

**Innovative Telephone Projected 2011 High Cost Funding  
under USF/ICC Reform Proposals - Potential Impact**

High Cost Loop Support ("HCLS")	Current	Support	Corporate	Both
	<u>Parameters</u>	<u>Algorithm</u>	<u>Operations Exp.</u>	<u>Proposals</u>
	(a)	Percentages <u>Proposal</u>	<u>Proposal</u>	(d)
		(b)	(c)	
A. Study Area Cost per Loop 2009 ("SACPL")	\$ 634.43	\$ 634.43	\$ 551.12	\$ 551.12
B. National Average Cost per Loop 2009 ("NACPL")	\$ 468.46	\$ 468.46	\$ 415.47	\$ 415.47
C. Minimum Loop Cost for Support [L.B x 1.15]	\$ 538.73	\$ 538.73	\$ 477.79	\$ 477.79
D. Category 1.3 Loops [VITELCO as of 12/31/09]	58,156	58,156	58,156	58,156
E. 2011 Monthly Funding [USF Algorithm - Current and Proposed]	<b>\$ 301,469</b>	<b>\$ 255,089</b>	<b>\$ 230,992</b>	<b>\$ 195,455</b>
F. Projected 2011 Annual Funding	<b>\$ 3,617,632</b>	<b>\$ 3,061,073</b>	<b>\$ 2,771,909</b>	<b>\$ 2,345,461</b>
G. Variation from Current Funding	N/A	<b>\$ (556,559)</b>	<b>\$ (845,723)</b>	<b>\$ (1,272,171)</b>
H. Percentage Impact	N/A	-15%	-23%	-35%

**Figure 2**

A reduction in support of \$ 1.27 million would be the equivalent of \$3.13 per month for each of Vitelco's 33,835 residential lines (projected total for 2011). That is, Vitelco would have to charge \$3.13 per month more for residential service just to break even under these proposals.

It is important to stress, however, that Vitelco could *not* actually increase residential rates, or any other rates, to offset these proposed reductions. The company cannot increase its interstate end user charges, as these are capped by Commission rule. It also cannot increase its interstate carrier access charges, because it recently converted to price cap regulation and those rules provide no opportunity for rate increases due to reduced earnings (unless the Commission were to permit price cap rural LECs to treat these proposed rule changes as an exogenous event). Further, it cannot increase its basic local exchange rates or any other intrastate rates to offset the lost revenues, because those rates are frozen until 2014 under the transfer of control agreement the company reached with the Public Services Commission. Moreover, even if that agreement did not exist, it would not be in the public interest for the Commission to force Vitelco to pass through increased costs to its ratepayers, who already pay monthly rates above the nationwide