Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
A National Broadband Plan for Our Future	)	GN Docket No. 09-51
	)	
	)	WC Docket No. 07-135
Establishing Just and Reasonable Rates for Local Exchange Carriers	)	
	)	
	)	WC Docket No. 05-337
High-Cost Universal Service Support	)	
	)	CC Docket No. 01-92
Developing an Unified Intercarrier Compensation Regime	)	
	)	
	)	CC Docket No. 96-45
Federal-State Joint Board on Universal Service	)	
	)	WC Docket No. 03-109
	)	
Lifeline and Link-Up	)	WT Docket No. 10-208
	)	
Universal Service Reform – Mobility Fund	)	
	)	

COMMENTS
of
GUADALUPE VALLEY TELEPHONE COOPERATIVE, INC.

Guadalupe Valley Telephone Cooperative, Inc. (GVTC) is an Incumbent Local Exchange Carrier (ILEC) with headquarters located in Smithson Valley, Texas, located approximately 30 miles north of San Antonio. GVTC was formed in 1951 and provides local telephone and internet service directly, and local telephone, internet, video, long distance and security monitoring service through its wholly owned affiliate. GVTC provides telephone service to approximately 30,700 customers and 37,500 access lines located within its 1890 square mile service territory. GVTC's service territory is divided into two non-contiguous service areas of approximately 1025 square miles and 865 square miles. The service area includes a wide variety of terrain from flat,

sandy soil to mountainous, rocky areas. Also included in the service area are numerous rivers including the Guadalupe River as well as Canyon Lake, a major Corps of Engineers lake.

As a telecommunications carrier, GVTC will be impacted from the FCC changes outlined in Order 11-161 released November 18, 2011 (Order), including the proposed Regression Model as outlined in Appendix H of the Order. GVTC concurs that efforts must be taken to ensure the efficient operation of companies and the appropriate investment of capital. However, GVTC's analysis of the FCC's proposed Regression Model indicates that the model does not accomplish those goals.

THE MODEL'S INDEPENDENT VARIABLES ARE NOT APPROPRIATE

The FCC attempted to determine the appropriate level of CAPEX and OPEX through the use of eleven (11) "Independent Variables". These 11 Independent Variables were chosen because they "correlate with each carrier's costs, are currently available to the Commission, and exist for all study areas in the regression analysis". The FCC has placed undue weighting on the selection of the variables based upon the criteria that the information 1) is available to the FCC and 2) exists for all study areas. The FCC has not focused its efforts in determining the proper Independent Variables, i.e. those that significantly impact a carrier's cost.

In reviewing the Independent Variables, the FCC has chosen 5 primary categories: Loops, Housing Units, Land Area, Percent Water and Census Blocks. GVTC agrees that Loops, Housing Units and Land Area are certainly significant drivers to a company's cost. However it is unclear that dividing the Housing Units and Land Area into "urban, urban cluster, or non-urban" units is an accurate indicator of costs. With the tremendous population range allowed in the urban cluster and urban block, it is difficult to determine whether these sub-categories can reliably be used as an Independent Variable.

The selection of Percent Water and Census Blocks as Independent Variables are suspect as well. Strictly the number of Census Blocks within a company's Study Area, and whether the particular block is urban, urban cluster, or non-urban do not drive a company's plant design or cost. The

FCC could have easily included the publicly available number of Zip Codes in a Study Area, and developed its coefficient in the model. But neither the number of Zip Codes nor the number of Census Blocks drive a company's cost. Likewise, while it is interesting to know the Percent Water of a Study Area, it is highly unlikely that this truly correlates to or significantly impacts a company's cost.

OTHER INDEPENDENT VARIABLES ARE NECESSARY

The FCC should focus its efforts in determining the appropriate Independent Variables, rather than rushing to take readily available information, apply a regression model, and force fitting all companies to the outcome. The true drivers of the cost of service are more defined by study area characteristics such as customer density, customers per highway mile, cable route miles, cable sheath miles, soil type, broadband availability, broadband speed capability, right of way costs, cost of living, vacant lots, etc. Virtually none of these significant cost drivers are included in the model. While this information may not be readily available, there is little doubt that these are more relevant to a regression analysis and may more accurately identify those companies that exceed a particular "norm".

GVTC recommends the FCC suspend the implementation of any Regression Model until such time as more relevant Independent Variables are identified, and a reasonable approach to obtaining that information is developed.

REGRESSION MODEL WILL STIFLE INVESTMENT BY ELIMINATING A REASONABLE RETURN ON EXISTING AND FUTURE INVESTMENTS

Of particular concern is the placement of caps on companies that have recently invested in technologies that fulfill the FCC's goal of broadband as a Universal Service. It is very likely that the companies which have made prudent business decisions to make infrastructure investments to upgrade loop facilities for voice and data services will have higher CAPEX indices than companies that have not made such business decisions. The FCC's Regression Model will clearly penalize the early investor and potentially reward the late investor. However, as the latter

begins to invest in plant facilities, it is likely that they too will begin to move closer and likely exceed the constantly changing cap. This will only serve to stifle investment.

