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January 25, 2008

Via Electronic Delivery

Ms. Marlene H. Dortch, Secretary
Office of the Secretary
Federal Communications Commission
445 12th Street, SW, TW-A325
Washington, D.C. 20554

Re: Notice of *Ex Parte* Presentation
CC Docket No. 96-45

Dear Ms. Dortch:

On January 24, 2008, Carri Bennet and Ken Johnson of Bennet & Bennet, PLLC, Ron Strecker, CEO of Panhandle Telecommunication Systems, Inc. (PTSI) and Daniel Mitchell of the National Telecommunications Cooperative Association (NTCA), which is currently considering the proposal and wanted to listen to the FCC's questions concerning the proposal, met with John Hunter from Commissioner Robert M. McDowell's office to discuss the above-referenced proceeding and the attached PTSI high cost universal service "Panhandle Proposal" filed with the Commission on January 11, 2008.

Pursuant to Section 1.1206 of the Commission's Rules, this letter is being filed via ECFS with your office. If you have any questions, please do not hesitate to contact the undersigned.

Respectfully submitted,

/s/ Caressa D. Bennet
Caressa D. Bennet
Counsel for Panhandle Telecommunication Systems, Inc.

Attachment

cc (via email): John Hunter

PANHANDLE TELECOMMUNICATION SYSTEMS, INC.
An Affiliate of PANHANDLE TELEPHONE COOPERATIVE, INC.

RON STRECKER
Chief Executive Officer

Federal USF Distribution Proposal for Multiple ETCs
CC Docket No. 96-45

Developed by Ron Strecker
CEO of Panhandle Telecommunication Systems, Inc.

One of the main objectives of both the Federal Communications Commission (FCC or Commission) and Congress has been to control the rapid growth of the Universal Service Fund (USF). Controlling a ballooning fund can be accomplished in many ways and the FCC has been inundated with numerous proposals ranging from reverse auctions to funding caps. However, reigning in the high cost fund must be accomplished without abandoning long-held universal service principles developed by Congress in the Telecommunications Act of 1996 (Act) and the FCC and the Federal-State Joint Board (Joint Board) on Universal Service in their implementation of the Act.

In anticipation of a rulemaking in the near future on the various USF proposals and on the Joint Board's Recommended Decision, Panhandle Telecommunications Systems, Inc. (Panhandle)[1] submits its own proposal for consideration. Panhandle's proposal reflects its long history of providing crucial communications services in high cost areas. Panhandle requests that the Commission seek comment on the "Panhandle Proposal" and believes that the concepts in its proposal can lead to a more targeted and efficiently managed high cost fund.

[1] Panhandle Telecommunication Systems, Inc. (Panhandle) is a wholly-owned subsidiary of Panhandle Telephone Cooperative, Inc. (PTCI). PTCI is an incumbent local exchange carrier (ILEC) rural telephone company with approximately 15,400 access lines and receives high cost universal service support for its operations in Oklahoma, Texas, and New Mexico. Panhandle is a provider of commercial mobile radio service (CMRS) in Oklahoma and Kansas, and competitive local exchange carrier (CLEC) service in Texas. Panhandle provides mobile service to less than 10,000 customers and has been designated an eligible telecommunications carrier (ETC), receiving high cost support. As a CLEC, Panhandle provides service to less than 4,000 access lines. Panhandle also provides high-speed Internet services to over 7,000 customers and dial-up service to approximately 800 customers. The multiple business operated by Panhandle and its affiliates in high cost regions give it a unique and thoroughly rural perspective on universal service. Without adequate high cost support, many customers served by Panhandle could be without vital telecommunications services.

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Panhandle's Proposal is intended as an alternative to drastic and untested "reverse" auctions and irresponsible requests that the high cost fund be eliminated in its entirety. Panhandle's Proposal eliminates the identical support and bases high cost support on a carrier's own costs, as well as establishing company caps. The elimination of the identical support rule reflects industry consensus concerning the unnecessary "windfall" that such support can provide in certain instances. The Panhandle Proposal allows for multiple wireless carriers in the same region to receive support on a targeted basis. However, Panhandle's Proposal contains an economic incentive for wireless carriers to use another carrier's network in areas where additional networks are economically infeasible. What follows are principles and specifics concerning the Panhandle Proposal.

Panhandle Proposal for Wireless CETCs:

The 1996 Act establishes the principle that consumers in all regions of the nation, including rural and high cost areas, should have access to telecommunications and information services at comparable rates enjoyed by consumers in urban areas.[2] Nowhere in the Act does Congress indicate that universal service applies only to certain types of telecommunications carriers and excludes others. However, Panhandle believes that the receipt of high cost universal service comes with an obligation, both ethical and fiscal, to use high cost support for the express provision of high cost universal service. Therefore, wireless carriers who directly or indirectly benefit from high cost support used to build out wireless networks in rural regions where multiple networks are cost prohibitive should be required to provide roaming on a non-discriminatory basis to other wireless carriers in their area and their customers. With the receipt of high cost support for wireless build out comes the obligation to share the high cost network with *all* customers who need access to the network.

