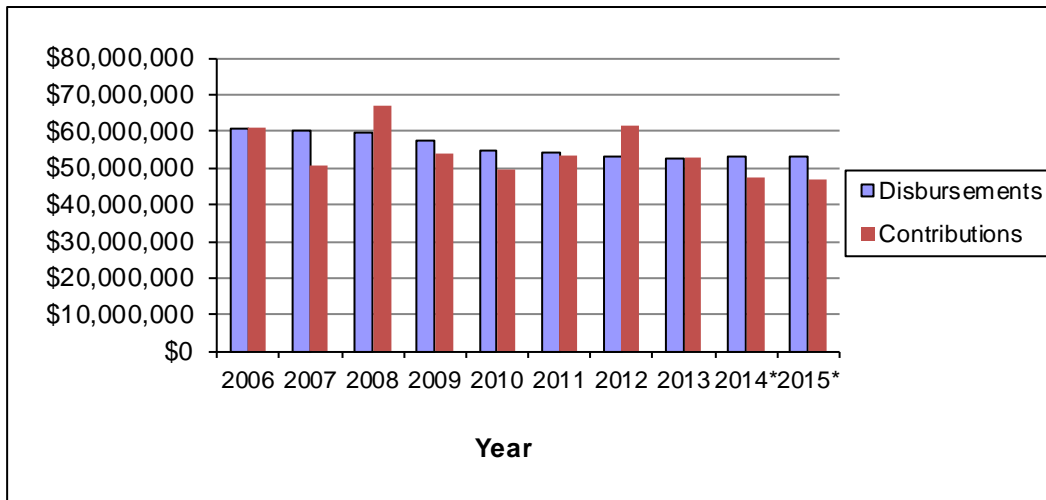
<sup>3</sup> The FCC has guidelines for reporting interstate/international percentages for wireless telecommunications revenues. The allocation to interstate is currently 62.9%.

six-month reserve.

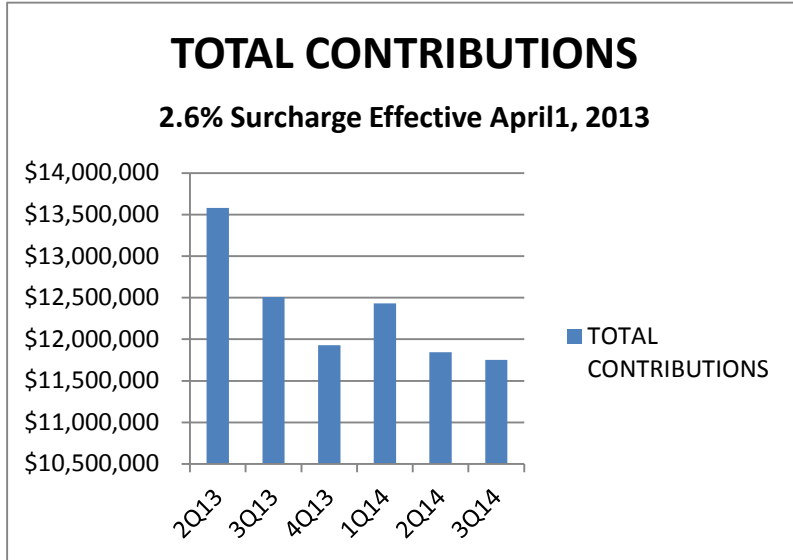
In New Mexico, Solix (the fund administrator) recommended that the Public Regulation Commission increase the New Mexico State Rural Universal Service Fund (NMSRUSF) assessment rate to 3.62 percent for 2015 in order to maintain an adequate fund size. Solix projected a 5 percent decrease in assessable revenues based on economic conditions and competitive pricing erosion. However, the New Mexico Commission capped their surcharge at 3% and will cap the amount of support that carrier's receive

The following charts demonstrate the declining contribution trend:

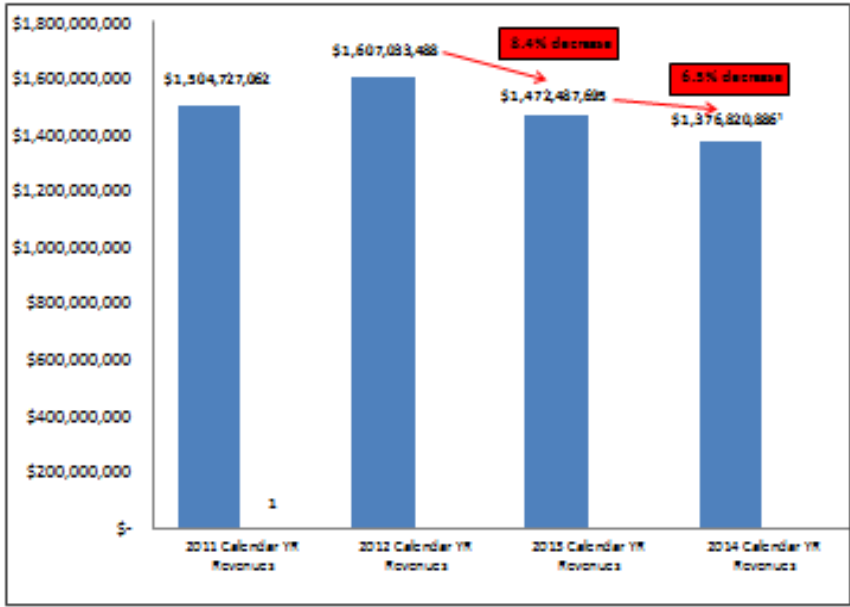
**Summary of Contributions and Disbursements**



\* Contributions and Disbursements for the years 2014 and 2015 are estimated.



### Total 2011 through 2014 Calendar Year Intrastate Revenues



\*2014 Calendar year revenues estimated based on first six months actuals

Section 40-15-208(2)(c), C.R.S., provides that if the Commission, through this report, proposes an increase above the amount contained in the previous calendar year's report in any of the following: (1) the proposed benchmark; (2) the contributions to be collected through a rate element; or (3) the total amount of distributions to be made for support in high cost areas, then such increase shall be suspended until March 31 of the budget year.

For the remainder of 2014 and 1st quarter of 2015, the surcharge will remain at the current rate of 2.6 percent. This rate has been in effect since April 1, 2013. The funding level in 2014 was sufficient to support required HCSM distributions and to transfer \$200,000 of startup funding plus approximately \$3.1 million to the Broadband Fund that will be paid out in the 1st quarter of 2015. By the 2nd quarter of 2015, the Commission will have additional information to analyze the projected deficit and reconcile the competing demands of HCSM funding for voice services and the Broadband Fund. The new statutes do not allow HCSM contributions collected through a surcharge greater than the 2.6 percent in effect when the statutes became law to be transferred to the Broadband Fund. Raising the surcharge above 2.6 percent will eliminate the availability of funding to the Broadband Fund in those periods that are subject to the higher surcharge in 2015. Alternatively, the Commission may reduce funding available for voice services in high cost rural areas. Analysis of end of year 2014 contributions will allow the Commission to determine the appropriate surcharge rate for second quarter 2015, which may require an increase up to 3.4 percent.<sup>4</sup>

## Distributions

As Administrator, the Commission oversees all distributions from the HCSM. Distributions from the fund are provided to Eligible Providers (EPs) who serve customers in non-effectively competitive high cost geographic areas. The HCSM fund is currently capped at \$54,000,000. A telecom provider must be designated by the Commission as an Eligible Telecommunications Carrier (ETC) in order to receive

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<sup>4</sup> See Appendix 1 – Yearly HCSM Rate Element Table

Federal Universal Funds and be designated as an EP and an ETC to receive funds from the HCSM. Incumbent Local Exchange Carriers (ILECs, *i.e.*, Qwest), RLECs, wireless carriers, and CLECs, including VoIP providers may be eligible for high cost support. Interexchange carriers and toll resellers are not eligible to receive high cost support because they do not offer basic local exchange service.

