

**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
)	
Establishing Just and Reasonable Rates for Local Exchange Carriers)	WC Docket No. 07-135
)	
High-Cost Universal Service Support)	WC Docket No. 05-337
)	
Developing an Unified Intercarrier Compensation Regime)	CC Docket No. 01-92
)	
Federal-State Joint Board on Universal Service)	CC Docket No. 96-45
)	
Lifeline and Link-Up)	WC Docket No. 03-109
)	
Universal Service Reform – Mobility Fund)	WT Docket No. 10-208

**COMMENTS
of
CAMBRIDGE TELEPHONE COMPANY**

TABLE OF CONTENTS

INTRODUCTION AND SUMMARY..... iii

I. ANALYSIS PERFORMED BY CAMBRIDGE.....1

II. THE FCC’S REGRESSION ANALYSIS UTILIZES INCORRECT DATA2

**III. THE MODEL DOES NOT YIELD CONSISTENT RESULTS FOR
SIMILARLY SITUATED COMPANIES.....3**

**IV. THE FCC’S REGRESSION ANALYSIS DOES NOT CONSIDER THE
IMPACTS OF DEPRECIATION RESERVE4**

**V. THE LIMITATIONS ARE APPLIED INCORRECTLY TO THE HIGH
COST LOOP SUPPORT ALGORITHM.....4**

VI. THE LIMITATIONS ARE MISSING CRITICAL COMPONENTS.....5

**VII. THE FCC’S REGRESSION ANALYSIS DOES NOT APPROPRIATELY
CALCULATE LIMITATIONS ON DEPRECIATION EXPENSE6**

VIII. CONCLUSIONS7

Introduction and Summary

The Federal Communications Commission's (Commission or FCC) *Report and Order and FNPRM*¹ in the above captioned proceeding requests comment on proposed changes to the existing Universal Service Fund (USF) and Intercarrier Compensation (ICC) mechanisms for rural rate-of-return carriers, among other issues. Specifically, the FCC requests comments on Sections XVII.A-K of the *FNPRM*, which address a wide variety of USF related issues.

Cambridge Telephone Company² (Cambridge) submits these comments for the FCC's consideration. Cambridge is a rural telecommunications provider serving 1,181 voice access lines and 397 broadband customers in the State of Nebraska. The following characteristics are true of Cambridge:

- Cambridge is the Carrier of Last Resort designated by the Nebraska Public Service Commission, which legally obligates the company to provide telecommunications service to all requesting customers within its service territory.
- Cambridge is the Eligible Telecommunications Carrier (ETC) determined by the Nebraska Public Service Commission to provide universal service within the company's designated service territory.

¹ *In the Matter of Connect America Fund*, WC Docket No. 10-90, *A National Broadband Plan for Our Future*, GN Docket No. 09-51, *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135, *High-Cost Universal Service Support*, WC Docket No. 05-337, *Developing an Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Lifeline and Link-Up*, WC Docket No. 03-109, *Universal Service Reform – Mobility Fund*, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. November 18, 2011) (*Report and Order and FNPRM*).

² Cambridge Telephone Company's service area resides in the southwest part of Nebraska. Topographically, the area served by Cambridge is a mix of plains and hills with valleys, streams, and rivers dispersed throughout. The closes significant population center is over 200 miles away, with the main economic driver being agriculture.

- Cambridge receives High Cost Support from the Federal Universal Service Fund. This support totaled \$881,628 in 2010³ and comprised over 29% of Cambridge revenues in 2010. Support came from the following sources:
 - High Cost Loop Support (HCLS) \$112,452
 - Interstate Common Line Support (ICLS) \$504,096
 - Local Switching Support (LSS) \$265,080

- Cambridge generates substantial revenues from providing intrastate switched access and reciprocal compensation services. In 2010 intrastate switched access and net reciprocal compensation revenues totaled \$636,150.

- Cambridge provides voice and broadband services to schools, libraries, rural health care facilities, governmental agencies, and/or other anchor institutions within its service territory.

- Cambridge is one of the top three largest employers in the company’s rural service territory, providing jobs and financial stability in rural areas of Southwest Nebraska. In 2010, Cambridge employed 15 people and provided combined payroll and benefits of \$1,771,817.

- Cambridge has deployed substantial financial and human resources to provide voice and broadband services under the existing rate of return rules prescribed by the FCC and by the Nebraska Public Service Commission. In 2010, Cambridge had gross regulated investment of \$12,121,295

³ 2010 revenues are used throughout these comments because final 2011 numbers are not yet known. We believe that 2010 revenues are reasonably representative of 2011.

- Cambridge would not have had the financial resources to deploy and maintain either voice or broadband services without rate of return regulation and the support of the Universal Service Fund under the existing rules.
- Cambridge is very concerned with the potential financial implications of the *Report and Order and FNPRM* and the impact they will have on Cambridge's ability to continue to provide high quality voice and broadband services at the public interest standards established by the Commission.

