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REDACTED – FOR PUBLIC INSPECTION

November 27, 2012

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Attention: Wireline Competition Bureau

Re: Petition for Waiver of South Park, L.L.C.
dba South Park Telephone Company
Connect America Fund,* WC Docket Nos. 10-90 *et al.

Dear Ms. Dortch:

On behalf of South Park, L.L.C. dba South Park Telephone Company ("South Park"), John Staurulakis, Inc. respectfully submits the above-referenced Petition for Waiver. South Park seeks a waiver of Federal Communications Commission rules Section 54.302, monthly per-line limit of universal service support, and Section 36.621(a)(5) application of the framework to limit reimbursable capital and operating costs on federal high cost loop support.

South Park seeks confidential treatment under the Third Protective Order in this proceeding.[1] Pursuant to the Order, one copy of the confidential document and two copies of the redacted version are provided. The redacted version is also being filed on the Electronic Comment Filing System.

Please direct inquiries regarding the Company's Petition for Waiver to the undersigned consultant for the Company.

Sincerely,

John Kuykendall
Vice President

Enclosures

cc: Chief, Wireline Competition Bureau

[1] See Third Protective Order, WC Docket Nos. 10-90 *et al.*, DA 12-1418 rel. Aug. 30, 2012 ("Order").

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 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

PETITION FOR WAIVER OF SOUTH PARK, L.L.C.

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November 27, 2012

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Before the
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PETITION FOR WAIVER OF SOUTH PARK, L.L.C.

I. INTRODUCTION AND SUMMARY

South Park, L.L.C. dba South Park Telephone Company ("SPTC" or the "Company") respectfully requests that pursuant to Section 1.3 of the Federal Communications Commission's (the "Commission") Rules, the Commission waive two rules regarding the distribution of universal service support as applied to the Company.[1] Specifically, SPTC requests that the Commission waive (i) its $250 per line monthly cap ("$250 Cap") on federal support[2] and (ii) its Framework to Limit Reimbursable Capital and Operating Costs ("Benchmark Framework") on

[1] 47 C.F.R. § 1.3.
[2] *Connect America Fund*, Report and Order and Further Notice of Proposed Rulemaking, WC Docket No. 10-90, FCC 11-161, Appendix A, Section 54.302 (rel. Nov. 18, 2011) ("*USF Transformation Order*").

federal High Cost Loop Support ("HCLS").[3] It is important to note that SPTC is not seeking relief from the corporate operations expense limitation in Section 36.621(a) (4) of the Commission's rules.[4]

The Commission anticipated that certain rate-of-return carriers would require waivers of its Universal Service Fund ("USF") rules in circumstances when such rules reduced a carrier's support to a point that it "would not be 'sufficient to achieve the purposes of [section 254 of the Act.]'"[5] SPTC is such a carrier, and this waiver petition presents the very circumstances envisioned by the Commission. Absent a waiver and the continuation of existing federal universal service funding all communication services, voice and broadband, covering the Company's entire service area would ultimately be discontinued.

SPTC's large, low-density, mountainous service area covers approximately 603 square miles in the state of Colorado. SPTC does not serve any cities or towns which would mitigate its average cost per loop. The territory's extensive size and rugged terrain present unique challenges to deploying and maintaining a communications network, including higher construction costs to deploy facilities in rocky, mountainous terrain and higher maintenance costs due to poor road infrastructure, extreme weather, and the long distances required to reach different parts of the network for installation and repairs. Because of its sparsely-populated high-cost service area, the Company is heavily dependent upon federal high cost support to maintain reasonable rates and quality of service for its customers.

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[3] *USF Transformation Order*, ¶ 210-226 and *Connect America Fund, High-Cost Universal Service Support*, WC Docket Nos. 10-90 and 05-337, Order, DA 12-646, ¶ 10 (Wireline Comp. Bur., Apr. 25, 2012) (*Benchmarking Order*) ("In this order, we implement the Commission's rule to use benchmarks to impose reasonable limits on reimbursable capital and operating costs for [ROR] carriers for purposes of determining HCLS and adopt the methodology that the Bureau will use to determine carrier-specific benchmarks for [ROR] cost companies."). See 47 CFR § 36.621(a)(5).

[4] SPTC's corporate operations expenses are less than half of the $756,000 computed total allowable expense limitation for study year ending 2011.

[5] *USF Transformation Order*. ¶ 540.

When developing SPTC's network design, SPTC determined that installing cable and wire facilities to its consumers would not be cost effective and would therefore be an inefficient and imprudent use of federal support and loans for capital expenditures. SPTC has overcome these geographic challenges by implementing an innovative and cost-effective combination of fixed wireless and wireline solutions. SPTC's network investment and upgrades have allowed the [redacted][6]. SPTC proactively searches out new and more efficient technological solutions to solve its network challenges.

Despite its efforts to operate efficiently, the very high costs of serving SPTC's territory remain significant—costs that SPTC will be unable to recover by virtue of the Commission's recent USF rules for the $250 Cap and Benchmark Framework. The expected reduction of universal service support to SPTC is projected to cause the Company to have net losses beginning in 2013. Specifically, the Benchmark Framework impacts in conjunction with the $250 Caps will result in SPTC's net income becoming negative in 2013. Net income for 2013 is estimated to be [redacted], in 2014 at [redacted], and becoming more detrimental thereafter.