Roaming Obligation

Under the Panhandle Proposal, wireless competitive eligible telecommunications carriers (CETC) receiving high cost support would be required to make their network available to the other wireless carriers licensed to serve in the same eligible telecommunications carrier (ETC) markets at a reduced rate. This would permit wireless carriers licensed to serve the same area to indirectly benefit from federal high cost support and better serve their customers residing in that market. This reduced rate would generally be lower than the standard roaming rates charged to wireless carriers who do not hold licenses in the ETC area and whose customers reside outside the ETC area and roam in the licensed area. The reduced roaming rate would be based on the national average cost to produce a wireless minute, and is referred to as the local wholesale rate. The local wholesale rate would be based on wireless carrier costs. The local wholesale rate would also be used to determine high cost support for wireless ETCs, as discussed below.

[2] *See* 47 U.S.C. § 254(b)(3).

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Calculation of Costs, Rates, and Support

To determine wireless carrier costs for the receipt of high cost support, Panhandle suggest a formula be developed to allow wireless carriers to calculate their own costs based on a national average cost without resorting to the highly-regulated and burdensome cost accounting methods currently required of ILECs.

Specifically, on an annual basis, all wireless carriers would report to the FCC, or alternatively the National Exchange Carrier Association (NECA) or the Universal Service Administrative Company, the cost of maintaining their respective network, and the costs associated with completing a call. Included in these costs would be towers, antennas, switches, buildings, backhaul, spectrum, clearinghouses, the net cost of call termination, and network maintenance. Also included would be an approved rate of return on the investment. Excluded from these costs would be administrative costs, marketing expenses, and customer handset subsidies. Carriers would also report on an annual basis the total number of minutes generated by their networks. Many of these costs are available from CTIA's annual survey which provides capital expenses, average minutes, and revenue per customer. Wireless carriers and regulators would thus be able to compare a wireless carrier's individual costs with a national average cost.

National Average Cost per Minute

The total cost of all wireless networks would be divided by the number of minutes on all networks in order to come up with a national average cost per minute. An individual carrier would calculate its own cost per minute by dividing its costs by number of minutes. Roaming minutes would count on both national and individual calculations of minutes.

In order to determine an individual carrier's support, a multiplier, based on the company's size, would be applied to the national average cost per minute. This multiplier could be adjusted to control the size of the fund and to reflect any unforeseen wireless cost trends. The following multipliers are intended for discussion purposes only:

i. 1.50 for Tier I carriers
ii. 1.35 for Tier II carriers
iii. 1.15 for Tier III carriers

Applying this multiplier to the average national cost per minute would yield a figure used to determine the local wholesale rate discussed above. The local wholesale rate would also be used to determine the rate at which carriers would begin receiving high cost support. For example, if the national average cost per minute is 2 cents, after applying the 1.15 multiplier for Tier III carriers, the local wholesale rate would be 2.3 cents per minute. This would be the wholesale rate the Tier III carrier would be obliged to charge for the provision of roaming to the customers of licensed wireless carriers in its ETC area.

High Cost Support

To determine high cost support using the local wholesale rate, the individual carrier simply compares its cost per minute to the local wholesale rate for its Tier. For example, if a Tier III carrier's cost is 10 cents per minute and the local wholesale rate, as calculated above, is 2.3 cents per minute, high cost support for that carrier would be 7.7 cents per minute. As minutes grow, one would expect the cost per minute of an individual carrier to decrease.

Tier I wireless carriers have massive economies of scale and purchasing power in comparison to Tier II and especially Tier III carriers. By using a lower multiplier for Tier II and Tier III carriers, large carriers' economies of scale and purchasing power are taken into account.

Cap on Support

The Panhandle Proposal includes a high cost company cap of ten times the national average cost per minute. This will help ensure that networks not supported by sound business plans are discouraged. For example, if the national average cost per minute is 2 cents as in the examples above, if a wireless CETC's costs are 25 cents per minute, it may be unwise to build out such a costly network since it will only be supported up to 20 cents per minute. However, recognizing that some networks may in fact have legitimate high costs above and beyond the cap, the FCC should allow a waiver of the cap if it is in the public interest to do so.

Panhandle Proposal for Wireline CETCs:

Wireline CETCs receiving high cost support should be required to perform a cost study identical to the cost study required of rate-of-return (ROR) ILECs. High cost support received by a wireline CETC shall be based on actual cost, *not* the identical support rule. Since many rural CLECs are accustomed to preparing cost studies in their affiliated ILEC areas, they should be willing to prepare a similar study for their CLEC areas as well. However, high cost support for CLEC ETCs should be capped.

Cap on Wireline CETC Support

Individual company caps on high cost support for wireline CETCs will be based on state high cost support averages per line received by incumbent rural telephone companies in the state. Panhandle proposes a cap of one and one half (1.5) times a state's rural telephone companies'[3] high cost support average per line. This will help discourage

[3] 47 U.S.C. §153(37).

economically infeasible networks. However, recognizing that some networks, especially in extremely high cost yet unserved areas, are deserving of support, a waiver process should be allowed

Conclusion

Panhandle's intent in introducing the Panhandle Proposal into the fray of USF proposals is to provide the Commission with a decidedly rural perspective that is neither a "rural telephone company" plan nor what would normally be characterized as a "wireless" plan. Panhandle hopes that as the Commission moves forward on long term universal service reform, it can focus on the high cost concerns of small, rural telecommunications carriers like the Panhandle companies that are on the front lines in their provision of high cost universal service.

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