

**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
INTERBEL TELEPHONE COOPERATIVE, INC.**

TABLE OF CONTENTS

INTRODUCTION AND SUMMARY..... iii

I. ANALYSIS PERFORMED BY INTERBEL1

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 RESERVE6**

**V. THE LIMITATIONS ARE APPLIED INCORRECTLY TO THE HIGH
COST LOOP SUPPORT ALGORITHM.....6**

VI. THE LIMITATIONS ARE MISSING CRITICAL COMPONENTS.....7

**VII. THE FCC’S REGRESSION ANALYSIS DOES NOT APPROPRIATELY
CALCULATE LIMITATIONS ON DEPRECIATION EXPENSE9**

VIII. CONCLUSIONS9

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.

InterBel Telephone Cooperative, Inc.² [InterBel] submits these comments for the FCC's consideration. InterBel is a rural telecommunications provider serving approximately 2,300 voice access lines and 1,500 broadband customers in the State of Montana. The following characteristics are true of InterBel:

- InterBel is the Carrier of Last Resort designated by the Montana Public Service Commission, which legally obligates the company to provide telecommunications service to all requesting customers within its service territory.
- InterBel is the Eligible Telecommunications Carrier (ETC) determined by the Montana 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 InterBel is a rural ILEC serving North Lincoln County, Montana since 1962. The area is mountainous and the population of just over 5,000 has a density is less than 2 subscribers per mile. The nearest, significant population center is Kalispell, Montana with a distance of 75 miles.

- InterBel receives High Cost Support from the Federal Universal Service Fund. This support totaled \$2,944,010 in 2010³ and comprised over 53% of InterBel revenues in 2010. Support came from the following sources:
 - High Cost Loop Support (HCLS) \$1,739,102
 - Interstate Common Line Support (ICLS) \$1,034,136
 - Local Switching Support (LSS) \$ 170,772

- InterBel generates substantial revenues from providing intrastate switched access. In 2010 intrastate switched access totaled \$642,894.

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

- InterBel is one of the top 5 employers in the company’s rural service territory, providing jobs and financial stability in rural areas of North Lincoln County, located on the Canadian border in northwest Montana. In 2010, InterBel employed 22 full-time and 6 part-time people and provided combined payroll and benefits of \$2,535,040.

- InterBel 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 Montana Public Service Commission. In 2010, InterBel had gross regulated investments of \$37,136,571.

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.

- InterBel 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.
- InterBel is very concerned with the potential financial implications of the *Report and Order and FNPRM* and the impact they will have on InterBel's ability to continue to provide high quality voice and broadband services at the public interest standards established by the Commission.

In these comments, InterBel 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.

**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
)	
	)	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
INTERBEL TELEPHONE COOPERATIVE, INC.**

I. Analysis Performed by InterBel

In order to provide relevant financial context to the FCC in these comments, InterBel 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*. This analysis primarily focused on the impacts of the proposed regression analysis identified in

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.

Appendix H to the *Report and Order and FNPRM*. This analysis was performed using InterBel 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 InterBel 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 InterBel, including the impacts of changes in the analysis proposed by InterBel.

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. This tool is notably flawed for InterBel, as is evidenced by a map showing the errant study area relied on by the Commission compared with InterBel's actual study area. The difference in these respective study areas is shown on Exhibit 1, attached hereto. While the Commission's model assumes InterBel study area encompassing 816 square miles, InterBel's actual study area encompasses 988 square miles – an extraordinary error by any measure and one that is certain to produce a flawed result.

This is beyond comprehension and extremely significant to InterBel. The proposed regression caps, which were calculated using the incorrect square miles, resulted in caps for InterBel on algorithm lines AL 2 – central office equipment assigned to category 4.13 and AL 21

– benefits assigned to cable and wire and central office facilities. Correcting the data error alone significantly increased InterBel’s caps, which would eliminate inappropriate reductions to the company’s high cost loop support. What is also important is these corrections give InterBel significantly more room under the critical AL -1 CWF assigned to Cat 1.0 cap. InterBel’s AL – 1 cap increased over \$500,000 as a result of these changes. Should the Commission continue down this regression path, the data for InterBel and all carriers needs to be accurate. InterBel serves as an example that the census data set which the Commission uses as inputs to its model is subject to a substantial degree of error, and therefore cannot be appropriately used to cap InterBel’s costs.

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

Absent the errors noted above, which make it very difficult for InterBel to compare themselves to similarly situated companies, InterBel notes that the FCC’s model used to perform the regression analysis does not take into account the length of loops – a major factor leading to high loop costs. The model also does not take into account unusual terrain conditions such as rock that must be cut or bored to bury loops and install digital loop carriers and other central office plant. Example of terrain and construction situations facing InterBel are provided at Exhibit 2 and Exhibit 3, attached hereto. Interbel faces other environmental issues, being we are in close proximity to Glacier National Park and the multiple agency permits required (often taking 18 months to complete), which are also significant cost drivers. InterBel points out that when comparing InterBel to similarly situated companies like those listed in the table below, companies with higher concentrations of loops had significantly higher Central Office Equipment (COE) caps than InterBel.

InterBel's service area has 2.86 loops per square mile. InterBel has a ceiling or cap on its central office equipment investment of \$6,164 per mile. The table provided compares loops, land area served and the resulting caps under the proposed regression model. The table supports InterBel'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 similarly situated companies. However, the table shows contrary results. The table demonstrates that of the six companies listed, four have more loops per mile, (*i.e.*, have a higher population density than InterBel), however all four have significantly higher caps per mile.