As the proper Independent Variables are determined, the results of the Regression Model can then be analyzed and a decision regarding its application to existing plant investments can be determined.

MINOR CHANGES IN SACPL DUE TO REGRESSION CAP CAN HAVE TREMENDOUS FUSF IMPACT

Attachment 1 provides information regarding the calculated impact on the Federal USF of certain Texas companies as a result of the reduction in the company's Study Area Cost Per Loop (SACPL) from the FCC's Regression Model. The source information is data obtained from the FCC website. With the exception of GVTC, the company names and study area codes have been redacted. As Attachment 1 shows, although GVTC's SACPL is reduced by 9.9%, the net effect of the Federal USF reduction is a 39.5% reduction. Company 4 experiences a 10.8% reduction in the SACPL, but suffers an 86% reduction in Federal USF.

The FCC must be aware that the relative minor changes in the individual SACPL can have draconian results for the company. Therefore, the FCC must take extreme caution as it develops its Regression Model and should not implement its proposals until the proper Independent Variables are utilized.

If the FCC chooses to move forward with its Regression Model effective July 1, 2012, the FCC should develop a revised National Average Cost Per Loop (NACPL) based upon the new capped SACPL's, and distribute the Federal USF in accordance with the traditional distribution methodology. The FCC has implied that the reduction in Federal USF from the capped companies will be redistributed to the uncapped companies. This methodology creates significant inconsistencies. First, for a company that is marginally capped, e.g. SACPL is reduced by .01%, that company will not receive any additional funding. However, for the company that is marginally uncapped, that company will benefit greatly from the millions of dollars that will be redistributed.

According to NECA preliminary estimates, the 283 rate of return companies impacted by the caps will see a $109M or **20%** reduction in federal USF. The 437 rate of return companies not impacted by the cap will see a $109M or **47%** increase is federal USF. This leads to a dramatic windfall for the non-capped companies. This redistribution is unwarranted and does not address the FCC's primary concern related to the "race to the top" and the centralization of support to a smaller subset of rate of return carriers. Therefore, if the FCC chooses to move ahead with its plans, the FCC should recalculate the NACPL and distribute the support in its traditional manner.

REGRESSION MODEL IGNORES THE COST OF CARRIER OF LAST RESORT OBLIGATIONS

In the Order, the FCC did not pre-empt states authority over carrier of last resort responsibilities. GVTC is a carrier of last resort, and therefore is required to build facilities to new locations upon request, and must maintain existing facilities to locations previously served. The model is most sensitive to the number of loops served, not the number of Housing Units, or vacant lots. The FCC understands that the first lot in a subdivision is the most costly to serve. GVTC has built facilities throughout subdivisions as the carrier of last resort. Due to the downturn of the economy in 2008 and 2009, has thousands of those lots remain vacant, and many of the houses are unoccupied due to foreclosure. In its Order, it appears the FCC has now designated GVTC as the carrier of last resort for broadband service. This will place a significant additional financial burden on GVTC, with limitations on both CAPEX and OPEX due to the Regression Model. While no specific recommendation is made, the FCC must adjust the Independent Variables to account for this requirement.

REGRESSION MODEL SHOULD ELIMINATE THE DEPRECIATION EXPENSE AS A DEPENDENT AND CAPPED VARIABLE

The Regression Model establishes AL 17, Cable and Wire Facilities (C&WF) Amortization and Depreciation, as a Dependent Variable. In GVTC's case, the Regression Model AL1 C&WF is not capped, indicating that GVTC's current plant investment is below the threshold. However, GVTC's AL 17, C&WF Amortization and Depreciation is capped by approximately 33%. This

cap decreases GVTC's High Cost Loop Support by $1,884,746 or **40.33%**. Likewise, this cap in allowed depreciation expense would yield an effective depreciation rate (depreciation expense/total C&WF) of 4.1% which is down from the current 5.9%. Also, the 4.1% would not fall within previously approved rates. As GVTC's depreciation rates have been approved by the Public Utility of Commission of Texas and reviewed during two OIG audits, it is unreasonable to cap GVTC's depreciation expense, as it is strictly a function of total C&WF and the approved depreciation rates.

GVTC recommends that the FCC remove the depreciation related dependent variables, AL17 and AL18, for those companies whose plant investments, AL1 and AL2, are under the cap.

SUMMARY

GVTC appreciates the opportunity to provide these comments to the FCC. GVTC recommends the FCC 1) focus its immediate effort in obtaining appropriate long term Independent Variables, 2) suspend the implementation of the Regression Model until appropriate Independent Variables are established, 3) recognize its current Regression Model will stifle investment, 4) recognize relatively minor reductions in SACPL can lead to dramatic reductions in Universal Service funding and adjust its strategy accordingly, and 5) eliminate depreciation caps for those companies whose investments did not exceed the cap.

While GVTC understands the FCC's urgency to move forward, the FCC must ensure its actions drive the desired results. GVTC's does not believe the current Regression Model will do so.

/s/ Robert Hunt

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Robert Hunt
Vice President, Regulatory Affairs and Business Operations
Guadalupe Valley Telephone Cooperative, Inc.