There are two methods of calculation to determine the distribution amount for telecom carriers; fixed and variable. Distributions, as designated by the Commission, to all qualifying incumbent EPs are based upon total annual amounts for its study area divided by four until a competitive EP is designated in a study area. Once a competitive EP (*i.e.*, wireless carriers Viaero and NNTC) is designated by the Commission in a study area, the underlying EP's distributions is based on the actual residential and business access line counts multiplied by the support per access line determined for that wire center. Competitive EPs receive what is referred to as "Identical Support" - or the same per line support amount the underlying EP receives in that area. If the underlying EPs' support per access line increases, the identical support for the competitive EP increases as well. Competitive EPs, as well as the incumbent EP, have the potential to receive additional HCSM funding as they sign-up additional customers.

In 2014, a total of 13 EPs received support from the HCSM. Ten of the 13 are RLECs and one is an ILEC (Qwest). Additionally, there are four wireless carriers and one CLEC that have been designated as EPs. However, only two of these designated carriers, N.E. Colorado Cellular, Inc., doing business as Viaero (Viaero) and NNTC Wireless, currently receive HCSM funds. No CLEC currently receives high cost support.

Net distributions from the HCSM for 2014 are estimated to be \$53,132,799, which include an estimated amount to be transferred to the Broadband Fund of approximately \$3.1 million plus \$200,000 for the Broadband Fund administration. The Broadband Fund transfer amount is HCSM funding that Qwest would have received in

2014 for the 56 wire centers that the Commission found to be effectively competitive and no longer need HCSCM funds to support voice service.<sup>5</sup>

**Calendar Year 2015 Projections.** Distributions from the fund will continue to be provided to both rural and non-rural EPs, including wireless carriers, who serve customers in high cost geographic areas. The total distribution for 2015 is estimated at \$53,132,799 as identified below. Qwest and NECC disbursements are projected based on 2014 support amounts (2015 support amounts have not been finalized as of the publication of this report).

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<sup>5</sup> See Appendix 2 for more information on this Commission proceeding.

<b>2015 High Cost Support Projected Distributions</b>			
<b>Rural Carrier</b>	<b>Number of Lines*</b>	<b>Recent Adjustment Date</b>	<b>Yearly Projected CHCSM Disbursement</b>
AGATE MUTUAL TEL CO	96	2/25/2008	\$ 16,941
DELTA COUNTY TEL CO	7,501	10/1/2006	\$ 165,721
NUCLA-NATURITA TEL	1,397	9/30/2011	\$ 321,867
NUNN TEL CO	523	5/17/2007	\$ 47,485
PEETZ COOP TEL CO	215	1/18/2008	\$ 26,441
PHILLIPS COUNTY TEL	1,571	1/1/2009	\$ 30,847
PINE DRIVE TEL CO	762	10/24/2009	\$ 681,059
RICO TELEPHONE COMPANY	149	11/15/2011	\$ 13,015
ROGGEN TEL COOP CO	183	10/20/2009	\$ 51,614
WILLARD TEL CO	55	9/9/2010	\$ 29,042
<b>Non-Rural Carrier</b>			
QWEST CORPORATION**	407,626	11/16/2013	\$47,247,168
<b>Wireless Carriers</b>			
NORTHEAST COLORADO CELLULAR, INC., dba VIAERO	13,645	1/26/2010	\$ 4,345,759
COMMNET FOUR CORNERS	0	8/8/2008	
ELBERT COUNTY WIRELESS	0	8/8/2008	\$ -
NNTC Wireless, LLC ****	NA	10/3/2012	\$ 155,840
<b>TOTAL DISBURSEMENTS</b>			<b>\$ 53,132,799</b>

\* Line counts are from 2013 Annual Reports

\*\* Qwest line counts from 2014 Qwest CHCSM Model run. Qwest 2015 Draw is under discussion as of the publication date of this report.

\*\*\* Viaero line counts from reports submitted by carrier.

San Isabel has ETC designation, but not EP designation

Qwest and Viaero projection based on 2014 draw

\*\*\*\* NNTC only files one wire center and wire center specific data is confidential

Estimated Administration Expenses - 0.2% of total disbursements \$106,266
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Solix Administrative Expenses 2014-2015 \$63,700
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Estimated Administration Expenses - 0.2% of total disbursements \$106,266
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Solix Administrative Expenses 2014-2015 \$63,700
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## **HCSM Administration**

For the fiscal year July 1, 2014 through June 30, 2015, a projected \$105,954 will be distributed by the Commission to administer the HCSM and \$63,700 will be paid to Solix for managing the HCSM escrow account and performing certain administrative functions. Solix became the new Custodial Receiver for contributions to the HCSM effective November 1, 2011. Expenditures for administering the HCSM in year 2015 are estimated to be similar to 2014. The projected Commission administration cost requirement is \$106,266 (or 0.2 percent of total disbursements). Personnel service costs for the Commission administration include a percentage of employee wages, data processing, auditing, compliance activities, legal services, expenditures for the acquisition of computer software, and proxy cost model development and review. Solix will be paid \$63,700 for the period November 1, 2014 to November 1, 2015.

## **Conclusion**

The HCSM fund for the first time will be facing a negative balance in 2015 that must be addressed by the beginning of the second quarter. In 2014, the HCSM fund was negatively affected by a significant decline in contributions. That trend appears to be a permanent situation.

While the current fund balance is approximately \$4.4 million and there will be sufficient funds to meet the 4th quarter 2014 and 1st quarter fund obligations, the fund will have a negative balance by the 2nd quarter next year with insufficient funds to meet the disbursement requirements. This is because contributions in 2014 based on telecom providers' intrastate revenues declined generally by approximately 10 percent. Total projected contributions in 2015 to the HCSM fund are estimated to be \$46.6 million while projected distributions are estimated to total \$53.1 million. There continues to be a steady decline in wireline revenues as consumers abandon wireline service. Additionally, highly competitive wireless price plans and the proliferation of consumer data packages have resulted in a significant decline in wireless contributions.

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A maximum cap on distributions of \$54,000,000 has been set to limit potential increases to the HCSM fund as a result of the requirements of the FCC USF/ICC Transformation Order. The Commission may change the cap during 2015 in order to have sufficient funds to meet disbursement obligations.

## Appendix 1

### Supporting Schedules

Colorado High Cost Support Mechanism Summary of Contribution & Disbursements											
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014*	2015*	
<b>DISBURSEMENTS:</b>											
Distributions	\$60,773,727	\$60,021,134	\$59,771,795	\$57,404,347	\$54,398,318	\$54,149,354	\$52,765,176	\$52,409,830	\$52,976,959	\$52,976,959	
Administrative Expenses											
Based on Fiscal Year	\$151,800	\$156,258	\$101,248	\$114,809	\$108,161	\$108,299	\$105,530	\$104,820	\$105,954	\$105,954	
<b>Total Disbursements &amp; Expenditures</b>	<b>\$60,925,527</b>	<b>\$60,177,392</b>	<b>\$59,873,043</b>	<b>\$57,519,156</b>	<b>\$54,506,479</b>	<b>\$54,257,653</b>	<b>\$52,870,706</b>	<b>\$52,514,650</b>	<b>\$53,082,913</b>	<b>\$53,082,913</b>	
<b>CONTRIBUTIONS:</b>											
Jan 1 through March 31	\$15,633,690	\$5,135,111	\$17,651,067	\$14,131,269	\$12,656,753	\$12,388,848	\$15,954,659	\$14,849,222	\$12,433,157	\$11,657,540	
April 1 through June 30	\$19,131,912	\$12,418,529	\$17,662,447	\$13,892,486	\$12,302,656	\$11,938,072	\$15,502,563	\$13,579,756	\$11,843,032	\$11,657,540	
July 1 through Sept 30	\$18,905,820	\$15,937,966	\$16,883,127	\$13,193,954	\$12,502,012	\$12,992,037	\$15,118,777	\$12,510,174	\$11,749,920	\$11,657,540	
Oct 1 through Dec 31	\$7,162,563	\$17,231,201	\$14,881,831	\$12,839,486	\$12,094,460	\$16,137,809	\$15,024,780	\$11,927,812	\$11,657,540	\$11,657,540	
<b>Total Contributions</b>	<b>\$60,833,985</b>	<b>\$50,722,807</b>	<b>\$67,078,472</b>	<b>\$54,057,196</b>	<b>\$49,555,881</b>	<b>\$53,456,766</b>	<b>\$61,600,778</b>	<b>\$52,866,964</b>	<b>\$47,683,649</b>	<b>\$46,630,158</b>	

\* Contributions and Disbursements for 4QRT 2014 and 2015 are estimated.  
The year 2014 contains actual information for the first nine months.

