



**Law Offices of Bennet & Bennet, PLLC**

**Maryland**

4350 East West Highway, Suite 201  
Bethesda, Maryland 20814  
Tel: (202) 371-1500  
Fax: (202) 371-1558  
[www.bennetlaw.com](http://www.bennetlaw.com)

**District of Columbia**

10 G Street NE, Suite 710  
Washington, DC 20002

**Caressa D. Bennet**  
**Michael R. Bennet**  
**Marjorie G. Spivak\***  
**Kenneth C. Johnson‡**

\* Admitted in DC & PA Only  
‡Admitted in DC & VA Only

**Howard S. Shapiro**  
**Daryl A. Zakov^**  
**Robert A. Silverman**  
**Anthony K. Veach#**

^Admitted in DC & WA Only  
#Admitted in DC & FL Only

January 9, 2012

**Via ECFS**

Marlene H. Dortch, Secretary  
Office of the Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, S.W.  
Washington, DC 20554

**Re: WC Docket Nos. 10-90, 07-135, 05-337, 03-109**  
**CC Docket Nos. 01-92, 96-45**  
**GN Docket No. 09-51**

Dear Ms. Dortch:

On Thursday, January 5, 2012, representatives of Central Texas Telephone Cooperative, Inc. (“Central Texas”) including undersigned counsel, Ken Johnson of Bennet & Bennet, Clay Sturgis of Moss Adams, Jamey Wigley, General Manager, Jimmy Horton, Network Operations Manager, and Lawana Drosche, Finance Manager for Central Texas, met with Amy Bender, Patrick Halley, Gary Seigel, Craig Stroup, and James Eisner of the Federal Communications Commission’s (“FCC” or “Commission”) Wireline Competition Bureau to discuss the results of the FCC’s proposed regression analysis model<sup>1</sup> on Central Texas.

In the meeting, Central Texas noted that the FCC’s model used to perform the regression analysis did not take into account the length of loops – a major factor leading to high loop costs. In Central Texas’s case, the average loop length is 11 miles. The model also does not take into account unusual terrain conditions such as rock that must be cut through to bury loops. Central Texas noted that it sometimes takes a full day to cut through 100 feet of rock to bury a loop. Central Texas also pointed out that when comparing Central Texas to similarly situated companies like those listed in the table provided by Central Texas (copy attached), all of which are in neighboring parts of Texas, the concentration of loops in many areas where companies had significantly higher cable and wire facility caps is much larger than in the Central Texas area.

In Central Texas’ service area, there are 1.90 loops per square mile. Central Texas has a ceiling or cap on its cable and wire loop facilities of \$12,118 per mile. The table provided compares loops, land area served, and the resulting caps under the proposed regression model. The table supports Central Texas’s position that areas with few subscribers, or loops, per mile necessitate higher values under the regression caps and that caps should be comparable for

---

<sup>1</sup> Notice Concerning Universal Service Intercarrier-Compensation Transformation Proceeding, Public Notice, DA 11-1966 (December 2, 2011).

January 9, 2012

Page 2 of 3

similarly situated companies. However, the table shows contrary results. The table demonstrates that of the six companies listed, three have more loops per mile, (*i.e.*, have a higher population density than Central Texas), however all three have significantly higher caps per mile. Specifically, Taylor Telephone (“Taylor”), with 3.07 loops per mile which is very similar to the total loops of Central Texas (6,228 for Taylor versus 6,599 for Central Texas) and is geographically very close to Central Texas, yields a significantly higher cap. The regression model yielded a cap of \$18,001 per mile, \$5,884 more per mile than Central Texas even though Taylor has a more densely populated area. Central Texas pointed out that utilizing the same \$18,001 per mile cap for its area would yield a cap of \$62,428,340, and an amount of \$20,404,755 (48.56% higher than its current cap) and much more consistent with what Central Texas has spent on cable and wire facilities. Central Texas also pointed out that Coleman County Telephone (“Coleman”) which has a density very consistent with Central Texas’s density (*i.e.*, 1.70 loops per mile for Coleman), has a cap that is also lower than three of the companies depicted in the table provided with more loops per mile. This is yet another example of the regression analysis not producing consistent results for similarly situated companies.