Under the Benchmark Framework and $250 Cap, the Company could not remain viable. These circumstances would most certainly "put consumers at risk of losing voice services, with no alternative terrestrial providers available to provide voice telephony service."[7] Indeed, as SPTC is the only terrestrial voice and internet access provider that covers the Company's entire service area, consumers will be at risk of not just losing access to voice, but access to high speed internet services. And, beyond SPTC's customers, all consumers in the territory will be at risk of losing service or experiencing degraded service because alternative providers of terrestrial voice

[6] Note that demand and penetration may increase in the summer months due to seasonality.
[7] *USF Transformation Order*, ¶ 540.

and broadband services for the area today rely exclusively on SPTC for means of wireless and/or wireline backhaul and other services. Several governmental agencies rely on SPTC's network and partner with SPTC to provide services. For example, [redacted]. Loss of monitoring capability has the potential to threaten lives and property for communities who use those critical [redacted]

[redacted]

[redacted] These emergency responders utilize the tower for essential communications and critical public safety purposes. The Dick's Peak tower location is a leased site from the US Department of Agriculture.

Photo 1: Dick's Peak Tower

In [redacted]

[redacted]

Another company that uses SPTC facilities [redacted]

The level of federal USF support based on actual costs without limitations are essential and critical to (a) maintaining affordable customer service rates and services that are comparable to those in urban areas, (b) providing and maintaining reliable and quality service and (c) meeting its capital investment obligations necessary to upgrade its network in order to deliver necessary services based on customer demand.

For the foregoing reasons, and as more fully explained below, the Commission should grant the requested waiver.

II. STATEMENT OF FACTS

Many parts of the South Park Valley have had no telecommunications service for decades. The area is remote, with few customers. No other provider has been willing to incur the very high costs per-customer to provide service. The tremendous cost barriers had curtailed deployment of telecommunication infrastructure. Due to frustration with lack of service in areas surrounding the town of Hartsel which are served by a price cap carrier, SPTC was established in 1996 by the MacCormack Family to provide telephone service to this unserved region of central Colorado.[8] In 1996, US West Communications agreed to transfer its existing certificated South Park territory to SPTC, with the exception of the town of Hartsel[9] (which SPTC's service area surrounds). CenturyLink (previously Qwest/US West) now serves the town of Hartsel. The *USF Transformation Order* correctly recognizes that "there may be legitimate reasons why certain companies have extremely high support amounts per line. For example, some of these extremely high-cost study areas exist because states sought to ensure a provider would serve a remote area."[10] SPTC serves one of these areas.

On May 20, 1996, the Colorado Public Utilities Commission ("CPUC") authorized SPTC to serve unserved and uncertified areas around the town of Hartsel in Park County, Colorado. In authorizing universal service support and participation in the National Exchange Carrier

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[8] On July 20, 2006, Corona Holdings, Inc. ("CHI") purchased 100% of the membership units of SPTC. The change in ownership did not change the company's policy of providing the highest quality voice and advanced services to meet the demands of its customers and Carrier of Last Resort obligations.

[9] Hartsel is an unincorporated town located at the intersection of U.S. Highway 24 and Colorado Highway 9 and has two general stores, a gas station, restaurant, trading post and art gallery, and real estate offices. (www.parkco.us) Hartsel is part of the 80449 zip code. The 80449 zip code area had a 2010 population of 909.

[10] *USF Transformation Order*, ¶278.

Association ("NECA") tariff and pooling process by SPTC, the FCC cites from that CPUC Order, "the Colorado PUC noted, absent certification of South Park, it is unlikely that telephone service would be provided in the area due to high prices that neighboring carriers would charge to connect customers to the network." [11] Further, by joining the NECA pools, SPTC recovers its costs so that it can provide reliable 911 and traditional exchange services at a price its customers could afford.

SPTC began providing voice service in late 1997. For the last fifteen (15) years, SPTC has served a very remote area situated in an inter-mountain grassland basin, approximately 10,000 feet in elevation, in the Rocky Mountains of central Colorado. The South Park Valley receives its name from being the southernmost of the three large mountain valleys (or parks) in Colorado on the western slope of the front range of the southern Rocky Mountains. SPTC is approximately 120 road miles southwest of Denver and approximately 65 road miles west of Colorado Springs, the closest major metropolitan areas. SPTC's serving area surrounds the small rural town of Hartsel. The next largest town in the basin is Fairplay which is north of South Park and has an approximate population of 679.[12] Fairplay is not part of SPTC's servicing area. However, its affiliate, CableCo L.L.C. ("CableCo"), does provide high speed internet services in the Fairplay area using, in part, facilities leased from SPTC. [13] In spite of the large serving area and challenging terrain resulting in very high costs from deploying and maintaining a telecommunications and high speed wireless internet network, SPTC has provided reliable

[11] *In the Matter of South Park Telephone Company Petition for Waiver of Sections 36.611 and 36.612 of the Commission's Rules,* DA 97-2730, AAD 97-41, Order, adopted December 31, 1997 and released December 31, 1997.

[12] Colorado Department of Local Affairs, 2010 Census Data (http://dola.colorado.gov/dlg/demog/ 2010censusdata.html) .

[13] SPTC is a rural incumbent local exchange carrier and is wholly owned by its parent Corona Holdings, Inc. Corona Holdings, Inc. also owns CableCo, a non-regulated affiliate that provides retail internet services to locations outside the SPTC study area. CableCo purchases wholesale broadband from SPTC and leases facilities from SPTC.

voice and high speed internet services in the most efficient and cost-effective way possible to its isolated customers.

Due to the diverse terrain, sparsely populated area, and lack of commercial power, SPTC deployed a unique wireless technology along with a solar power platform that enabled the Company to offer telephone service to the South Park Valley and surrounding areas. A topographical map of the SPTC serving area is provided as Exhibit 2 and a study area boundary map with grid lines is provided as Exhibit 3.