CHCSM Summary of Distributions											
Rural Carriers	Gross Distributions Calendar Year 2006	Gross Distributions Calendar Year 2007	Gross Distributions Calendar Year 2008	Gross Distributions Calendar Year 2009	Gross Distributions Calendar Year 2010	Gross Distributions Calendar Year 2011	Gross Distributions Calendar Year 2012	Gross Distributions Calendar Year 2013	Gross Distributions Calendar Year 2014*	Gross Distributions Calendar Year 2015**	
Agate Mutual Telephone Co.	\$1,305	\$1,305	\$14,361	\$16,941	\$16,941	\$16,941	\$16,941	\$16,941	\$16,941	\$16,941	
Delta County Tele-Comm	\$93,447	\$165,721	\$165,721	\$165,721	\$165,721	\$165,721	\$165,721	\$165,721	\$165,721	\$165,721	
Nucla-Naturita	\$165,483	\$0	\$221,852	\$242,020	\$242,020	\$242,020	\$282,162	\$321,867	\$321,867	\$321,867	
Nunn Telephone Company	\$0	\$36,588	\$22,482	\$58,540	\$58,540	\$47,485	\$47,485	\$47,485	\$47,485	\$47,485	
Peetz Cooperative Telephone Co.	\$9,562	\$5,464	\$47,485	\$26,441	\$26,441	\$26,441	\$26,441	\$26,441	\$26,441	\$26,441	
Phillips County Telephone Co.	\$204	\$168	\$168	\$30,847	\$30,847	\$30,847	\$30,847	\$30,847	\$30,847	\$30,847	
Pine Drive	\$465,019	\$450,075	\$450,075	\$450,075	\$839,269	\$681,059	\$681,059	\$681,059	\$681,059	\$681,059	
Rico Telephone Company						\$1,255	\$13,015	\$13,015	\$13,015	\$13,015	
Roggen Telephone	\$5,587	\$4,648	\$35,345	\$51,614	\$51,614	\$51,614	\$51,614	\$51,614	\$51,614	\$51,614	
Willard	\$0	\$0	\$0	\$0	\$11,366	\$29,042	\$29,042	\$29,042	\$29,042	\$29,042	
<b>Non-Rural Carrier</b>											
Qwest Corp.	\$57,947,414	\$57,241,560	\$56,787,689	\$53,952,430	\$50,346,487	\$50,069,355	\$48,553,314	\$47,459,168	\$43,950,763	\$47,247,168	
<b>Wireless Carriers</b>											
Northeast Colorado Cellular	\$2,085,706	\$2,115,605	\$2,026,785	\$2,409,718	\$2,608,961	\$2,787,574	\$2,796,321	\$2,970,135	\$4,345,478	\$4,345,759	
NNTC							\$31,509	\$150,547	\$155,840	\$155,840	
<b>Undesignated Carriers</b>											
Projected Additional Carriers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
ECA's									\$3,296,686	\$0	
<b>Totals</b>	<b>\$60,773,727</b>	<b>\$60,021,134</b>	<b>\$59,771,963</b>	<b>\$57,404,347</b>	<b>\$54,398,206</b>	<b>\$54,149,354</b>	<b>\$52,725,471</b>	<b>\$53,316,719</b>	<b>\$53,132,799</b>	<b>\$53,132,799</b>	

\* The disbursements for 2014 are actual information for January - September 2013 and estimated figures for 4th QRT 2014.  
\*\* Disbursements for 2015 are estimated and based on 2014.

<b>Colorado High Cost Support Mechanism Rate Element</b>										
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015*</b>
<b>1st Qtr</b>	2.90%	1.60%	2.70%	2.20%	2.20%	2.20%	2.90%	2.90%	2.60%	2.60%
<b>2nd Qtr</b>	2.90%	2.70%	2.70%	2.20%	2.20%	2.20%	2.90%	2.60%	2.60%	3.40%
<b>3rd Qtr</b>	2.90%	2.70%	2.20%	2.20%	2.20%	2.90%	2.90%	2.60%	2.60%	3.40%
<b>4th Qtr</b>	1.60%	2.70%	2.20%	2.20%	2.20%	2.90%	2.90%	2.60%	2.60%	3.40%

**\* 2015 projections based on a maximum surcharge rate. Actual surcharge rate may be lower.**

Table 2

2014 High Cost Support								
Rural Carrier	# of Lines	FUSF	FUSF / Line	CHCSM	CHCSM / Line	Total Support	Residential Basic Local Service Rate	Business Basic Local Service Rate
AGATE MUTUAL TEL CO	96	\$ 354,384	\$ 3,691	\$ 16,941	\$ 176	\$ 371,325	\$ 14.09	\$ 14.09
BIG SANDY TELECOM	712	\$ 122,073	\$ 171	\$ -	\$ -	\$ 122,073	\$ 15.44	\$ 25.18
BIJOU TEL COOP ASSOC	1095	\$ 946,334	\$ 864	\$ -	\$ -	\$ 946,334	\$ 13.59	\$ 20.14
BLANCA TEL CO	677	\$ 1,459,642	\$ 2,156	\$ -	\$ -	\$ 1,459,642	\$ 16.11	\$ 22.11
CENTURYTEL OF EAGLE	51,870	\$ 15,206,922	\$ 293	\$ -	\$ -	\$ 15,206,922	\$ 14.74	\$ 36.79
CENTURYTEL COLORADO	7,604	\$ 2,650,810	\$ 349	\$ -	\$ -	\$ 2,650,810	\$ 11.77	\$ 36.79
COLUMBINE ACQ CORP	1,012	\$ 504,618	\$ 499	\$ -	\$ -	\$ 504,618	\$ 18.98	\$ 32.28
DELTA COUNTY TEL CO	7,501	\$ 740,996	\$ 99	\$ 165,721	\$ 22	\$ 906,717	\$ 16.20	\$ 28.70
EASTERN SLOPE RURAL	3,738	\$ 1,755,290	\$ 470	\$ -	\$ -	\$ 1,755,290	\$ 13.36	\$ 16.03
EL PASO COUNTY TEL	3,170	\$ 352,892	\$ 111	\$ -	\$ -	\$ 352,892	\$ 15.40	\$ 30.60
FARMERS TEL CO - CO	429	\$ 670,674	\$ 1,563	\$ -	\$ -	\$ 670,674	\$ 16.74	\$ 25.12
HAXTUN TEL CO	1,154	\$ 512,796	\$ 444	\$ -	\$ -	\$ 512,796	\$ 13.70	\$ 20.55
NUCLA-NATURITA TEL	1,397	\$ 1,011,187	\$ 724	\$ 321,867	\$ 230	\$ 1,333,054	\$ 16.95	\$ 24.81
NUNN TEL CO	523	\$ 1,421,291	\$ 2,718	\$ 47,485	\$ 91	\$ 1,468,776	\$ 20.56	\$ 30.86
PEETZ COOP TEL CO	215	\$ 323,235	\$ 1,503	\$ 26,441	\$ 123	\$ 349,676	\$ 15.50	\$ 19.85
PHILLIPS COUNTY TEL	1,571	\$ 323,235	\$ 206	\$ 30,847	\$ 20	\$ 354,082	\$ 14.55	\$ 17.55
PINE DRIVE TEL CO	762	\$ 125,583	\$ 165	\$ 681,059	\$ 894	\$ 806,642	\$ 17.05	\$ 18.63
PLAINS COOP TEL ASSN	1,062	\$ 2,452,047	\$ 2,309	\$ -	\$ -	\$ 2,452,047	\$ 20.62	\$ 25.25
RICO TEL CO	149	\$ 73,127	\$ 491	\$ 13,015	\$ 130	\$ 86,142	\$ 20.65	\$ 25.95
ROGGEN TEL COOP CO	183	\$ 355,921	\$ 1,945	\$ 51,614	\$ 282	\$ 407,535	\$ 17.00	\$ 20.50
RYE TELEPHONE CO	2,047	\$ 2,327,257	\$ 1,137	\$ -	\$ -	\$ 2,327,257	\$ 19.70	\$ 30.00
SOUTH PARK TEL CO	145	\$ 552,296	\$ 3,809	\$ -	\$ -	\$ 552,296	\$ 29.98	\$ 39.98
STONEHAM COOP TEL CO	58	\$ 46,083	\$ 795	\$ -	\$ -	\$ 46,083	\$ 16.26	\$ 16.26
STRASBURG TEL CO	1,390	\$ 238,272	\$ 171	\$ -	\$ -	\$ 238,272	\$ 16.40	\$ 26.40
SUNFLOWER TEL - CO	205	\$ 82,848	\$ 404	\$ -	\$ -	\$ 82,848	\$ 14.00	\$ 21.00
WIGGINS TEL ASSOC	1,433	\$ 3,514,545	\$ 2,453	\$ -	\$ -	\$ 3,514,545	\$ 19.84	\$ 23.84
WILLARD TEL CO	55	\$ 53,455	\$ 972	\$ 29,042	\$ 528	\$ 82,497	\$ 16.27	\$ 16.27
<b>Non-Rural Carrier</b>								
QWEST CORPORATION*	407,626	\$ 15,346,700	\$ 38	\$ 43,950,763	\$ 108	\$ 59,297,462	\$ 17.00	\$ 35.02
<b>Competitive LEC</b>								
SAN ISABEL TELECOM, INC.	1,570	\$ 151,290	\$ 96	\$ -	\$ -	\$ 151,290	\$ 12.22	\$ 24.31
<b>Wireless Carriers</b>								
N.E. COLORADO CELLULAR, INC., dba VIAERO*	13,645	\$ 5,208,844	\$ 382	\$ 4,345,478	\$ 318	\$ 9,554,322	\$ 15.00	\$ 15.00
NNTC Wireless, LLC**	NA	\$ 2,660	\$ -	\$ 155,840	\$ -	\$ -		
COMMNET FOUR CORNERS	0	\$ -	\$ -	\$ -	\$ -	\$ -		
ELBERT COUNTY WIRELESS	0	\$ -	\$ -	\$ -	\$ -	\$ -		
<b>ECAs</b>								
				<b>\$3,296,686</b>				
<b>TOTAL DISBURSEMENTS</b>		<b>\$ 58,887,306</b>		<b>\$ 53,132,799</b>		<b>\$ 108,564,919</b>		

