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May 17, 2011

**ORIGINAL**

**EX PARTE OR LATE FILED**

**FILED/ACCEPTED**

**MAY 17 2011**

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

Federal Communications Commission  
Office of the Secretary

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**RE: CC Docket No. 01-92, GN Docket No. 09-51 and  
WC Docket Nos. 10-90, 07-135 and 05-337**

Dear Ms. Dortch:

On May 16, 2011, Dave Dengel of Copper Valley Telephone Cooperative; Steve Merriam of Arctic Slope Telephone Association Cooperative; Brenda Shepard of Interior Telephone Company, Inc. and Mukluk Telephone Company, Inc.; Jeff Smith of GVNW Consulting, Inc.; John Hemphill of Pine Telephone; and Derrick Owens and Gerard Duffy representing the Western Telecommunications Alliance met with Carol Matthey, Rebekah Goodheart, Amy Bender, Patrick Halley, Kevin King and Rohit Dixit of the Wireline Competition Bureau, to discuss the Commission's pending universal service and intercarrier compensation rulemaking in the referenced dockets.

Jeff Smith presented the attached data showing the adverse impacts of the Commission's near-term High Cost Fund proposals, as well as the importance of interstate and intrastate access revenues, with respect to the four represented Alaska rural telephone companies as well as a fifth such company. In addition, John Hemphill presented the attached analysis regarding the impact of the Commission's near-term High Cost Fund proposals upon his rural Oregon company. In addition to placing upward pressures on customer rates, the potential revenue losses will threaten compliance with existing construction loan covenants as well as make it difficult or impossible to obtain future loan financing.

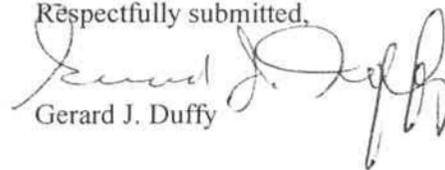
**CONFIDENTIAL INFORMATION - SUBJECT TO PROTECTIVE ORDER IN CC  
DOCKET NO. 01-92, WC DOCKET NOS. 05-337, 07-135, 10-90 AND GN DOCKET NO. 09-  
51 BEFORE THE FEDERAL COMMUNICATIONS COMMISSION.**

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Other topics included: (a) the unique Alaskan telecommunications construction and operating conditions, including short construction seasons and very high costs of air and road transportation for installation and maintenance; (b) middle mile transport issues, including high costs, capacity demands and constraints, and satellite reception limitations; and (c) broadband adoption successes and difficulties in tribal areas where most residents subsist on hunting and fishing, and where the costs of living are already very high (e.g., \$9.20 for a gallon of gas and \$15.58 for a gallon of milk).

Pursuant to Section 1.1206(b) of the Commission's Rules, this submission is being filed for inclusion in the public record of the referenced proceedings.

Respectfully submitted,



Gerard J. Duffy

cc: Carol Matthey  
Rebekah Goodheart  
Amy Bender  
Patrick Holley  
Kevin King  
Rohit Dixit

**CONFIDENTIAL INFORMATION – SUBJECT TO PROTECTIVE ORDER IN CC  
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09-51 BEFORE THE FEDERAL COMMUNICATIONS COMMISSION.**

#### Notes Regarding Computations and Assumptions

- 1 Federal HCL Support was calculated using data submitted to NECA in October 2010 that is used for the 2011 Support. Safety Net Additive (SNA) was added to the calculation.
- 2 ICLS was developed using the 2009 actual costs. No adjustments were made for the subsequent years.
- 3 LSS was calculated using 2009 actual costs. No adjustments were made for the subsequent years.
- 4 Federal HCL adjusted to reflect phase out of Corporate Expense (NPRM Part 36.621(a)(4)) and Reduction in Threshold (NPRM Part 36.631(c)) and an assumed National Average Cost Per Loop of \$335.26 for years 2012 and forward.
- 5 ICLS was adjusted to reflect the phase out of Corporate Expense (NPRM Part 54.901(c)).
- 6 LSS was adjusted to reflect phase out of Corporate Expense (NPRM Part 54.301(c)(5)) and the total phase out of LSS (NPRM Part 54.301(a))
- 7 Paragraph 34 of the NPRM tees up the ultimate phase out of the current per minute ICC system. The data provided in this section shows how much of the Access Requirement still needs to be recovered either from the end user customers, or from ICC.

2011                      2012                      2013                      2014

**Current Rules - Forecasted Revenues for USF**

- 1 Federal HCL Support and SNA (Note 1)
- 2 HCL Acquired Exchange Support
- 3 ICLS (Note 2)
- 4 LSS (Note 3)
- 5 LSS Acquired Exchange Support
- 6
- 7
- 8

**FCC NPRM Forecasted Revenue Impact to USF**

- 9 Federal HCL Support (Note 4)
- 10 HCL Acquired Exchange Support
- 11 ICLS (Note 5)
- 12 LSS (Note 6)
- 13 LSS Acquired Exchange Support
  
- 14 Total Loss in Revenues from USF
- 15
- 16

**Summary**

- 17 Total Lost Support
- 18 Lost Support Per Line
- 19 Lost Support Per Line Per Month

**Residual Access Requirement (Note 7)**

- 20 Interstate Access - Exclude Support
- 21 Intrastate Access - Exclude Support
- 22
- 23 Access Lines
- 24 Access Per Line - Annual
- 25 Access Per Line - Per Month

Redacted for Public Inspection

2011

2012

2013

2014

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switching support shall be 33% of the amount calculated pursuant to this section. Beginning January 1, 2014, no carrier shall receive local switching support, subject to specified exceptions.