Between 1998 and 2002, SPTC purchased switching and circuit equipment. It also constructed a central office building, and four remote tower sites to deploy innovative fixed wireless telephone service. Due to the large serving area, difficult terrain and geological (rock) characteristics of the area, providing local telephone service using cable and wire facilities would not have been cost effective or efficient.

SPTC has deployed a cost-effective network to reach its remote customers and meet the demands of consumers and various organizations within its territory. The Network Map configuration for SPTC is attached as Exhibit 4. Over the past 15 years, SPTC has upgraded its fixed wireless network on several occasions as a result of manufacture discontinued equipment due to advancements in wireless technology that enables SPTC to meet consumer demand for advanced services and Carrier of Last Resort responsibilities [redacted]

As part of its commitment to provide reliable steadfast advanced services, SPTC installed [redacted]. This system allowed SPTC to offer high speed internet to its customers. [redacted]

[redacted]. Growth in demand for the high speed internet resulted in bandwidth limitations [redacted]

[redacted] Unfortunately, the significant reductions in federal USF support have caused SPTC to suspend all major plant upgrade plans until SPTC has some certainty and predictability regarding its USF support levels. Therefore, without adequate predictable USF support, SPTC will not be able to move forward and provide higher bandwidth services to its consumer and thus meet the goals set by the FCC to advance broadband deployment ubiquitously. The Commission recognized this concern for carriers and investors in its *USF Transformation Order*.[14]

[redacted] Despite this, SPTC estimates that the anticipated reduction in its USF support due to the Commission's new rules will cause the Company to not be viable and to incur losses beginning in 2013. Given this, and the lack of

[14] *USF Transformation Order*, ¶794.

alternative terrestrial providers in the area, absent a waiver, all consumers in the SPTC service area will risk losing access to terrestrial voice and broadband services.

The *USF Transformation Order* requests the following information in support of a petition for waiver.[15]

A. Density Characteristics

SPTC's service area covers approximately 603 square miles**.** SPTC's service area includes 559 road miles. Within that territory, SPTC serves approximately 166 access lines—or 0.28 lines per square mile, and no townships. SPTC's total company federal annual universal service support[16] received in 2011 is approximately [redacted] per Category 1.3 loop. But to meet its Colorado COLR obligations, even using cost-efficient radio wireless solutions, the Company's 2011 average interstate revenue requirement per loop is [redacted][17] to reach 100% of its most remote customers. These customers currently have no alternatives to meet their communications needs.

SPTC's high costs are driven not just by low density, but by mountainous and rocky terrain in its service area, which substantially increases the cost of building and maintaining telecommunications facilities. Surrounded by Kenosha Pass to the North, Wilkerson Pass to the East, Trout Creek Pass to the South and Weston Pass to the West in the Central Colorado Rockies, this challenging geographic topography lead not only to higher build-out costs, but higher ongoing maintenance costs as well. For example, reaching SPTC's four mountaintop tower sites and regeneration sites requires additional expense beyond the typical rural carrier's required annual expense of normal maintenance, especially in times of adverse weather.

[15] *USF Transformation Order*, ¶ 542.

[16] [redacted]

[17] 2011 Toll Separations Study provided to NECA.

The Park County region boasts more land area over 9,000 feet above sea level than any other county in the United States, with unique geography due to the Continental Divide wrapping around on the north and west sides of the Valley. Extreme weather is common in SPTC's service area. During the month of December 2011, the average temperature was 23.2 degrees Fahrenheit with an average daily minimum temperature of -12.5 degrees Fahrenheit. However, during that month, temperatures dropped as low as -45 degrees Fahrenheit. Total snowfall between November 2011 and March of 2012 was 33 inches. December 2011 alone had 18 inches of snowfall.[18] As a result, SPTC must provision backup power for its tower and repeater sites by using propane and alternative power. These sites require routine maintenance to achieve the most reliable, highest quality of service attainable. Additionally, inclement weather, such as snowstorms with white-out conditions in the winter or thunderstorms and lightning storms in the summer, is not uncommon and can easily result in obstructed or difficult travel, which adds thousands of dollars of expense in order to access and maintain facilities.

B. Alternative Providers

Terrestrial Voice Telephony Service. SPTC is the only provider of terrestrial voice telephony service that serves its entire service territory. There are no competitive local exchange carriers. The only other voice providers are mobile wireless carriers. [redacted] Although the wireless carrier maps purport to show coverage in the SPTC serving area, in actuality, the service is intermittent and is primarily along major roads. SPTC's experience is that wireless carrier coverage maps inherently overstate coverage. SPTC estimates that under ideal conditions with no line of sight issues—which due to the terrain exist with regard to many of these towers—cellular coverage does not cover more than 30% percent of SPTC's service area.

[18] http://weather-warehouse.com

Broadband/High Speed Internet Service. Competitive broadband offerings in SPTC's service territory are extremely limited. Verizon Wireless has limited 3G/4G service in SPTC areas and AT&T offers Wireless Broadband and Edge services. Neither serves the entire territory.

Non-terrestrial Service. While not a consideration for the Commission's waiver process, SPTC notes that there is no alternative satellite service that meets federal and state requirements of voice telephony and broadband service in SPTC's sparsely populated territory at this time.[19] A satellite service, Exede by ViaSat, also referred to as Wild Blue (a wholly owned subsidiary of ViaSat), claims to offer 12 Mbps downstream and 3 upstream. However, SPTC has been unable to confirm availability of these claimed speeds since the service is not yet available. Further, satellite installation fees are in the $150 range and require a satellite dish. Satellite plan rates will not be based on speed, but instead on consumption. There is no data available to determine if ViaSat offerings are competitive with SPTC.