Line counts are from 2013 Annual Reports

FUSF Jan - Aug USAC Disbursement Data Actual - Projected Sept and 4Q2014

CHCSM Actual through 3Q2014 - Projected 4Q2014

\* Qwest and NECC 4Q Draw and ECA amount May Be Impacted by Commission Action in Proceeding 04M-388T cur and is subject to revision

\*\* NNTC only files one wire center and wire center specific data is confidential

Qwest line counts from 2014 Qwest Draw Stipulation.

Viaero line counts from 2013 reports submitted by carrier. Total supported lines.











Colorado High Cost Support per Residential Access Line per Month (CenturyLink Qwest exchanges and corresponding support)											
Exchange	City	CLI	Support per Line 2006	Support per Line 2007	Support per Line 2008	Support per Line 2009	Support per Line 2010	Support per Line 2011	Support per Line 2012	Support per Line 2013	Support per Line 2014
PLATTEVILLE	PLATTEVILLE	PTVLCOMA	\$17.61	\$17.77	\$17.77	\$19.02	\$19.02	\$19.02	\$19.02	\$19.02	\$29.82
PUEBLO	PUEBLO WEST	PUBLICO06	\$0.44	\$0.43	\$0.43	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.35
PUEBLO	PUEBLO MAIN	PUBLICOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
PUEBLO	SUNSET	PUBLICOSU	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
PEYTON	PEYTON	PYTNCOMA	\$31.21	\$29.94	\$29.94	\$31.70	\$31.70	\$31.70	\$31.70	\$31.70	\$44.27
RIDGEWAY	RIDGEWAY	RDGWCOMA	\$28.73	\$25.92	\$25.92	\$24.40	\$24.40	\$24.40	\$24.40	\$24.40	\$31.85
RIFLE	RIFLE	RIFLCOMA	\$5.70	\$4.72	\$4.72	\$4.17	\$4.17	\$4.17	\$4.17	\$4.17	\$12.78
SALIDA	SALIDA	SALDCOMA	\$8.98	\$8.95	\$8.95	\$10.48	\$10.48	\$10.48	\$10.48	\$10.48	\$17.67
COLORADO SPRINGS	SECURITY MAIN	SCRTCOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
DEL NORTE	SOUTH FORK	SFRKCOMA	\$34.02	\$31.31	\$31.31	\$31.25	\$31.25	\$31.25	\$31.25	\$31.25	\$39.13
SILT	SILT	SILTCOMA	\$25.09	\$23.11	\$23.11	\$23.74	\$23.74	\$23.74	\$23.74	\$23.74	\$40.62
SILVERTON	SILVERTON	SLTNCOMA	\$34.85	\$32.00	\$32.00	\$34.19	\$34.19	\$34.19	\$34.19	\$34.19	\$52.52
ASPEN	SNOWMASS	SNMSCOMA	\$3.75	\$4.23	\$4.23	\$4.61	\$4.61	\$4.61	\$4.61	\$4.61	\$5.27
STERLING	STERLING	STNGCOMA	\$8.42	\$9.42	\$9.42	\$12.94	\$12.94	\$12.94	\$12.94	\$12.94	\$25.77
STEAMBOAT SPRINGS	STEAMBOAT SPRINGS	STSPCOMA	\$5.31	\$5.65	\$5.65	\$5.82	\$5.82	\$5.82	\$5.82	\$5.82	\$9.73
BOULDER	TABLE MESA	TEMACOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.15
TELLURIDE	TELLURIDE	TLRDCOMA	\$10.46	\$10.77	\$10.77	\$10.83	\$10.83	\$10.83	\$10.83	\$10.83	\$13.39
TRINIDAD	TRINIDAD	TRNDCOMA	\$12.44	\$12.41	\$12.41	\$12.43	\$12.43	\$12.43	\$12.43	\$12.43	\$24.74
VAIL	VAIL	VAILCOMA	\$0.36	\$0.83	\$0.83	\$0.62	\$0.62	\$0.62	\$0.62	\$0.62	\$2.71
PUEBLO	VINELAND	VNLDCOMA	\$13.82	\$15.29	\$15.29	\$16.75	\$16.75	\$16.75	\$16.75	\$16.75	\$23.73
WARD	WARD	WARDCOMA	\$42.83	\$37.74	\$37.74	\$37.50	\$37.50	\$37.50	\$37.50	\$37.50	\$49.62
COLORADO SPRINGS	WOODLAND PARK	WDPKCOMA	\$6.54	\$6.42	\$6.42	\$6.30	\$6.30	\$6.30	\$6.30	\$6.30	\$11.43
FT COLLINS	WELLINGTON	WGTNCOMA	\$18.01	\$16.18	\$16.18	\$17.69	\$17.69	\$17.69	\$17.69	\$17.69	\$30.82
WALSENBURG	WALSENBURG	WLBGCOMA	\$25.37	\$25.87	\$25.87	\$27.82	\$27.82	\$27.82	\$27.82	\$27.82	\$47.82
WELDONA	WELDONA	WLDACONA	\$68.12	\$62.65	\$62.65	\$62.74	\$62.74	\$62.74	\$62.74	\$62.74	\$105.64
ARVADA ZONE	WESTMINSTER	WMNSCOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
WINDSOR	WINDSOR	WNDSCOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
YAMPA	YAMPA	YAMPCOMA	\$82.80	\$85.13	\$85.13	\$89.37	\$89.37	\$89.37	\$89.37	\$89.37	\$136.36
Statewide Average			\$11.59	\$10.86	\$10.86	\$11.43	\$11.43	\$11.43	\$11.43	\$11.43	\$11.43
Residential Revenue Benchmarks			\$19.02	\$18.59	\$18.59	\$18.99	\$18.99	\$18.99	\$18.99	\$17.00	\$17.00