In these comments, Cambridge outlines the impacts that adoption of the limitations on capital and operating expenses, as proposed in the Report and Order and FNPRM, would have on its financial results.

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I. Analysis Performed by Cambridge

In order to provide relevant financial context to the FCC in these comments, Cambridge engaged Moss Adams LLP⁴ to perform a detailed financial analysis of the potential impacts of the limitations on capital and operating expenses proposed in the *Report and Order and FNPRM*.

⁴ Moss Adams LLP (Moss Adams) is the 11th largest accounting and consulting firm in the United States, with more than 225 partners and 1,800 staff. Moss Adams' Telecom Group has served the telecommunications industry since 1957. Today, they provide audit, tax, and consulting services to more than 80 small and mid-sized telecommunications carriers throughout the United States and its territories.

This analysis primarily focused on the impacts of the proposed regression analysis identified in Appendix H to the *Report and Order and FNPRM*. This analysis was performed using Cambridge data used by, and provided by, the FCC in the development of its regression analysis. In doing so, Moss Adams recreated the regression analysis performed by the FCC and reproduced the same results. In addition, Moss Adams also utilized other information generally available from Cambridge in the analysis. The following comments include our overall assessment of the FCC's regression analysis and provide a summary overview of the financial impacts on Cambridge, including the impacts of changes in the analysis proposed by Cambridge.

II. The FCC's Regression Analysis Utilizes Incorrect Data

The census data that the Commission uses as inputs to its model in the *Report and Order and FNPRM* are subject to a substantial degree of error. In any model, where there are errors or inaccuracies in the inputs, those data flaws will also create errors or inaccuracies in the outputs of the model. The *Report and Order and FNPRM* relies on significantly flawed data, and therefore produces similarly flawed results.

Part of the input error is created by the Commission's use of the TeleAtlas tool to define study areas, which is notably flawed for Cambridge. While the Commission's model assumes Cambridge's study area encompasses 236.32 square miles, Cambridge's actual study area encompasses 365 square miles – an error that is certain to produce a flawed result.

This is extremely significant to Cambridge. Prior to regression caps, 2010 Cambridge data at a national average cost per loop of \$509.06, yielded estimated High Cost Loop Support (HCLS) of \$871,337. The proposed regression caps, which included the incorrect square miles above, reduced HCLS to \$822,336, a reduction of \$49,001 or 5.96%. Increasing the square miles

in the regression analysis to the actual of 365 results in HCLS of \$836,230, an increase of \$13,894, or 1.66%, over the capped amount. Should the Commission continue down this regression path, the data for Cambridge and all carriers needs to be accurate. Cambridge serves as an example that the census data which the Commission uses as inputs to its model are subject to a substantial degree of error, and therefore is not appropriately used to cap Cambridge's costs.

In addition to our concern over the accuracy of the square miles in the study area, we are also concerned with how the FCC has determined the number of census blocks in a study area. Census block boundaries and study area boundaries are not always coterminous. Applying the FCC's methodology, where a study area boundary contains the centroid of a particular census block, that census block data is counted for the carrier as if the entire block was served. While we have not been able to confirm census block data, this process appears to produce additional errors in the model inputs.

III. The Model Does Not Yield Consistent Results for Similarly Situated Companies

In defining similarly situated companies, the FCC must consider factors that drive the true cost of loop facilities. Cambridge notes that the FCC's model used to perform the regression analysis did not take some of the primary drivers of loop costs into account, such as the length of loops – a major factor leading to high loop costs. In Cambridge's case, it has 3.58 access lines per mile of loop plant.

IV. The FCC’s Regression Analysis Does Not Consider the Impacts of Depreciation Reserve

Cambridge notes that the FCC’s model used to perform the regression analysis does not take the depreciation reserve of the plant being limited into account; it is purely analyzed on a gross plant value. Companies like Cambridge deployed the network years ago and, like many, face the need to upgrade facilities as the plant is reaching the end of its useful life. Utilizing a Rural Utilities Services loan, Cambridge has recently upgraded some facilities with fiber to the premise. These upgrades are helping Cambridge meet the Commission’s 4 Mbps downstream/1 Mbps upstream broadband requirements, but more investment is needed to completely fulfill those requirements and for Cambridge’s facilities to be completely upgraded. The regression model as proposed does not allow for this, and its failure to recognize the impacts of depreciation reserve is a significant flaw in the model.

V. The Limitations Are Applied Incorrectly to the High Cost Loop Support Algorithm

Cambridge believes there are three accounting issues that must be addressed in the calculation and application of the proposed regression-based limitations. First, the High Cost Loop Support (“HCLS”) data inputs (“data lines” or “DL”) should be limited, not the outputs (“algorithm lines” or “AL”). Second, the limitations must take into account the impact of accumulated depreciation and other Part 32 accounts on the calculation of support. Third, the methodology used to calculate the limitations on depreciation expense must be modified.