SPTC's network is unique in that it provides the only viable means of reliable and consistent communications, without which residents would lose access to the world. Therefore, without a waiver, SPTC faces the reality of terminating service, and the customers in its service area would not receive reliable, quality service and would become either unserved or underserved.

It is interesting to note that one of the policy goals established in the Commission's Rulemaking Notice in WCB Doc. No. 10-90 is for Market-Driven Policies.[20] SPTC asserts that no service in its territory would or could have been provided under "market-driven policies." The FCC acknowledged this problem when it granted the Company waivers in December 1997, as previously mentioned. There are simply too few customers in such a large service area with

[19] *See, USF/ICC Transformation Order*, Section VI.
[20] *Connect America Fund; A National Broadband Plan for our Future*; Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, 26 FCC Rcd 4554, 4560-61 (2011) (USF/ICC Transformation NPRM)

no towns or cities served. Congress in the 1996 Act established the Universal Service Fund (USF) in recognition of the fact that the desired universal service objective could NOT be achieved in some areas, such as that served by SPTC, utilizing “market-driven policies.” Congress recognized that the “market” would not provide the requisite service in some areas absent USF, and therefore included the USF provisions in the 1996 Amended Act to provide a mechanism to promote service in areas that would not be provided service by the “market.”

C. Accounting for Unused or Spare Equipment

Unused or spare equipment or facilities are booked principally to Part 32 Account 2230. SPTC follows NECA’s interpretation of Section 36.153 of the Commission’s rules, 47 C.F.R. § 36.153, in the apportionment of spare facilities. Based on this interpretation, SPTC assigns spare facilities to the following categories: Category 1-Exchange Line, Category 2-Wideband and Exchange Trunk, Category 3-Interexchange. SPTC’s accounting for its spare and unused equipment is provided in detail in Exhibit 5 attached hereto.

D. Corporate Operations

SPTC’s total corporate operations expense for 2011 was [redacted]. This expense is broken down as follows:

Executive	[redacted]
Planning	[redacted]
Accounting & Finance	[redacted]
External Relations	[redacted]
Human Resources	[redacted]
Information Management	[redacted]
Legal Expense	[redacted]
Procurement	[redacted]
Other General & Administrative	[redacted]
TOTAL	[redacted]

Due to SPTC’s small size, a western regional manager oversees the operations of SPTC, along with other affiliated companies. The western regional manager is paid through SPTC’s holding company, CHI. If CHI incurs expenses that are related to the support of a particular company, those expenses are charged to that company.

CHI receives invoices for corporate operation expenses pertaining to audit and tax filing preparation, and various general administration items. CHI pays the expenses when invoiced. On a quarterly basis, all paid corporate expenses are reviewed and allocated to subsidiary companies, regulated and non-regulated. The allocation is based on a company's percentage of total revenue of all CHI affiliates, which was estimated to be [redacted] for SPTC for 2011.

SPTC receives management services from two affiliate companies that are under common control with SPTC: Signal Telcom Partners ("STP"), which provides executive management, regulatory consulting, financial, planning, information technology, and other miscellaneous support services; and American Broadband Acquisition Corp. ("ABAC"), which provides accounting and bookkeeping services. These services are charged at appropriate billing rates to the companies served, both regulated and non-regulated. All regulatory consulting and related support time is tracked specifically using timesheets and billed accordingly. Other management services are charged to CHI affiliates on the basis of their size. When appropriate, management company billings may be charged directly to a particular project or company to which they relate.

E. End User Rate Plans

SPTC or its non-regulated affiliate, CableCo, as noted below, currently offer the following rate plans:

Local Voice Services:

- <u>Standard Service</u>: SPTC provides local exchange service in its service area as specified by the Company's exchange service area maps approved and on file with the Colorado Public Utilities Commission. This rate plan fulfills SPTC's Colorado COLR obligation.

> Standard residential service for a local exchange access line is available at a monthly rate of $29.98 and for business service at a monthly rate of $39.98, excluding taxes and mandated surcharges. This charge also includes a listing of the customer's number in the local telephone directory, includes directory assistance (except non-published numbers), and provides equal access to long distance providers.

In its *USF Transformation Order*, the Commission has established that the residential rate should be no more than two standard deviations above the national average urban rate for voice service (established by the Wireline Competition Bureau (WCB)).[21] Until the WCB releases its report, SPTC is unable to determine whether it will be able to increase its local residential rate or in the alternative, be forced to reduce its residential rate if it exceeds the two standard deviations to avoid losing additional federal support. Regardless, SPTC estimates that if it is able to increase its local rate, due to the low number of customers, the revenue increase will be immaterial to offsetting reduced federal support associated with the caps and limitations previously discussed.

Long Distance Services:

- Nationwide Long Distance (non-regulated affiliate – CableCo, L.L.C. (aka ghValley Long Distance); Several optional calling plans are available to customers for intrastate or interstate toll calling.

Option A: Flat rate of $0.14 per minute nationwide for residential and business customers

Option B: 200 Nationwide Minute Residential Long Distance Plan $19.95

Option C: Unlimited Nationwide Long Distance $29.95

[21] *USF Transformation Order*, ¶592

Broadband Services:

(Offered through non-regulated affiliate – CableCo, L.L.C.(aka ghValley.net))

- Speed of Light Internet Service: Unlimited internet access: Fixed Wireless: $39.95/month (bandwidth download/upload –up to 1.0Mbps/768k)

Bundled Services:

- High Speed Package (Voice/Data): Local Service with Caller ID, Call Waiting, and Inside Wiring, High Speed Internet for $68.95 (Add Voice Mail for $2.00)

F. List of Services Other Than Voice Services Provided Over the USF Supported Plant

- Internet Access: As of September, 2012, [redacted] of SPTC's [redacted] access lines, or [redacted] subscribed to internet access.