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Colorado High Cost Support per Business Access Line per Month (CenturyLink Qwest exchanges and corresponding support)											
Exchange	City	CLI	Support per Line 2006	Support per Line 2007	Support per Line 2008	Support per Line 2009	Support per Line 2010	Support per Line 2011	Support per Line 2012	Support per Line 2013	Support per Line 2014
PLATTEVILLE	PLATTEVILLE	PTVLCOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$14.80
PUEBLO	PUEBLO	PUBLCO06	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
PUEBLO	PUEBLO	PUBLCOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
PUEBLO	SUNSET	PUBLICOSU	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
PEYTON	PEYTON	PYTNCOMA	\$14.28	\$13.83	\$13.83	\$16.92	\$16.92	\$16.92	\$16.92	\$16.92	\$29.44
RIDGEWAY	RIDGEWAY	RDGWCOMA	\$8.81	\$7.41	\$7.41	\$7.58	\$7.58	\$7.58	\$7.58	\$7.58	\$15.81
RIFLE	RIFLE	RIFLCOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
SALIDA	SALIDA	SALDCOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.42
COLORADO SPRINGS	SECURITY	SCRTCOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
DEL NORTE	SOUTH FORK	SFRKCOMA	\$9.60	\$9.59	\$9.59	\$10.02	\$10.02	\$10.02	\$10.02	\$10.02	\$21.58
SILT	SILT	SILTCOMA	\$6.69	\$6.51	\$6.51	\$7.04	\$7.04	\$7.04	\$7.04	\$7.04	\$25.23
SILVERTON	SILVERTON	SLTNCOMA	\$14.09	\$14.33	\$14.33	\$14.71	\$14.71	\$14.71	\$14.71	\$14.71	\$35.23
ASPEN	SNOWMASS	SNMSCOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
STERLING	STERLING	STNGCOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$10.06
STEAMBOAT SPRINGS	STEAMBOAT SPRINGS	STSPCOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
BOULDER	BOULDER	TEMACOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
TELLURIDE	TELLURIDE	TLRDCOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
TRINIDAD	TRINIDAD	TRNDCOMA	\$1.89	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$10.66
VAIL	VAIL	VAILCOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
PUEBLO	VINELAND	VNLDCOMA	\$0.00	\$0.00	\$0.00	\$2.69	\$2.69	\$2.69	\$2.69	\$2.69	\$10.16
WARD	WARD	WARDCOMA	\$10.80	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
COLORADO SPRINGS	WOODLAND PARK	WDPKCOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
FT COLLINS	WELLINGTON	WGTCOM A	\$1.97	\$2.39	\$2.39	\$4.13	\$4.13	\$4.13	\$4.13	\$4.13	\$15.51
WALSBURG	WALSBURG	WLBGCOMA	\$2.73	\$7.28	\$7.28	\$11.05	\$11.05	\$11.05	\$11.05	\$11.05	\$32.58
WELDONA	WELDONA	WLDA COMA	\$51.27	\$43.32	\$43.32	\$45.40	\$45.40	\$45.40	\$45.40	\$45.40	\$90.51
ARVADA ZONE	WESTMINSTER	WMNSCOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
WINDSOR	WINDSOR	WNDSCOMA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
YAMPA	YAMPA	YAMPCOMA	\$62.08	\$65.43	\$65.43	\$72.56	\$72.56	\$72.56	\$72.56	\$72.56	\$120.15
Statewide Average			\$16.97	\$17.76	\$17.76	\$15.99	\$15.99	\$15.99	\$15.99	\$15.99	\$15.99
Business Revenue Benchmarks*			\$38.45	\$36.34	\$36.34	\$34.79	\$34.79	\$34.79	\$34.79	\$35.02	\$35.02



## Appendix 2

### *HCSM History*

The Commission adopted its first explicit HCSM in 1990. The Commission adopted rules that prescribed procedures for separating telecommunications costs, revenues, expenses, and reserves for access charges for Local Exchange Carriers and established the Colorado High Cost Fund (CHCF). As discussed in more detail below, the CHCF was later renamed the HCSM along with other minor modifications.

Senate Bill (SB) 92-16 was enacted on April 16, 1992, amending Article 15 of Title 40, Colorado Revised Statutes, by the addition of a new section, § 40-15-208, C.R.S. The new section codified the creation of the CHCF and authorized the Commission administration of the fund. To provide direct oversight of activities and performance of the CHCF, the Commission implemented rules, Rules Regulating Telecommunications Providers, Services, and Products now found at 4 *Code of Colorado Regulations* (CCR) 723-2-2840 through 2855.

On May 24, 1995, HB 95-1335 (Colorado Act) was enacted. The Colorado Act, in part, modified the statutory definition of Basic Service, amended the section establishing the HCSM, and added a new Part 5 to Article 15 of Title 40, providing for local exchange service competition.

The Colorado Act gave an expression of state policy that:

The commission shall require the furtherance of universal basic service, toward the ultimate goal that basic service be available and affordable to all citizens of the state of Colorado. . . The commission may regulate providers of telecommunications services to the extent necessary to assure that universal basic service is provided to all consumers in the state at fair, just, and reasonable rates.

§ 40-15-502(3)(a), C.R.S.

The Commission was given further instruction by the expression of state policy that:

In order to accomplish the goals of universal basic service . . . the commission shall create a system of support mechanisms to assist in the provision of basic service in high-cost areas that are without effective competition for basic service . . . The Commission shall fund these support mechanisms equitably and on a non-discriminatory, competitively neutral basis through assessments, . . . on all telecommunications service providers in Colorado . . . . § 40-15-502(5)(a), C.R.S.

The bill modified the HCSM portion of the law, § 40-15-208, C.R.S., to ensure that all providers of basic local exchange service in high cost areas are reimbursed for the difference between the costs incurred in making basic service available to customers within a rural high cost geographic support area and the affordable price for such service.

The Commission adopted specific rules implementing these statutory guidelines. The Commission conducted rulemakings in Proceeding Nos. 95R-558T and 97R-043T regarding the HCSM. Non-rural incumbent telecom providers are currently regulated by Commission rules requiring cost estimates based on a proxy cost model estimate. These proxy cost estimates are then compared to a revenue benchmark with the resulting differential funded by the HCSM for EPs. Rural incumbent telecommunications providers are currently regulated by Commission rules requiring cost estimates based on the actual embedded cost of service demonstration net of relevant revenues. The HCSM is funded by a customer surcharge on intrastate retail revenues from telecommunications services. The Commission requires telecommunications service providers to collect and remit the surcharge based on its end-user intrastate telecommunications service revenues. Incumbent EPs that receive support are net recipients from the HCSM.

In 1998, Qwest entered into a Stipulation and Settlement Agreement with the Commission freezing the annual support for Qwest until a sufficient proxy model could be developed. In 2002, the parties in Proceeding No. 98M-147T (Regarding the Administration of the Colorado High Cost Fund and the Adoption of a Proxy Cost

Model) met and agreed to use the results produced by the FCC's Hybrid Cost Proxy Model (HCPM) to establish wire-center specific cost support for Qwest for calendar year 2003. On August 1, 2003, upon Qwest's receipt of increased high cost support from the implementation of the Commission's Order granting it support for all lines, Qwest eliminated zone charges outside its base serving area for over 225,000 of its Colorado telephone lines. The elimination of Qwest zone charges reduced some residential rates by as much as \$20.00 per line per month and some business rates by as much as \$25.00 per line per month.

