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January 9, 2012

Via ECFS

Marlene H. Dortch, Secretary
Office of the Secretary
Federal Communications Commission
445 12th 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 Christine Kurth, Wireline Legal Advisor to Commissioner Robert McDowell of the Federal Communications Commission's ("FCC" or "Commission") to discuss the results of the FCC's proposed regression analysis model[1] 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' case, its average loop length is 11 miles. The model also does not take into account unusual terrain conditions such as rock that must be cut 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.

Central Texas noted that in its 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

[1] *Notice Concerning Universal Service Intercarrier-Compensation Transformation Proceeding*, Public Notice, DA 11-1966 (December 2, 2011).

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.

Central Texas also discussed 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 since such data is not currently readily available and would require data collection from all carriers. Because loop length data reflects a major component of loop cost, loop length is a critical component that must be included in order for the model to work accurately. Terrain data is also not included in the model. Other than water data, no other terrain data has been used in the model.

Central Texas reported that, based on earlier discussions with Wireline Competition Bureau staff at a prior meeting on January 5, 2012 (see contemporaneously filed ex parte), no date has been established for calculating when support payments will be adjusted based on the new regression caps, proposed to be effective on July 1, 2012. Central Texas expressed concern that it could not plan for future build out of its network without knowing whether the new caps will impact the full year of 2012, half of 2012, or start in 2013.

Central Texas advocated 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 erroneous effects 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, those with cable and wire assets removed via the caps needs 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. Central Texas reported that the Wireline Competition Bureau appears concerned as to whether this would require a change to the 26 step 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 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 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. Central Texas reported that based on its prior meeting with FCC staff that it appears that the FCC had considered this, but got inappropriate results and "anomalies" with such a regression analysis when the numbers were run through the model.

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 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: Christine Kurth

4837-8674-7910, v. 1

Not getting similar results for "similarly situated" companies

Companies with highest loops have highest caps

		Loops	Land Area
442039	BIG BEND TEL CO INC	5,637	16,657.22
442052	CENTRAL TEXAS CO-OP	6,599	3,468.01
442057	COLEMAN COUNTY CO-OP	1,906	1,116.74
442083	GUADALUPE VALLEY TEL	38,020	1,766.29
442086	HILL COUNTRY CO-OP	15,273	2,961.21
442151	TAYLOR TEL CO-OP INC	6,228	2,023.83

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

Companies with more land get penalized

AL1 - FCC Cap (MA Calc)	Cap/Land Are	Loops/Land Area
64,760,407.11	3,888	0.338411797
42,023,584.82	12,118	1.902822061
17,892,389.28	16,022	1.70675761
163,471,384.44	92,551	21.52534699
82,831,062.90	27,972	5.15769624
36,431,371.48	18,001	3.077336049
62,428,340.70		

Attachment 1