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March 21, 2012

Marlene H. Dortch, Secretary  
Federal Communications Commission  
445 Twelfth Street, S.W.  
Washington, D.C. 20554

**Re: WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135,  
WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45,  
WC Docket No. 03-109, WT Docket No. 10-208  
Notice of *Ex Parte* Presentation**

Dear Ms. Dortch:

On March 21, 2012, Randy Fletcher of Lennon Telephone Company (“Lennon”), and John Kuykendall of John Staurulakis, Inc. (“JSI”) met with Patrick Halley, Amy Bender, Gary Seigel, Katie King, Michele Berlove, Wesley Platt, Rodger Woock and Craig Stroup of the Wireline Competition Bureau. Douglas Meredith of JSI also joined the meeting via telephone conference. The discussion focused on Commission policies in the Universal Service Reform proceeding.<sup>1</sup> Comments in which Lennon participated that set forth the Company’s position in these matters were also discussed.<sup>2</sup>

Specifically, Mr. Fletcher and the JSI representatives discussed the need for modifications to the methodology to eliminate support for areas with an unsubsidized competitor, use of the proposed regression analysis to limit rural carrier High-Cost Loop Support and Interstate Common Line Support, and the need for the Commission to reconsider its rule requiring privately-held rate-of-return carriers that receive high-cost and/or Connect America Fund (“CAF”) support to file audited financial reports. Attached is summary material which was provided to meeting participants.

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<sup>1</sup> *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, FCC 11-161 (rel. Nov. 18, 2011) (“*Order and Further Notice*”).

<sup>2</sup> See Comments of Section D Rural Carriers, WC Docket No. 10-90 et al. filed Jan. 18, 2012; Comments of Section E Rural Carriers, WC Docket No. 10-90 et al. filed Jan. 18, 2012; Reply of Lennon Telephone Company to Oppositions to Petitions for Reconsideration, WC Docket No. 10-90 et al. filed Feb. 21, 2012.

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Please contact the undersigned with any questions.

Respectfully submitted,



John Kuykendall  
Vice President

cc: Patrick Halley  
Amy Bender  
Gary Seigel  
Katie King  
Michele Berlove  
Wesley Platt  
Rodger Woock  
Craig Stroup

Attachment



Lennon Telephone Company  
3095 Sheridan Rd.  
PO Box 329  
Lennon, MI 48449

*FCC Ex Parte Meeting*  
March 21, 2012

- Lennon Telephone Company Has Participated in Comments Regarding the Reforms Adopted in the FCC's USF-ICC Reform Order:<sup>1</sup>
  - Section D Rural Carriers Comments on eliminating support for areas with an unsubsidized competitor.
  - Section E Rural Carriers Comments on the proposed quantile regression analysis methodology to limit reimbursable capital and operating costs.
  - Lennon's Comments in support of Petitions for Reconsideration of the FCC's rule requiring privately-held rate of return carriers that receive high-cost and/or CAF support to file audited financial statements.
  
- Section D Rural Carrier Comments
  - The Company together with its subsidiary, TVC Cable, provide telecom, cable TV and Internet services to Lennon area residents
    - Lennon Telephone Company provides telecom and broadband services over copper or fiber.
    - TVC Cable provides video and cable modem services over a fiber/coax hybrid network.
  - The definition of an "unsubsidized competitor" should be modified.
    - Does not identify broadband and voice sufficiently.
    - Should establish the principle that an unsubsidized competitor is an entity that is not affiliated with the incumbent local exchange carrier.
  - The process of identifying an unsubsidized competitor should be delegated to the state commissions for a factual review of the evidence.
    - Triggered by a petition filed by the potential unsubsidized competitor.
  - Numerous problems exist with extending the overlap policy to less than complete coverage of the study area including allocating costs among subparts of a study area and invites the elimination of carrier-of-last-resort obligations.

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

➤ Section E Rural Carrier Comments

- Lennon is affected by the proposed regression analysis methodology.
- The methodology is fundamentally flawed.
  - Fails to meet the one of the cornerstones for federal universal support policy which is that support is to be “specific, predictable and sufficient” to “preserve and advance universal service.”
  - Fails to provide any information on how ICLS will be limited.
  - Generates much more uncertainty than the current approach.
  - Myriad of technical problems including errors in the study area boundary map which will result in errors in assigning census blocks to study areas.
- No commenter filed in support of the methodology. Instead, additional record evidence has been provided demonstrating the flaws in the methodology.
  - Comments filed by the Rural Associations contained a paper by Dr. Roger Koenker “(whom the Commission itself has hailed as the father of quantile regression analysis) demonstrating that the Commission’s use of quantile regression analysis will lead to serious distortions in support if applied to HCLS or other high-cost support calculations.”<sup>2</sup>

➤ Comments Supporting Petitions for Reconsideration on Audited Financial Statement Reporting Requirement

- While Lennon does engage a CPA to prepare its tax returns, the CPA does not prepare audited financial statements in the manner required by the USF-ICC Order.
- To provide the audited financial statements, Lennon will have to incur additional accounting expenses which would be an increase in the amount of corporate operations expense, a key area of expenses that the Commission has required rate-of-return carriers to reduce.
  - The many carriers that have not been required to conduct financial audits during recent years will have to incur significant costs not only this year but also in following years to undergo audits solely for the purpose of providing the audited financial report.
- The costs for providing the audited financial reports are especially burdensome when considered in light of the alternatives that are available to the Commission.
  - Many states have determined that only a basic balance sheet, income statement and a few supporting schedules accompanied by an affidavit signed by an officer is all that is required. No audit report with CPA attestation is required.
  - Another alternative would be to allow all carriers to submit an unaudited report which provides the same information as the RUS annual report that RUS borrowers are allowed to submit.
- In adopting alternatives the Commission should also adopt a more realistic filing deadline such as October 15 to ensure that the new reporting requirement is as least burdensome as possible allowing carriers to devote as much time and resources as possible to providing service to rural consumers.
- Regardless of whether or not the reports contain audited data, sensitive, proprietary financial information will be disclosed which the FCC has ruled in other contexts should be kept confidential. Accordingly, the Commission should not require that the information be publicly available.

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<sup>2</sup> Reply Comments of NECA, NTCA, OPASTCO and WTA at 24-25.