On May 18, 1998, SB 98-177 was enacted which further modified § 40-15-208(2)(d)(I), C.R.S., by changing the name of the program to the "Colorado High Cost Support Mechanism," and required that the HCSM not exceed \$60 million during each of the calendar years 1998 and 1999. Further, SB 98-177 required that a report be prepared by the Commission accounting for the operation of the HCSM, and that the report be submitted to the General Assembly on or before December 1 of each year. The Commission adopted interim rules<sup>6</sup> and, subsequently, permanent rules<sup>7</sup> implementing SB 98-177.

During 1999, in conjunction with the proceeding conducted by the Commission to review the definition of Basic Local Exchange Service as required by § 40-15-502(2), C.R.S., the Commission further addressed HCSM rule issues. The Commission reiterated its decision to support only the primary residential line and the first business line in non-rural high cost areas, and on an interim basis to continue support to all access lines in rural high cost areas.

In 2003, the Commission adopted Rule 4 CCR 723-41-9.2.3 (recodified 4 CCR 723-2-2848(d)(II), effective April 1, 2006), which extended HCSM support to all residential and business lines to non-rural providers in this state.

In 2004, the Commission continued its investigation into the adoption of the high cost

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<sup>6</sup> See PUC Proceeding No. 98R-334T.

<sup>7</sup> See PUC Proceeding No. 99R-028T.

proxy model (Proceeding No. 98M-147T). The Commission approved the use of results from the FCC's HCPM, with modifications made to accommodate the specific needs of Colorado telecommunications providers, and to provide wire center-specific cost support to Qwest. The Commission approved a Stipulation which used average monthly costs per line produced from the HAI Consulting, Inc. 5.2 model, including Staff adjustments made in Proceeding No. 99A-577T, Qwest's updated 2003 Automated Reporting Management Information System data, and updates to the model's line count information. Use of this methodology resulted in HCSM funding to Qwest in the amount of \$58,386,874 for the calendar year 2005. Following this Stipulation, Proceeding No. 98M-147T was closed and a new proceeding was opened to consider future cost methodologies. Proceeding No. 04M-388T was opened and is ongoing to consider further development of Proxy Cost Models used to establish Qwest's yearly HCSM draw.

In 2005, Viaero became the first wireless carrier to begin drawing HCSM support. Viaero is eligible to receive HCSM support on a per line basis, based on the amount the underlying incumbent carrier receives in support for that wire center and on the number of Viaero lines.

In 2005, the Commission opened an investigatory proceeding (05I-431T) for the purpose of examining the HCSM process. Seven workshops were conducted where parties discussed in detail their views on issues. An Administrative Law Judge that attended the workshops and issued a report to the Commission that outlined the discussions that took place during the workshops.

During its regular 2005 session, the Colorado General Assembly enacted HB 05-1203 which became effective on July 1, 2005. This bill added two clarifying definitions to the statutes:

- a) "Distributed Equitably" to mean a distribution of funds that is accomplished using regulatory principles that are neutral in their effect, that do not favor one class of providers over another, and do not cause any eligible rural telecommunications provider to experience a reduction in its high cost support

mechanism requirement based on commission rules that are not applicable to other telecommunications providers.

b) "Non-discriminatory and competitively neutral basis" refers to distributions that are made by the commission shall be made using regulatory principles that are neutral in their effect, do not favor one class of providers over another, and do not impose regulatory requirements or costs on only one class of customers.

The Commission adopted emergency rules in Proceeding No. 05R-381T in response to the passage of HB 05-1203. The Commission took this emergency action to ensure that high cost support was distributed in a nondiscriminatory manner and that regulatory requirements are not imposed on one set of carriers without having them imposed on all. The emergency rules eliminated the provision for rural carriers which would phase-down HCSM support over a seven-year period, from 100 percent in the first and second year, to zero during the seventh year.

The Commission adopted permanent rules<sup>8</sup> to address the implementation of the new statutory language the Colorado General Assembly enacted in HB 05-1203 in 2006. The purpose of the legislation was to eliminate any inequitable treatment in the distribution of HCSM support and to ensure that the HCSM be implemented in a manner that is nondiscriminatory and on a competitively neutral basis. The rules adopted eliminated the longstanding practice of applying a general rate case filing process to establish earning requirements as the basis for setting the initial or increased HCSM draw. Going forward, the initial level of support and any increases in support are determined using streamlined data and analysis requirements as set forth by the Commission's Decision No. C07-0919 issued in Proceeding No. 07M-124T on November 9, 2007. The new rules required a single page form for rate-of-return companies to file on an annual basis. If there was an indication that an over-earnings situation exists, Staff may initial a formal complaint.

In February 2006, the Commission opened an investigatory proceeding (Proceeding No. 06I-084T) to consider the revision of the definition of basic local exchange

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<sup>8</sup>See Proceeding No. 05R-529T.

telephone service (basic service). The Commission found that the existing definition of basic local exchange telephone service continued to meet the goal of maintaining the affordability and quality of basic local exchange service.

In June 2006, the FCC issued an order (FCC 06-94 Report and Order and NPRM) in its IP Enabled Services and Universal Service Fund dockets that established universal service contribution obligations for providers of interconnected VoIP. While the FCC acknowledged VoIP as a mixed use service (*i.e.*, interstate and intrastate) and concluded that VoIP providers are telecommunications providers,<sup>9</sup> the FCC has not yet defined VoIP as a telecommunications service or an information service. The FCC has declared that interconnected VoIP providers have three options to determine their interstate revenues for which they can assess the USF rate: 1) they may use the interim safe harbor provision established by the FCC at 64.9 percent interstate; 2) they may report their actual interstate telecommunications revenues; or 3) they may rely on traffic studies to allocate interstate revenues. In this same order the FCC raised the interim safe harbor percentage for USF contributions from 28.5 percent to 37.1 percent for wireless providers.

On May 2, 2008, the FCC released an order that places an “interim emergency cap” on the amount of high cost universal service funding available to competitive eligible telecommunications carriers (CETCs). The order, which came in response to a Recommended Decision by the Federal-State Joint Board on Universal Service, caps the amount of universal support for CETCs at the amount available in each state as of March 2008, on an annualized basis. The FCC’s action effectively eliminated the identical support rule and gave wireless carriers the opportunity to file for support based on its own costs. Rural cellular operators have asked a federal appeals court to review the FCC’s action of placing a cap on the high cost universal service funding available to competitive ETCs. The U.S. Court of Appeals denied the carriers’ petition for review of the FCC’s actions.

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<sup>9</sup>See Report and Order and Notice of Proposed Rulemaking, FCC 06-94, released June 27, 2006.

In 2008, the Commission opened a rulemaking proceeding to comprehensively examine the HCSM rules prescribing the implementation of HCSM. Proceeding No. 08R-476T was terminated in 2009 by operation of law due to rules not being adopted within 180 days after the last public hearing in the matter. Proceeding No. 10R-191T was opened in April 2010 with proposed changes to existing rules to accommodate new regulatory schemes, changes in the federal USF program, and recent proceedings that have directly impacted the HCSM rules. Changes to the existing rules will be implemented January 1, 2012.

In July 2009, the Commission opened an investigatory proceeding (Proceeding No. 09I-493T) to consider the revision of the definition of basic local exchange telephone service (basic service). The Commission found that the current definition of basic service met the goal of maintaining affordability and quality of basic service.<sup>10</sup>

Pursuant to SB 09-272, signed by Governor Bill Ritter on May 1, 2009, and SB 09-279, signed by Governor Bill Ritter on June 1, 2009, Staff, as Administrator of the HCSM fund, transferred \$15,000,000 (fifteen million) to Fund 227, the Colorado High Cost Administration Fund, and that money was then moved to the State of Colorado General Fund. This transfer occurred in June 2009.

On July 30, 2010, Western Wireless Holding Co., Inc. (Western Wireless) filed an application to relinquish its ETC and EP designations in Colorado due to the company being acquired by Cellco Partnership, doing business as Verizon Wireless.<sup>11</sup> The

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<sup>10</sup>See Commission Decision No. C09-1411 issued in Proceeding No. 09I-493T on December 21, 2009.