- Special Access: SPTC provides dedicated special access circuits [redacted]

G. Customers Served

As of the September 27, 2012, SPTC served [redacted] residential/business access lines (which includes [redacted] company official lines). [redacted]

In addition to its residential and business customers, SPTC serves or provides access for the following agencies:

[redacted]

H. Procedures for Allocating Shared or Common Costs Between Regulated and Non-regulated Services or Operations

Costs are directly assigned to either regulated or non-regulated activities whenever possible. All employees record their actual time to a regulated or non-regulated accounting unit as well as Plant under Construction and Inventory.[22] Work can be coded to either SPTC or the wholly owned non-regulated affiliate. To account for employee time and overhead spent on non-regulated operations, SPTC uses a functional time reporting system with function codes created for all activities, including non-regulated activities performed by CHI employees assigned to SPTC. Any time spent on tasks associated with the non-regulated affiliate is directly assigned though the use of the payroll system to non-regulated accounts. The overhead spreads of benefits, etc. are allocated to these non-regulated accounts as well as the regulated accounts thus ensuring that consistent overhead loadings are removed from the regulated cost base for cost study and USF filings purposes. Non-regulated invoices are directly assigned to the non-regulated affiliate and are not included in the regulated cost base for cost study purposes.

SPTC performs adjustments each year for the purposes of allocating a portion of the joint use assets between regulated and non-regulated activities in its Interstate Toll Separations study, Local Switching Support submission, Interstate Common Line Support, and Universal Service High Cost Loop submissions. Also, adjustments are made to exclude non-regulated costs from Central Office Equipment (COE) and Cable & Wire facilities. Exhibit 6 attached hereto provides a summary of those adjustments.

I. Audited Financial Statements

The audited financial statements for Corona Holdings, Inc. and Subsidiaries for years 2009, 2010 and 2011 are attached as Exhibit 7.

[22] SPTC does not have any full time employees who work exclusively for the company. SPTC employees are shared with other CHI affiliated companies.

In 2011, SPTC had total revenues of [redacted] associated with Interstate Common Line Support and [redacted] associated with HCLS. These combined federal USF support equate to [redacted] of SPTC's total income.

SPTC has complied fully with all regulatory orders, including adherence with rigorous audit oversight exercised by its independent audit firm, the FCC, NECA, and USAC.

J. Information Regarding Outstanding Loans

CHI has an outstanding loan through the National Bank for Cooperatives ("CoBank") which has been in place since July 2006 when CHI acquired SPTC, Rye Telephone Company and CableCo. The original loan amount was [redacted] and the outstanding balance as of December 31, 2011 was [redacted]. The interest rate varies and is currently [redacted] The loan matures in 2016. SPTC has contributed approximately [redacted] of the debt reduction since inception.

To date, there have been no discussions regarding restructuring of debt.

K. Five-Year Pro Forma Financial Analysis of the New USF Rules' Impacts on SPTC

SPTC conducted a financial analysis of the projected impact of the Commission's new USF rules for the regression limitations and the combined impact incorporating the $250 Cap reductions to federal support. The impacts on revenues are as follows:

	Support Impact Year				
	2012	2013	2014	2015	2016
$250 Cap Support Reduction – HCL & ICLS	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Regression Cap Reduction - HCL	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
TOTAL	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Effective July 2012, as the $250 Cap and Benchmark Framework impacts start to phase into effect, SPTC's income and cash flow spirals downward and become negative in 2013. Exhibit 8 attached hereto provides a five year impact analysis to SPTC's earnings and cash.

These losses individually or taken together mean that SPTC will lose the ability to cover operational expenditures, contribute to the debt payment, or make capital improvements. Consequently, SPTC's rate base will be substantially reduced, which will ultimately frustrate the Commission's objective "to ensure that robust, affordable voice and broadband service, both fixed and mobile, are available to Americans throughout the nation."[23] The Commission's Orders should not "jeopardize the financial integrity of the compan[y], either by leaving [it] insufficient operating capital or by impeding [its] ability to raise future capital" and should permit returns sufficient "to compensate current equity holders for the risk associated with their investments."[24]

The revenue loss cannot be made up through rate increases to local SPTC customers. SPTC's basic residential rate is $29.98 per month. The residential rate may already exceed the reasonably comparable urban rates under section 254(b).[25] After full implementation of the support caps, support reductions in Year 2014 [redacted] spread over [redacted] residential access lines for a year would result in rate increases of [redacted], or a new residential local rate of [redacted]. It is clearly unreasonable to expect customers to bear these rate increases as a condition to retaining their phone service. In addition to the fact that customers could not afford these rates, these rates would be at odds with the Act's requirement for affordable rates that are comparable to those charged in urban areas. Further, for SPTC to increase the residential rate higher than two standard deviations from the national average would result in additional loss of universal service support.[26] SPTC is concerned that its current loaded residential rate (without taxes) of $38.25[27] may already be above the anticipated rate ceiling threatening its federal USF support.

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[23] *USF Transformation Order,* ¶1.
[24] See *Duquesne Light Co. v Barasch,* 488 U.S. 299 at 312 (1989), *Fed. Power Comm'n v Natural Gas Pipeline Co.*, 315 U.S. 575, 603 (1942) (Black, J. concurring), and *Fed. Power Comm'n v Hope Natural Gas Co*., 320 U.S. 591 (1944), at 601 and 603.
[25] *USF Transformation Order*, ¶592.
[26] *USF Transformation Order*, ¶592.