Cambridge believes that the limitations should be applied to the HCLS data lines instead of the algorithm lines, which would allow the 26 step algorithm to work as designed. The current limitation of the algorithm lines does not account for the interrelationship between many

of the data lines used in the calculation of support. It should be noted that all of the algorithm lines are calculations based on various data lines, so any proposed limitations can also be accomplished by adjusting the data lines. As currently proposed, the FCC's regression model limits outputs, rather than limiting inputs and allowing the inputs to be run through the model. An excellent example of this is AL 3, also referred to as the "A" Factor, which is calculated as Cable and Wire Facilities (CWF) divided by Total CWF. The "A" Factor is used in the allocation of expenses associated with CWF. AL 3 is one of several algorithm steps that uses both AL and DL inputs to produce the result; in this case AL1, DL 255 (Account 2400 - Total CWF) and DL 815 (Account 2680 – Amortizable Tangible Assets – CWF). The FCC's proposed treatment only limits the AL1 amount, however, neither DL 255 (which includes AL1) nor DL 815 are adjusted. As a result, the algorithm is not allowed to calculate support as it was intended and produces an incorrect result.

VI. The Limitations Are Missing Critical Components

As mentioned above, accumulated depreciation and other Part 32 accounts must be taken into consideration if the FCC is going to limit the 11 proposed algorithm lines, or follow the approach to limiting the data lines described above. The FCC's proposed regression analysis does not limit the accumulated depreciation, nor does it remove amounts from other associated accounts. If the FCC is going to limit investments, the following data lines should also be limited:

DL 160 – Account 2001 – Total Plant in Service

DL 190 – Account 3100 – Accumulated Depreciation

DL 240 – Account 2230 – COE Transmission Equipment

DL 250 – Account 2230 – COE Category 4.13

DL 255 – Account 2410 – Total CWF

DL 270 – Account 3123 – COE Transmission Accumulated Depreciation

DL 280 – Account 3124 – CWF Accumulated Depreciation

DL 700 – Cost Study Average CWF – Total Account 2410

DL 710 – Cost Study Average CWF Cat 1 – Total Subscriber Line Plant

By not limiting these data lines, the FCC's regression analysis yields flawed and punitive result. In addition, as discussed above, limiting the algorithm lines and not the data lines does not allow the HCLS algorithm to work as designed. There could be some question as to how to appropriately limit the accumulated depreciation reported on DL 190 and DL 280, but this could be handled one of two ways. First, a ratio of the limited investment in the associated plant account to the total plant account could be developed and applied to the accumulated depreciation. Alternatively, the limited plant could be handled as a retirement, in which case Part 32 for retirement accounting would treat the investment as fully depreciated. Whichever method is selected would be more appropriate than the current approach of ignoring depreciation reserve and other associated accounts in the algorithm. The limitation of algorithm lines rather than data lines yields inappropriate results and ignores the net book value of the assets being removed.

VII. The FCC's Regression Analysis Does Not Appropriately Calculate Limitations on Depreciation Expense

Depreciation expenses have not been properly accounted for in the FCC's regression model. Specifically, depreciation expenses should not be analyzed independently via regression, as they are a byproduct of the associated plant investment. Instead, depreciation expenses should

be reflected as a function of the asset values removed. The FCC's current, regression-based approach results in limitations on depreciation expenses that are excessive and inconsistent with Part 32 accounting principles. The FCC's current approach also creates situations where depreciation expense is limited when the associated plant account is not limited. This would suggest that the depreciation rates for these accounts are excessive, which is nearly impossible in a regulated environment. Cambridge's depreciation rates are approved by the Nebraska Public Service Commission and are therefore not subject to unilateral adjustment by the company. Finally, we are audited annually by an independent CPA firm that verifies the proper use of the approved depreciation rates, thus there is minimal risk of improper application. Therefore, we recommend that regression not be used to limit depreciation expense. Instead, we believe that depreciation expense limitations should be computed as the percentage of limitation of the associated plant investment multiplied by depreciation expense.

VIII. Conclusions

Cambridge Telephone Company is very concerned with the lack of stability that the USF reform in the *Report and Order and FNPRM* has and will create for our company. This instability creates a significant risk of bankruptcy and default on our current RUS and other loans. Cambridge also would have to look at reducing staff in order to make good on our business model. We believe that we are already at a bare minimum from a personnel perspective to properly operate telecommunications provider. The continued decline in revenues will also create challenges of acquiring additional capital to continue to invest in and maintain our network, whether it is from our current shareholders or future lenders. The cost of a network is more than just a capital expenditure; it is also the ongoing maintenance expense that is required to make the network run. Given the proposed reform, we are concerned that the financial

resources will not be available to support the true expansion of broadband to rural Americans. We believe that the *Report and Order and FNPRM* is creating greater uncertainty for the industry, not less.

January 18, 2012

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'T. Shoemaker', written over a horizontal line.

CAMBRIDGE TELEPHONE COMPANY

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