Specifically, Example E Telephone with 4.29 loops per mile, which is very similar to the total loops of InterBel (2,637 for Example E versus 2,333 for InterBel), yields a significantly higher cap. The regression model yields a cap of \$8,864 per mile for Example E Telephone, \$2,701 more per mile than InterBel even though Example E has a more densely populated area. InterBel points out that utilizing the same \$8,864 per mile cap for its area would yield a loop central office equipment investment cap of \$7,234,344, \$2,203,996, or 43.81%, higher than its current cap and much more consistent with InterBel's actual, and planned, investment in central office equipment. This is a clear example of the regression analysis not producing consistent results for similarly situated companies.

	Loops	Land Area	AL2 - FCC Cap (Est.)	Cap/Mile	Loops/Mile
Example A	2,153	1,792.39	5,973,938.22	3,332.94	1.20
INTERBEL	2,333	816.13	5,030,348.75	6,163.66	2.86
Example B	2,198	298.96	3,178,244.67	10,631.06	7.35
Example C	2,328	380.22	2,978,579.98	7,833.76	6.12
Example D	2,331	399.01	3,354,137.07	8,406.07	5.84
Example E	2,637	614.75	<u>5,449,248.71</u>	8,864.21	4.29
Example E Cap/Mile for TELCO =			7,234,344.24		

Using the same companies as above, Interbel, also limited on AL 21 – Benefits assigned to CWF category 1.0 and COE category 4.13 via the regression caps, points out the model again does not give consistent results. The table below demonstrates that the same four companies that have more loops per mile again have significantly higher caps per mile. As with before, utilizing Example E Telephone’s cap per mile for InterBel would generate a cap of \$659,806 and would not limit company expenses. The current model results are counterintuitive and an inappropriate limit of Interbel’s expenses. This is financially damaging and needs to be resolved.

	Loops	Land Area	AL21 - FCC Cap (Est.)	Cap/Mile	Loops/Mile
Example A	2,153	1,792.39	409,943.85	228.71	1.20
INTERBEL	2,333	816.13	359,191.28	440.12	2.86
Example B	2,198	298.96	259,470.39	867.91	7.35
Example C	2,328	380.22	270,763.84	712.12	6.12
Example D	2,331	399.01	280,264.83	702.39	5.84
Example E	2,637	614.75	<u>496,997.28</u>	808.46	4.29
Example E Cap/Mile for INTERBEL =			659,806.44		

There are several ways to improve the FCC's regression model. InterBel and other carriers can provide the FCC with average loop lengths and other relevant data similar to what they do for the United States Department of Agriculture Rural Development Utilities Program Form 479. Because loop lengths are a major component of loop cost, 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 percentage of water in the study area, which is not a significant driver of loop costs.

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

Interbel 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 Interbel 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. In addition, they will continue to make the necessary network changes, which will require additional investment, to meet the Commission's 4 Mbps downstream/1 Mbps upstream broadband requirements. 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

Interbel 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.

Interbel 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 results. 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, DL 270, and DL 280, but this could be handled one of two ways. First, a ratio of 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 on AL 17 and AL 18 that can be 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. 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

In 2009 InterBel installed a Metaswitch (softswitch), removed the old legacy switch and turned-up a 1-Gigabit Ethernet Ring. Consequently, our success in offering broadband has exceeded the national average, where we now have over 75% of our customers connected to DSL. InterBel was the first ISP in Montana to discontinue all dial-up Internet accounts and move everyone over to DSL. Although we offer broadband to everyone, there is still a need to continue upgrading our network with faster speeds.

Without a sustainable cost recovery program to support rural areas, like that served by InterBel, it is not feasible to provide “like, similar and reasonably priced services” in these rural areas, as one would expect in the suburban or larger cities. Given the direction of broadband use, with it being a necessity for any business, family or consumer today; USF principles should apply to broadband as they have with voice services in our country over the last 80 years.

In summary, FCC Reform on USF and ICC gives serious concern to InterBel for the following reasons. First, it is estimated that 41% of rural companies will be affected by the \$2.0 billion fund cap for rate-of-return carriers this first year (2012) and growing as we move into the future. This \$2.0 billion cap is well below the estimated requirement developed by the joint Rural Associations (Rural Plan) and Price Cap Companies (ABC Plan). The cap on rural high-cost recovery could easily force many companies to experience shortfalls in meeting debt obligations and/or being able to meet market build-out demands for broadband.

Second, InterBel currently faces questionable loan approval and the ability to borrow more money, given the future uncertainty of sufficient cost recovery. Our most recent loan design (“M” Loan), was submitted to RDUP in October 2011 (after an 18 month process) and is now on-hold along with many other loan applications; until an impact study of the FCC reform is determined by RDUP. Even if InterBel obtains RDUP loan approval, there will still be consideration of scaling back on 2012 construction given the uncertainty of the new FCC reform rules.

Lastly, the FCC’s regression methodology raises a number of questions. Why were more relevant independent variables not considered? Important rural characteristics such as linear density, area density, soil type, road miles in the study area, frost index and age of investment. Inputs from the 2000 Census based on urban clusters, urban areas and non-urban housing do not

properly represent high-cost rural areas. Why was accumulated depreciation of a rural company's cable plant investment not considered, thus not properly representing net book value? Why are there data discrepancies such as the land size used for InterBel, whereby the FCC has used 816 square miles and InterBel's actual study area is 988 square miles, as illustrated in Exhibit 1?

InterBel Telephone urges the Commission to consider the analyses provided in these comments and modify its approach accordingly to enable InterBel Telephone Cooperative to ensure that robust and affordable voice and broadband services are available to the residents and businesses throughout Interbel's service area.

January 18, 2012

Respectfully submitted,

/s/ Randy Wilson

INTERBEL TELEPHONE COOPERATIVE, INC.

Randy Wilson, General Manager

PO Box 648

Eureka, MT 59917

406-889-3311

Email: rwilson@interbel.com