Similarly, SPTC cannot recover the lost revenues from its switched intercarrier compensation rates. In its *USF Transformation Order*, the Commission has capped and is, over a transition, eliminating most of the switched intercarrier compensation revenue.[28] As a consequence, SPTC may not recover any significant amount of the federal USF support losses from this revenue source.

As far as recovery of revenue losses through state universal service funding, to date, SPTC has not received support through Colorado's high cost loop support funding. On February 21, 2012, the Colorado Public Service Commission opened an emergency docket entitled Emergency Rulemaking - Caps for Switched Access Rates/HCSM which froze current state high cost support levels and capped intrastate access rates. [29] Further, Colorado has had proposed legislation for two consecutive years to revamp its state universal service funding. Specifically, the recent Colorado Senate Bill 157, which would phase out state universal service funding for some or all Colorado local exchange carriers by 2025, but never made it to committee. In August 2012, the CPUC opened Docket No. 12R-862T linking the concepts of effective competition and high cost support. State high cost funding for rural local exchange carriers continues to be controversial and uncertain in Colorado.

SPTC is also limited in how it can offset USF support reductions by cutting costs. The company is extremely lean in its operations. All SPTC employees are shared with other CHI affiliates, availing SPTC virtually no opportunity to make sizable and meaningful cost reductions. SPTC is constantly looking for ways to operate more efficiently and will continue to evaluate additional cost-cutting measures.

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[27] Residential Local Rate $29.98 + Federal Subscriber Line Charge $6.50 + E911 $0.70 + TRS $0.20 + CHCSM $0.87

[28] *USF Transformation Order*, Appendix A, Sections 51.909(a)(1) and (2) and 51.909(b).

[29] *Emergency Rulemaking - Caps for Switched Access Rates /HCSM In order to Freeze Current State High Cost Support Levels and Cap Intrastate Access Rates*, entered February 21, 2012, Colorado Public Utilities Commission Proceeding Number: 12R-148T.

Therefore, SPTC has no viable alternatives to recover lost USF support funding.

L. Identification of the Specific Facilities That Will Be Taken Out of Service

SPTC's entire network would be out of service as a result of the revenue loss associated with the impacts due to the $250 Cap and/or the Benchmark Framework. SPTC is the Carrier of Last Resort for its serving territory. SPTC would be forced to relinquish designation of its ETC status for its entire territory.

Without adequate universal service support, SPTC would discontinue leasing its tower space to third parties since maintenance and upgrades to the facilities would no longer be feasible. This will [redacted] Further, since its affiliate, CableCo, L.L.C., leases facilities to provide high speed internet service to areas outside SPTC's serving area, CableCo's customers would also lose service[30]. CableCo's customers include anchor institutions such as [redacted]

III. A WAIVER OF THE COMMISSION'S NEW USF RULES IS WARRANTED

To serve the public interest, the Commission should waive two of its USF rules as applied to SPTC: (i) its $250 Cap[31] and (ii) its Benchmark Framework.[32] The Commission may waive its rules for good cause shown.[33] The Commission may exercise its discretion to waive a rule when the particular facts make strict compliance inconsistent with the public interest.[34] In addition, the

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30 [redacted]

31 *USF Transformation Order*, Appendix A, Section 54.302.

32 *USF Transformation Order*, ¶¶ 210-226 and Benchmark Order.

33 47 C.F.R. §1.3.

34 The Commission has considerable discretion as to whether to waive its rules. *See, Office of Communication of United Church of Christ v. FCC*, 911 F.2d 803, 812 (D.C. Cir. 1990) (upholding the Commission's grant of a waiver

Commission may take into account considerations of hardship, equity, or more effective implementation of overall policy on an individual basis.[35] In short, a waiver is justified when special circumstances warrant a deviation from general rules and such deviation will serve the public interest.[36]

Such circumstances exist here. The reductions in federal USF support would destroy SPTC's financial viability. *First*, without a waiver, consumers, carriers and agencies which rely on SPTC's services and facilities would lose access to reliable terrestrial voice and broadband services. Apart from its own services, SPTC provides backhaul services for a competing provider in its territory, which also would be in jeopardy absent a waiver. Anchor institutions outside of SPTC's serving area provided high speed internet by an SPTC affiliate would also lose service. *Second*, the Commission's $250 per line monthly cap is too low given the extraordinarily high costs that SPTC faces. *Third*, the Commission's Benchmark Framework is flawed as applied to SPTC and would reduce support to levels not sufficient to meet the Commission's universal service goals. *Fourth*, a waiver would not undermine the Commission's USF reform objectives because despite the unique challenges of serving an exceptionally remote area, SPTC manages its operations efficiently by minimizing costs, while consistently expanding the services available to its customer base since its formation in 1996. The facts in this waiver petition make clear that its business has no future absent a waiver.

"[g]iven the deference due the agency in matters of this sort"); *City of Angels Broadcasting, Inc.* v. *FCC*, 745 F.2d 656, 663 (D.C. Cir. 1984) (noting that the scope of review of a waiver determination by the Commission "is narrow and constrained"). As the D.C. Circuit Court of Appeals has observed, the Commission's waiver determination are entitled to heightened deference because "the agency's discretion to proceed in difficult areas through general rules is intimately linked to the existence of a safety-value procedure for consideration of an application for exemption based on special circumstances." *AT&T Wireless Services, Inc.* v. *AT&T,* 270 F.3d 959, 965 (D.C. Cir. 2001) (internal quotation marks omitted).