In essence, Central Texas, compared to similarly situated Texas companies, is being penalized for serving a larger area with a less densely populated territory. The FCC’s regression model, in its current state, does not take into account the additional costs associated with serving large, scarcely-populated areas. Prompted by its discussion with the FCC about ways to improve the FCC’s regression model, Central Texas offered to provide the FCC with average loop lengths so that they could be calculated into the model. Both the FCC and Central Texas acknowledged that such data is not currently readily available and would require data to be collected and reported. Central Texas emphasized that such data, reflecting a major component of loop cost, is a critical component that must be included in order for the model to work. Terrain data is also absent from the model. Central Texas implored the FCC to include terrain data besides water data, which it pointed out to be an insignificant and inappropriate variable, and the FCC agreed that such terrain data would be a valuable input to the model.

Central Texas also inquired about the timing of the adjustment of support payments based on the new regression caps, proposed to be effective on July 1, 2012. Central Texas noted that the answer to this question affects whether the new caps will impact the full year of 2012, half of 2012, or start in 2013. The FCC responded that they did not have a date established. Central Texas expressed grave concern regarding the timing and its impact on its ability to plan future network build out.

Central Texas argued that the caps should be applied to the high cost loop support (“HCLS”) data lines (“DL”) instead of the algorithm lines (“AL”) as this is yielding errors and not allowing the 26 step model to work as designed. In other words, the FCC’s regression model caps outputs, rather than capping inputs and allowing the inputs to be run through the model. Central Texas also pointed out that any company that has central office or cable and wire assets removed via the caps needs to have these same amounts removed from total plant in service and other related accounting categories. In addition, Central Texas noted that those companies with cable and wire assets removed via the caps need to have the same amounts removed from average cable and wire and average Category 1, subscriber cable and wire facilities. This is currently not being done and yields flawed and negative results for Central Texas. The FCC expressed concern over whether this would require a change to the 26 step algorithm used in the

January 9, 2012

Page 3 of 3

regression model. Central Texas stated that processing the capped inputs through the model would not require any change to the FCC's 26 step algorithm.

Central Texas also noted that depreciation expenses had not been properly accounted for in the model. Specifically, Central Texas explained that depreciation expenses should not be analyzed independently. Instead, such expenses should be reflected as a function of the asset values removed. Central Texas also asked about incorporating accumulated depreciation into the regression caps impacting the HCLS model since not doing so does not take into account the net book value of any plant adjusted via the caps. The FCC indicated that it had considered this issue and that when running these numbers, received inappropriate results and "anomalies" using such calculations.

Central Texas stated that the amount of depreciation expense removed on AL 17 was excessive and inconsistent with general accounting principles in relation to the plant removed on AL1 under the proposed regression cap. Central Texas suggested that regression not be used related to depreciation expense and instead be computed on the amount of any plant removed using FCC depreciation rate guidelines. Central Texas also pointed out that the FCC's approach yields anomalous situations where a company can have depreciation expense removed via the cap even though the plant valuation had not been reduced or adjusted.

Should you have any questions or require additional information, please do not hesitate to contact me.

Respectfully submitted,

*/s/ Caressa D. Bennet*

Caressa D. Bennet

Attachment

cc: Amy Bender  
Patrick Halley  
Gary Seigel  
Craig Stroup  
James Eisner

Not getting similar results for "similarly situated" companies

| Companies with highest loops have highest caps |        | Companies with more land get penalized |                         |              |                 |
|--|--------|--|-------------------------|--------------|-----------------|
|  | Loops  | Land Area                              | AL1 - FCC Cap (MA Calc) | Cap/Land Are | Loops/Land Area |
| 442039 BIG BEND TEL CO INC                     | 5,637  | 16,657.22                              | 64,760,407.11           | 3,888        | 0.338411797     |
| 442052 CENTRAL TEXAS CO-OP                     | 6,599  | 3,468.01                               | 42,023,584.82           | 12,118       | 1.902822061     |
| 442057 COLEMAN COUNTY CO-OP                    | 1,906  | 1,116.74                               | 17,892,389.28           | 16,022       | 1.70675761      |
| 442083 GUADALUPE VALLEY TEL                    | 38,020 | 1,766.29                               | 163,471,384.44          | 92,551       | 21.52534699     |
| 442086 HILL COUNTRY CO-OP                      | 15,273 | 2,961.21                               | 82,831,062.90           | 27,972       | 5.15769624      |
| 442151 TAYLOR TEL CO-OP INC                    | 6,228  | 2,023.83                               | 36,431,371.48           | 18,001       | 3.077336049     |
|  |        |  | 62,428,340.70           |              |                 |

Taylor is very comparable terrain - their cap/land for centex =