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September 18, 2012

***Ex Parte* Notice**

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

***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 a 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**

Dear Ms. Dortch:

On Friday, September 14, 2012, the undersigned on behalf of the National Telecommunications Cooperative Association, together with Greg Hale of Logan Telephone Cooperative and Clay Sturgis of Moss Adams met with Carol Mattey, Steven Rosenberg, Amy Bender, James Eisner, Patrick Halley, Trent Harkrader, Katie King, Gary Seigel, and Craig Stroup of the Wireline Competition Bureau (the "Bureau") to discuss certain matters in the above-referenced proceedings. Mr. Seigel participated in the meeting via telephone. We provided the attached presentation to the meeting participants from the Bureau, identifying several specific concerns with respect to the regression analysis cap model that the Bureau has adopted.

First, we noted that the "Percent Undepreciated Plant" factor in the model has the effect of penalizing companies that make efficient use of existing depreciated plant to deliver broadband services. We recommended that, if regression analysis is not rejected altogether, one way to address, if not altogether remedy, this seemingly unintended consequence would be to utilize only a single cap that recognizes rational business trade-offs between capital investment and operating expense such as those made in the context of Logan's operations.

Second, we explained that the lack of predictability and transparency in the model leaves companies like Logan with little, if any, ability to determine when, where, and how much to build and upgrade its networks. We noted that while such investment might reduce Logan's percentage of depreciated plant and thus increase its capital expense cap under the mechanics of the model, there is no meaningful or reliable means under that model to determine where the cap might settle and whether a company like Logan might still be "trapped" by the cap. We also discussed how this process is complicated because ostensibly "similarly situated" companies may not in fact be similarly situated and also because any such companies are difficult, if not impossible, to discern in the model.

Third, we discussed how the model appears to deter migration to IP-enabled switching platforms and more efficient centralized switching facilities. Given the clear policy interest of the Federal Communications Commission (the "Commission") in promoting a migration to such platforms, we urged the Commission and the Bureau to address this tension in the new rules.

Pursuant to Section 1.1206 of the Commission's rules, a copy of this letter is being filed via ECFS. A copy of the presentation provided during this meeting is attached hereto. If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,

/s/ Michael R. Romano
Michael R. Romano
Senior Vice President – Policy

Enclosure

cc: Carol Mattey
Steven Rosenberg
Amy Bender
James Eisner
Patrick Halley
Trent Harkrader
Katie King
Gary Seigel
Craig Stroup

The Regression Depreciation Trap and other issues

Logan Telephone Cooperative
Greg Hale – General Manager

The Regression Depreciation Trap & Other Issues

- The Commission's stated intent of adopting a benchmarking rule is to moderate the expenses of those rate-of-return carriers with very high costs compared to their similarly situated peers.

- With the introduction of the Percent Undepreciated Factor (*PctUndepPlant)* the regression order mistakenly penalizes companies with higher levels of depreciated plant even if these companies are efficiently using this plant for the provision of broadband.

- The regression does not take into account that some company's Capex CPL will be higher due to the transition to more efficient IP switching.

- The regression does not take into account that some company's Capex CPL will be lower due to receiving stimulus funding not available to other "similarly situated" companies.

- The regression does not take into account that depreciation rates are not consistent across all companies.

Logan Telephone – unfairly limited by Regression

- From Appendix B in the Regression Order we find that Logan's 2010 Capex Cost per Loop ranked 555 out of 726 study areas (76th percentile). This cost per loop would be higher than other "similarly situated" companies due to Logan's deployment of a single IP switch in their network.

- We also find that Logan Telephone is very efficient in Operating Expenditures as Logan's 2010 Opex Cost per Loop ranked 273 out of 726 study areas (38th Percentile). In 2011 Logan was $177.65 per loop under the Opex Limit of $611.81.

- Logan was not limited for 2012 disbursements as our 2010 Capex CPL of $657 was under the 90% Capex CPL of $688.