[35] *WAIT Radio v. FCC*, 418 F.2d 1153, 1159 (D.C. Cir. 1969), *cert. denied*, 409 U.S. 1027 (1972); *Northeast Cellular Telephone Co. v. FCC,* 897 F.2d 1164, 1166 (D.C. Cir. 1990).

[36] *Northeast Cellular*, 897 F.2d at 1166; see also *Allband Communications Cooperative, Petition for Waiver of Sections 69.2(hh) and 69.601 of the Commission's Rules*, WC Docket No. 05-174, Order, 2005 FCC LEXIS 4527 (Aug. 11, 2005).

A. Causing Consumers To Lose Access to Terrestrial Voice Services is not in the Public Interest

Absent a waiver, consumers, a wireless provider and governmental agencies would be at risk of losing access to terrestrial voice, tower, backhaul services, broadband services, and special access facilities. Due to the high cost to provide service in the Company's low density mountainous service area, such area is not financially attractive to alternative service providers.

SPTC provides telecommunications services to its entire certificated territory. Its only competitors for terrestrial voice telephony service are wireless providers that offer coverage at variable reliability levels. [redacted]

Consumers living outside of any reliable wireless signal range must rely entirely on SPTC for voice services, including 911 emergency service, as well as high speed internet. Similarly, broadband services outside of SPTC's offering are very limited. Wireless providers only offer limited data services in this service area. Although satellite providers are beginning to advertise satellite service in the area, they are not currently operational and it is SPTC's expectation that service in SPTC's service area will be subject to coverage and capacity limitations that are not likely to be resolved for many years. ViaSat is seeking reconsideration of the Commission's urban capacity limits because, presumably, these would be difficult—if not impossible—to meet using satellite service.[37] Thus, satellite service for voice telephony and broadband access in SPTC's area is currently not an option consistent with the Commission's policy objectives. Without a waiver, SPTC's service area will lose important communications service.

Despite the fact that SPTC provides these critical voice and data services, as demonstrated in SPTC's financial projections, attached as Exhibit 8, the Commission's new USF

[37] See *ViaSat, Inc., Petition for Reconsideration*, WC Docket No. 10-90 (filed Dec. 29, 2011).

$250 Cap and Benchmark Framework will cause SPTC revenues to decrease [redacted] in 2013, and [redacted] in 2014 and to continue to decrease by greater percentages thereafter.

As a consequence, SPTC will immediately need to limit capital expenditures and delay maintenance of its network, which in turn will immediately impact SPTC's ability to provide reliable services. Frankly, SPTC had to re-evaluate whether to proceed with any improvements, including improving broadband speeds and expansion plans due to concerns about its future existence.

B. The Commission's Rules Do Not Account for SPTC's Unique Challenges and Would Not Ensure that Sufficient Support is Provided.

As an initial matter, the Commission's $250 per line monthly cap reductions to revenues would not leave sufficient support for the Company to operate given the very high costs that SPTC faces. SPTC's territory is sparsely populated with just 0.28 customers per square mile. Apart from the typical costs of serving a low density area, the sheer size of SPTC's territory—603 square miles—drives up costs. For example, completing routine trouble calls, service orders, field checks and other service related maintenance within the Colorado Public Utility Commission's required timeframes requires SPTC's technicians to routinely traverse hundreds of square miles. In 2011, SPTC's assigned technicians responded to a substantial number of service requests. And because SPTC covers such a large area, it must respond to a large number of cable locate requests that are disproportionate to the Company's size. As of October 31, 2012, SPTC technicians responded to 813 cable locate requests since the beginning of the year. These "One Call" cable locates also have a 48 hour response time and must be completed according to the requirements set by the Utility Notification Center of Colorado ("UNCC") to prevent damage to the core infrastructure. The high number of cable locates is driven by a combination of factors, including frequent damage to buried facilities (water and power lines), frequent maintenance to roads due to weather related deterioration and normal wear, as well as, the construction of natural gas lines, fence lines and landscaping on private property.

SPTC's costs are also driven by the rugged mountainous and rocky terrain that dominates its territory. Mountainous terrain drives up both construction and maintenance costs and excludes certain less expensive network solutions that may be cost-effective in other low density areas such as line-of-sight fixed wireless links. And, the soil type in much of the territory is solid rock, which drives up tremendously the costs of burying plant and constructing wireless infrastructure. Even where SPTC has been able to utilize a more cost-effective wireless solution, deploying wireless facilities requires the Company to construct poles for repeaters and subscriber equipment on rock, adding time and expense—drilling through solid rock to place poles often takes multiple days.

SPTC's ability to raise rates or obtain customers for its non-regulated services to compensate for its higher costs is constrained. SPTC's local residential rates are already the highest in the state and cannot exceed the Commission's authorized pricing for residential rates and still qualify for federal high-cost support.[38] Although SPTC anticipates increases in its high speed internet penetration rates (assuming it has the viability to improve its facilities), it does not anticipate any significant population growth to allow additional economies of scale. Additionally, because SPTC faces these unique circumstances, the Commission's Benchmark Framework —intended to generate caps based on the costs of "similarly situated" providers—is flawed for several reasons.[39]

The FCC's caps do not take into account the legitimate cost factors SPTC encounters in its provision of high cost telecommunications service in the SPTC service area. These regression

[38] *USF Transformation Order*, ¶592.
[39] *USF Transformation Order*, ¶ 217.

model caps are set at the 90th percentile and any costs incurred by a company beyond that lose vital federal support. SPTC's justifiably higher costs to serve its area are being unfairly limited.