<sup>11</sup> *Application of Cellco Partnership d/b/a Verizon Wireless and Atlantis Holdings LLC for Consent to Transfer Control of Licenses, Authorizations, and Spectrum Manager and de Facto Transfer of Leasing Arrangements*, WT Docket No. 08-95, Memorandum Opinion and Order and Declaratory Ruling, 23 FCC Rcd 17444 (2008).

support amount Western Wireless received for Colorado will be redistributed to other competitive ETC providers in Colorado.<sup>12</sup>

Qwest increased their rate for basic local exchange service to \$17.00 effective October 1, 2010. The PUC decision approving the \$17.00 rate was challenged in the Supreme Court. The Supreme Court upheld the \$17.00 basic exchange service rate for Qwest in a decision issued April 30, 2012. In addition, independently the Commission Rules adopted in Proceeding No. 10R-191T required Qwest (and other providers seeking HCSM funds) to impute a residential benchmark of \$17.00 and a business benchmark of \$35.02. These changes affected the carrier's future support amount.<sup>13</sup>

On April 7, 2010, the Commission opened Proceeding No. 10R-191T - Notice of Proposed Rulemaking to address proposed changes to the HCSM Commission Decision No. C11-0232 adopted new. In summary, these rules adopted a mechanism to set the benchmark rates, a phase-down of the HCSM fund, an extraordinary circumstance rule for additional support, retained the identical support rule, and did not adopt an explicit mandatory contribution to the HCSM by VoIP providers.

Upon reconsideration of comments filed by the providers, the Commission rescinded the phase-down approach in Decision No. C11-0232. However, the Commission retained the benchmark statewide average rate for residential service and business service at \$17.00 and \$35.02. In addition, they retained the identical support rule, the extraordinary circumstance requirement, and did not explicitly require VoIP providers to contribute to the fund, as well as clarified certain rules. The Commission withdrew the phase-down approach in favor of a more comprehensive review currently being undertaken in the telecommunications reform proceeding, Proceeding No. 10M-565T (see discussion below). However, the Commission determined that by retaining the benchmark rates, the HCSM fund would not be providing subsidies greater than necessary. These rules reduced the HCSM support amount for new

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<sup>12</sup> Western Wireless received approximately \$3.6 million per year in federal support for providing service in high cost areas.

<sup>13</sup> Carriers seeking additional HCSM support with local exchange rates below the new benchmark rates will have to impute the new benchmark rates when calculating their revenue.



carriers seeking support and for carriers that seek to reset their support amount. The rules were implemented in January 2012.

In August 2010, the Commission convened a Telecommunications Advisory Group (TAG) to discuss and inform the Commission on necessary changes in three key areas of reform: retail services deregulation, universal service, and intrastate access. These issues were analyzed in Proceeding No. 10M-565T, and led to the initiation of Proceeding No. 12R-862T which proposed amended rules to set forth a regulatory framework for determining the existence of effectively competitive areas, the elimination of funding from the HCSM in effectively competitive areas, addressing limited regulatory treatment of IP-enabled and Interconnected VoIP services, and making permanent certain previous emergency rules set forth in Rules 2202, 2203, 2843, and 2856. The Commission held multiple Commission Information Meetings and collected important data regarding competition in the telecommunications marketplace in Colorado. In parallel with the TAG efforts, (SB 12-157), also known as the Telecom Modernization Act of 2012, was introduced. This bill sought to reform the telecommunications laws and establish certain policy directives and implementation methodologies. While the introduction of the bill furthered the dialogue regarding the Colorado telecommunications marketplace, the bill was postponed indefinitely on May 4, 2012.

SB 10-1281 would have permanently exempted interconnected VoIP from regulation by the PUC. In addition, SB 10-1281 would have reclassified Qwest's local exchange service from Part 2 to Part 3 in the State telecommunications framework. Part 3 service means that it would be subject to less regulation. This bill was vetoed by the Governor on June 7, 2010. SB 11-262 was introduced on April 25, 2011 and would have eliminated price regulation for all but basic local exchange service and emergency service and phased out the HCSM by 2025. It would also have explicitly required VoIP providers to contribute to any HCSM, and would have required intrastate access rates to eventually match interstate rates. The bill was postponed indefinitely on May 4, 2012.

On October 28, 2010, the FCC adopted rules that states may require nomadic interconnected VoIP service providers to contribute to state universal service funds. States can base their USF assessments on the portion of VoIP revenues that fall outside federal USF assessments on interstate VoIP revenues, whether that is the 35.1 percent of revenues outside the 64.9 percent of revenues that fall under a safe harbor in the 2006 FCC order, the revenues attributed to intrastate traffic by a providers' traffic study, or a provider-developed means of accurately classifying interconnected VoIP communications between federal and state jurisdictions. The state USF assessments cannot be retroactive.

The Commission addressed proposed HCSM rule changes in 2011. Based on the Commission's own motion, the phase-down rule of the proposed HCSM rule changes was not adopted because the Commission believed that the better venue to discuss the size of the HCSM fund was the telecom reform effort, Proceeding No. 10M-565T. However, the Commission retained the benchmark statewide average rate for residential service and business service at \$17.00 and \$35.02. In addition, they retained the identical support rule, the extraordinary circumstance requirement, and did not explicitly require VoIP providers to contribute to the fund, as well as clarified certain rules. However, the Commission determined that by retaining the benchmark rates, the HCSM fund would not be providing subsidies greater than necessary. The telecom reform effort examined universal service, access reform, retail deregulation and took into account FCC activity.

The Commission adopted emergency rules in Decision No. C12-0179, Proceeding No. 12R-148T issued February 21, 2012, as a result of enactments made in the Federal Communications Report and Order and Notice of Proposed Rulemaking, issued November 18, 2011. In addition to capping the HCSM fund to \$54,000,000, as previously discussed, switched access charges were capped by rate element for both ILECs (Incumbent Local Exchange Carriers) and CLECs. Proposed updates to make these rules permanent were adopted in Proceeding No. 12R-862T, Decision No. C12-1442 issued December 17, 2012, as discussed below.

On August 1, 2012, the Commission opened Proceeding No. 12R-862T, commencing a three-phase approach to update and reform Rules 4 CCR 723-2. The goal was to achieve reduced regulation where appropriate, including appropriate reductions to the HCSM, and to clean-up and modernize the telecommunications rules. In addition to the first phase, outlined in the subsequent paragraph, in the second phase the Commission opened an adjudicatory proceeding to determine the specific areas of the state that are subject to effective competition for basic local service.

## Appendix 3

### *Telecommunications Reform Legislation*

In May, 2014, Governor Hickenlooper signed into law five bills revising Article 15, Title 40, of the Colorado Revised Statutes governing the provision of telecommunications services in the state. These bills include HB 14-1327, HB 14-1328, HB 14-1329, HB 14-1330, and HB 14-1331.

HB 14-1327 establishes key sales and uses tax exemptions for broadband carriers to encourage companies to invest in rural and underserved areas of the state. In addition, HB 14-1327 establishes requirements for state and local governments regarding permitting, trenching notice, and right-of-way.

HB 14-1328 creates a broadband fund and establishes a Broadband Board. "The board is an independent board created to implement and administer the deployment of broadband service in unserved areas from the fund." Section 40-15-509.5(5)(a), C.R.S. The broadband fund consists of "moneys allocated from the HCSM to provide access to broadband service through broadband networks in unserved areas pursuant to §40-15-208 (2 )(a) (I) (B), which moneys shall be transferred to the fund upon allocation, and all moneys that the general assembly may appropriate to the fund." HB 14-1328 grants authority to the Commission to transfer HCSM funds under specified conditions: "[T]he commission may transfer to the broadband deployment board only the moneys that it determines are no longer required by the HCSM to support universal basic service through an effective competition determination."

HB 14-1329 deregulated many telecommunications services including IP-enabled and VoIP services except switched access, E-911 and basic service in limited circumstances. HB 14-1330 updates telecommunications terminology for intrastate telecommunications services. The bill modifies, minimally adding but mostly eliminating, existing statutes related to telecommunications definitions contained in §

40-15-102, C.R.S., and almost the entirety of § 40-15-503, C.R.S., related to the opening of competitive markets (mostly obsolete or existing in federal requirements).