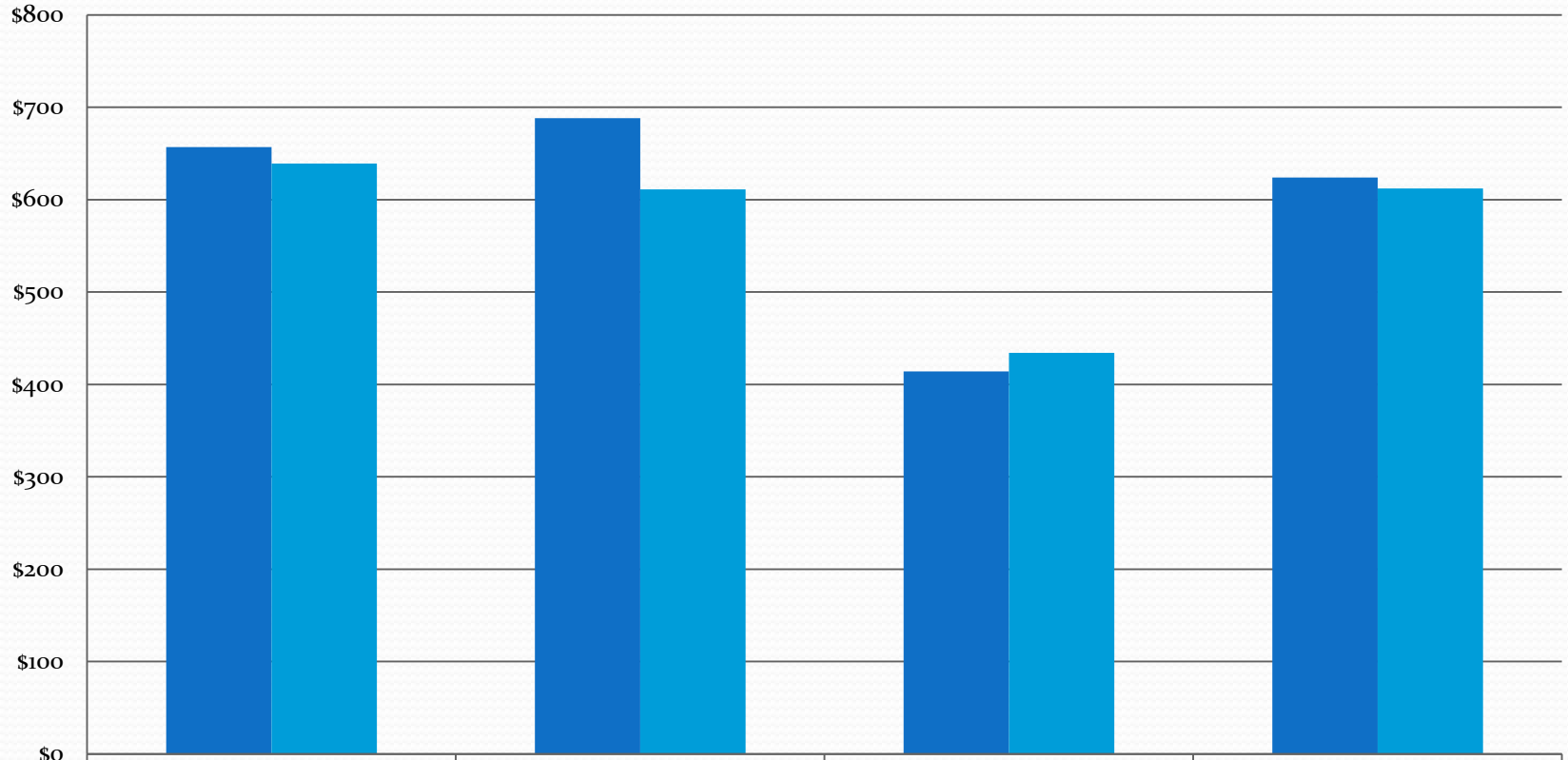
- In 2011 Logan's Capex Cost per Loop went **down** from $657 to $639

- In 2011 Logan's Undepreciated Plant Factor went down from 42.73% to 38.63%

- These changes led to a very large reduction in the Capex limit from $688 to $611

- This will result in unfairly reducing USF disbursements to Logan in 2013 and beyond even though Logan has been very efficient and is using its existing network to provide 4/1 or greater broadband to over 99% of our customers.

Logan Telephone



	Capex CPL	Capex Limit	Opex CPL	Opex Limit
2010	$657	$688	$414	$624
2011	$639	$611	$434	$612

Summary

- Using Regression Analysis to moderate the expenses rate-of-return carriers will continue to produce unpredictable results and will unfairly penalize some companies that do not have high costs in comparison to others.

- If Regression is not rejected completely, it should at the very least produce only one cap based on operating and capital expenditures. Leaving the two separate will produce unintended incentives. (*For example, in Logan's case you can see incentives to increase operating expenses but network capital expenditures to meet customer demand for higher speeds is what the market requires.)*

- Logan is left with no predictability on where, when and how much to invest. If we increase capital expenditures to meet customer demand for higher speeds, we would increase our undepreciated plant percentage and increase our capex cost per loop. We assume an increase in undepreciated plant would be positive in Regression while an increase in capex cost per loop would be negative but we have no way of determining how much investment would be considered reasonable in any future analysis.

- Furthermore, if Regression is not rejected completely, the commission should consider modifying any analysis to also account for how more efficient switching networks may increase company capex cost per loop, account for the lack of consistent depreciation schedules across all companies, and also address the disadvantage that some companies may face in Regression analysis if they did not secure stimulus funding.