(b) \*\*\*

(c) \*\*\*

(5) For calendar year 2012, for purposes of calculating local switching support, the amount of corporate operations expense allocated by this factor shall be multiplied by 67%. For calendar year 2013, for purposes of calculating local switching support, the amount of corporate operations expense allocated by this factor shall be multiplied by 33%. Beginning January 1, 2014, corporate operations expense shall no longer be eligible for purposes of calculating local switching support. \*\*\*

\*\*\*\*\*

6. Section 54.302 is added to Subpart D as follows;

**§ 54.302 Annual per-line limit on universal service support.**

Subject to specified exceptions, beginning January 1, 2012, each study area in the continental United States shall be limited to \$3,000 per-line annually in universal service support. For purposes of this section, universal service support is defined as the sum of the amounts calculated pursuant to sections 36.605, 36.631, 54.301, 54.305, 54.309, 54.800-808, and 54.901-904 of this chapter. Line counts for purposes of this section shall be as of the most recent line counts reported pursuant to section 36.611(h) of this chapter. The fund administrator, in order to limit support to \$3,000 for affected carriers, shall reduce safety net additive support, high-cost loop support, local switching support, safety valve support, forward-looking support, interstate access support, and interstate common line support in proportion to the relative amounts of each support mechanism to total support the study area would receive absent such limitation.

7. Section 54.305 is amended by adding a sentence at the end of paragraph (a) as follows:

**§ 54.305 Sale or transfer of exchanges.**

(a) \*\*\* Five years after approval of the relevant study area waiver for the sale or transfer of exchanges, the provisions of this section are no longer applicable to acquired exchanges, if the acquired exchanges have more than 30% of housing units unserved by broadband, as indicated on the National Telecommunications and Information Administration's broadband map and/or the Commission's Form 477 data collection.

\*\*\*\*\*

8. Section 54.307(a) is revised by adding a third sentence as follows:

**§ 54.307 Support to a competitive eligible telecommunications carrier.**

(a) \* \* \* Subject to specified exceptions beginning January 1, 2016, no competitive eligible telecommunications carrier shall be eligible to receive universal service support on the basis of this section. On or after January 1, 2012, competitive eligible telecommunications carriers shall be eligible to receive universal service support pursuant to subpart L and subpart M of this Part.

**Pine Telephone  
USF NPRM - PRELIMINARY IMPACT SUMMARY**

This analysis addresses the impacts of 3 items in the USF NPRM that was released Feb 8, 2011.

- 1) Removal of all Corporate Expenses in USF Calculations
- 2) Currently in the High Cost Loop Calculation you recover 65% of your costs that are between 115%-150% of the National Average cost per loop (nacpl) and 75% of your costs above 150% of the nacpl. The NPRM proposes to change the 65% to 55% and the 75% to 65%.
- 3) Limit total USF to \$3000 per line

**Current Rules**

	<b>Annual</b>	<b>Monthly</b>
1 Total 12/31/09 HCL Support	\$2,161,149	
2 Total 12/31/09 LSS	\$238,228	
3 Total 12/31/09 CCL Rev Req	<u>\$1,159,538</u>	
4 <b>Total USF Support at 12/31/09</b>	<b>\$3,558,915</b>	<b>\$296,576</b>
5 Total Loops at 12/31/09	1,106	
6 <b>Total support \$ per line (on total loops) - Current Rules</b>	<b>\$3,218</b>	<b>\$268.15</b>

**NPRM Proposal**

7 Total 12/31/09 HCL Support w/no corp exp and Algorithm % change	\$1,514,975	
8 Total 12/31/09 LSS w/no corp exp	\$127,811	
9 Total 12/31/09 CCL Rev Req w/no corp exp	<u>\$893,914</u>	
10 <b>Total USF Support at 12/31/09 - with NPRM Changes</b>	<b>\$2,536,700</b>	<b>\$211,392</b>
11 <b>Total support \$ per line(use total loops) - with NPRM Changes</b>	<b>\$2,294</b>	<b>\$191.13</b>

**Total Decrease in**

12 HCL USF	(\$646,174)
13 LSS	(\$110,417)
14 ICLS	<u>(\$265,624)</u>
15 Total Decrease in Support	<b>(\$1,022,215)</b>
16 <b>Per Loop Annual Decrease</b>	<b>(\$924)</b>
17 <b>Per Loop Monthly Decrease</b>	<b>(\$77)</b>

**Another item in NPRM is a cap on support at \$3,000 per line**

Since the impact of the other NPRM proposals cause the support to drop below the \$3000 cap, there wouldn't be an impact to Pine. If the cap is the only thing that is approved, then there would be an impact. This 12/31/09 analysis shows your support (as of 12/31/09) to be \$3218 per line (above), so if only the \$3000 cap is implemented you would have a decrease of \$241,108 (\$218 x 1106 lines). This isn't really a good analysis though because Pine's costs have significantly increased since 12/31/09 with all of the new construction.

18 <b>Year 2009 Net Operating Income</b>	<b>754,578</b>
19 <b>Impact of NPRM</b>	<b>(1,022,215)</b>
20 <b>Net Operating Income - BEFORE DEBT EXPENSE</b>	<b>(267,637)</b>
21 <b>2009 Debt Expense</b>	<b>(669,425)</b>
22 <b>Oper Income with USF Reform (after Interest is paid)</b>	<b>(937,062)</b>

**All of these figures are from 12/31/09 costs. Pine's impact will be much greater due to all of the construction added since 12/31/09. As soon as we get 2010 final we'll provide an update to this analysis.**