HB 14-1331 revises, in part, § 40-15-401, C.R.S., by deregulating basic service subject to certain exceptions, including that the Commission will continue to regulate providers in areas where the Commission provides high cost support for basic service. HB 14-1331 also revises § 40-15-208, C.R.S., to specify that the HCSM established by the Commission is to provide financial assistance to local exchange providers in areas without effective competition. HB 14-1331 also retained several time-bound obligations for ILECs as to the price of basic service and the obligation to serve in an area. Section 40-15-401(1)(b)(II)(A), C.R.S., requires ILECs to charge a uniform price throughout their service territory until July 1, 2016. The price charged cannot exceed the price they charged on December 31, 2013 unless the price charged is lower than the urban rate floor prescribed by the FCC.

### *Current Commission Proceedings*

The Commission has opened multiple proceedings that have impacted or will impact the HCSM. In May 2013, the Commission opened Proceeding No. 13M-0422T, to determine the geographic areas where there is effective competition for basic service pursuant to § 40-15-207, C.R.S. (Section 207). Section 207 provides that the Commission may reclassify services, including basic service, regulated pursuant to Part 2 of Title 40, Article 15, C.R.S., as Part 3 services upon a finding that there is effective competition in the relevant market and if such reclassification will promote the public interest and provision of adequate and reliable services at just and reasonable rates. The Commission implemented the process established in the Rulemaking Proceeding 12R-862T. The Commission held an information workshop docket to allow interested participants to comment on the procedural discussion items. During the workshop, it was determined that grouping the Commission's review of wire center serving areas may allow for additional efficiencies. Qwest, El Paso County Telephone Company (El Paso), CenturyTel of Colorado, Inc., and CenturyTel of Eagle, Inc. (collectively CenturyLink) is the largest incumbent provider

of basic service in Colorado. CenturyLink would not object to being the provider subject to the initial review of wire centers to be classified as an ECA. An initial review of CenturyLink's 70 wire centers of the 283 wire center serving areas in Colorado were included in the adjudicatory process of making findings pursuant to Section 207 and the Rules in Part 723-2.

The Commission found by Decision No. R14-0190 issued February 21, 2014 56 of the 70 wire center serving areas to have effective competition for basic services pursuant to Section 207. The approach taken in this proceeding to determine if a geographic area has effective competition will serve as a model for future proceedings.

In September 2014, by Decision No. C14-1163, issued September 23, 2014, the Commission opened a second proceeding, Proceeding No. 14M-0947T, to make findings pursuant to Section 207 to determine whether additional areas (104 wire centers served by CenturyLink) in Colorado are subject to effective competition. This proceeding is currently in process.

In October 2014, the Commission issued Decision No. C14-1251, Proceeding No. 04M-388T issued October 16, 2014, to implement key provisions of HB 14-1328 by allocating moneys from the HCSM that are no longer required to support basic service in areas determined to have effective competition to the Broadband Deployment Board (Board) to award grants to eligible applicants for proposed broadband projects in unserved areas of Colorado. Staff was directed to calculate the HCSM amounts attributable to the 56 wire centers from the effective date of HB 14-1328 (May 9, 2014), taking into account the 2014 Settlement and Stipulation and the cap of the HCSM and to transfer those amounts to the Board no later than when the Commission distributes final payments for 2014 to providers receiving HCSM support. This Decision authorized Staff to make earlier transfers to the Board in amounts that constitute at least part of the amount attributable to the 56 wire centers, to allow the Board to commence its operations as permitted under HB 14-1328.

Moneys shall be transferred to the Board as soon as practical, but no later than the date of the fourth quarter distribution for 2014 to CenturyLink, which is January 30, 2015. Although this proceeding is currently still under review as of the publication date of this Report, it is estimated that an amount of approximately \$3.3 million may be transferred to the Broadband Board. However, the exact amount to be transferred will not be known until the 4th quarter distributions are calculated at the end of January 2015. In order for the Broadband Board to commence their initial work, an amount of \$200,000 will be available to transfer from the HCSM fund by the end of year 2014.

In order to determine whether the HCSM should be reformed, modified, or adjusted, the Commission rules allow the HCSM to be evaluated and reviewed at least every three years and whenever the definition of basic service has been changed pursuant to § 40-15-502(2), C.R.S. The proceeding for the triennial review of the HCSM was opened in August of 2013 but was held in abeyance until the conclusion of the 2014 then-current session of the General Assembly due to numerous telecommunications bills being introduced that have the potential to affect (directly or indirectly) the HCSM. As a result, there were five telecommunications bills signed into law. Based on the new telecom law, interested parties filed comments regarding revisions or modifications to the HCSM rules. Comments ranged from developing a forward-looking cost model to be used for all recipients which may substantially increase the fund size to using historic cost to determine HCSM support which will decrease the HCSM fund size. The final outcome depends on the rules the Commission adopts.

There are numerous recipients of Federal Universal Service that have filed to increase their local rates to equal the FCC urban rate floor in order not to have their USF support reduced.

## Appendix 4

### *Coordination of State and Federal Universal Service Support*

The HCSM is coordinated with the Federal USF. As a result of the USF offset, the rural carriers receive proportionally more support from the USF fund than from the HCSM. Conversely, Qwest receives more support from the HCSM than it does from the USF.

Federal USF has historically consisted of five components of support:

1) High Cost Loop with two subcomponents - Safety Valve Support and Safety Net Additive Support;

a) High Cost Loop Support - available to rural ETCs and to competitive ETCs - provides support for the "last mile" of connection for rural companies in service areas where the cost to provide this service exceeds 115 percent of the national average cost per line. Qwest and Rico Telephone Company, Inc. are the only ETCs that do not receive this support.

b) Safety Net Additive Support - is intended to provide carriers with additional incentives to invest in their networks. To qualify, a rural carrier must show that growth in a telecommunications plant in service (TPIS) per line is at least 14 percent greater than the study area's TPIS per line in the prior year. Six rural ETCs (Agate, Blanca, Nunn, Peetz, Plains, Rye, and Willard) receive this support as well as Western Wireless and Viaero.

c) Safety Valve Support - additional support for carriers that buy or acquire exchanges and make substantial post-transaction investments to enhance network infrastructure. There are no ETCs in the State of Colorado that receive this support.

2) High Cost Model Support (HCM) - support intended to keep the cost for telephone service comparable in all areas (urban and rural) of a state. HCM support is



distributed at the wire center level and is targeted to carriers serving wire centers with forward-looking costs that exceed the national benchmark. There are no ETCs in the State of Colorado that receive this support.

3) Interstate Access Support - available to non-rural ETCs and to some competitive ETCs. This support was established when the FCC removed implicit support from interstate access charges and established an explicit component for price-cap carriers. El Paso, Qwest, Viaero, and Western Wireless receive this support.

4) Interstate Common Line Support - available to rural ETCs and some competitive ETCs to help 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. All carriers receive this support with the exception of El Paso and Qwest.

5) Local Switching Support - available to rural ETCs and some competitive ETCs to reimburse some high switching cost in order to provide service to fewer customers. All carriers receive this support with the exception of CenturyTel of Eagle and Qwest.

Effective January 1, 2012, the FCC froze all support under their high-cost support mechanisms, HCLS (includes Safety Net Additive Support (SNA), forward-looking model support (HCMs), safety valve support, Local Switching Support (LSS), Interstate Access Support (IAS), and Interstate Common Line Support (ICLS) on a study area basis for price cap carriers and their rate-of-return affiliates. The FCC will provide on an interim basis frozen high-cost support to such carriers equal to the amount of support each carrier received in 2011 in a given study area. Further, frozen high-cost support will be reduced to the extent that a carrier's rates for local voice service fall below an urban local rate floor. The amount of Frozen High Cost Support in 2012 was approximately \$50,000,000.

In addition, effective January 1, 2012, the FCC eliminated Local Switching Support (LSS) as a separate support mechanism.

While many of the effects of these FCC changes and their impact are not known, any reductions in federal USF support or changes to the intercarrier compensation process could place additional pressure on EPs in Colorado to seek new or additional HCSCM support.