First, the regression model incorporates numerous independent variables, such as loops, road miles, road crossings, undepreciated plant, population density, depth of bedrock, soils difficulty, percentage of study area in National Parks, etc. Based on some preliminary analysis, SPTC has discovered that some of the data used by the FCC as it pertains to SPTC is inaccurate, specifically the square miles of study area which drives the regression model inputs for density, percent bedrock, difficulty, road miles and road crossings. SPTC has recently filed a petition to adjust its study area boundary map in order to correct this flawed data.

SPTC's study area is approximately 603 square miles. The Tele Atlas Telecommunications Suite 2010.06 data relied on by the FCC only reflects under a third of that area or approximately 177 square miles. For example, because the study area boundaries are incorrect, the regression inputs reflect zero percentage park lands when in fact SPTC service territory covers a portion of the Pike National Forest. As a result, SPTC's company specific regression inputs are skewed and likely reducing their high cost loop support recovery.[40]

Regardless, the regression model adopts road miles as a proxy that, in theory, takes into account the FCC's recognition of the higher costs associated with long loops.[41] Unfortunately, the regression model calculates road miles as a negative coefficient suggesting that it should be cheaper to serve a larger area. Even after the study area boundary data is corrected, SPTC will likely continue to be penalized for serving such a large study area with a high number of road miles in a sparsely populated area.

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[40] [redacted]

[41] *Benchmark Order*, ¶¶21 and 86

Second, the quantile regression analysis adopted by the Bureau is acknowledged to be an "estimate" of the capital and operating expenses of a given company's "similarly situated peers" in order to limit reimbursement of expenses through HCLS to "prudent levels of cost" so that it does not receive more support than necessary to serve its community."[42] The regression model is based on a traditional wireline network infrastructure and does not allow for adequate recovery of SPTC's more innovative radio/wireless solution which is predominately central office transmission equipment. It would not have been economically responsible for SPTC to use cable and wire facilities to provide service to all of its customers due to the size of its serving territory, weather and the terrain. Based on the historical data, and projected through year ending 2016 using current regression input data, and assuming no changes to the FCC's regression model co-efficients, following is a chart of SPTC's capital expenditures and capital expenses as compared against the frozen benchmarks.

	YE 2010	YE 2011	YE 2012	YE 2013	YE 2014	YE 2015	YE 2016
Company Investment Per Loop	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
USAC Frozen Investment Per Loop	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Below/(Over) Cap Ex Cap	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Company Expense Per Loop	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
USAC Frozen Expense Per Loop	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Below/(Over) Expense Cap	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Company SACPL	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
USAC Frozen Company CPL	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Below/(Over) Total Cap	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Note: Reflects data input year, not support payment year

As the above 90th percentile frozen thresholds reflect, based on year ending 2010-2016 data, SPTC is substantially over the benchmarks. With its unique network design, significant usage of wireless transmission and towers, SPTC does not correlate well with "similarly situated

[42] *USF Transformation Order*, ¶210

peers." In order to fall below the expense benchmarks, expenses would have to be cut by [redacted]. Functioning adequately with these types of expense restraints is unrealistic. It therefore does not fit properly into the Commission's quantile regression model and is an outlier.

C. A Waiver Would Not Undermine the Commission's Objectives.

A waiver of the two specified USF rules as applied to SPTC would not undermine the Commission's objectives. The Commission made clear that its reforms were intended "to eliminate waste and inefficiency and improve incentives for rational investment and operation by rate-of-return LECs."[43] In addition, the Commission is concerned about subsidizing service where competition for such services exists.[44] This plainly is not that case. SPTC has already taken measures to provide services in a manner that is cost-effective despite its high costs by using wireless technology in lieu of expensive cable and wire facilities.

Additionally, compared to other carriers of similar size, SPTC is leanly staffed. It only has one full-time outside plant technician assigned to its service area by CHI. The Company is managed by a regional manager who spreads his time over multiple companies. All other services, accounting, information technology**,** for example, are outsourced. SPTC employs few resources given the size of the territory served. The Company maintains efficiency by ensuring that its assigned outside plant personnel are capable of handling any outage or disruption of service, rather than retaining technicians that specialize in one area. Whether it is a fiber cable cut or circuit equipment failure, all SPTC assigned outside plant personnel are equipped to respond to all service disruptions, allowing the Company to maintain an efficient staff.

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[43] *USF Transformation Order*, ¶ 195.
[44] *Connect America Fund*, Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, 26 FCC Rcd 4554, ¶ 171 (2011).

IV. CONCLUSION AND REQUEST FOR RELIEF

SPTC's creation and expansion, utilizing federal USF support, has carried out the intent of Congress as stated in the 1996 Act. With loans secured by the revenue stream provided by USF support, SPTC has been able to achieve the goals and objectives of the 1996 Act by implementing and providing service to a large rural area that was previously without service. SPTC's network is comprised of modern and technologically advanced facilities that are fully capable of providing both voice and high speed internet services. SPTC provides reliable emergency and other services to its service areas as an incumbent local exchange carrier. SPTC's network provides the infrastructure to support and expand broadband services to the public. Without a waiver, the financial soundness of the Company will be destroyed, its ability to maintain or attract credit will be eliminated, and it will be unable to provide the services aligned with the stated objectives of the *USF Transformation Order*. At the end of the day, it's the consumer who will lose.

For the foregoing reasons, the Company's Petition for Waiver should be approved by the Commission expeditiously, and applied forward starting from the July 1, 2012 implementation date of the ordered federal USF reforms discussed herein. This Petition demonstrates that good cause exists for waiving (i) the Commission's $250 Cap on federal support[45] and (ii) its Benchmark Framework for HCLS.[46]

The Company respectfully requests the Commission to grant the following relief pursuant to this Petition:

(1) That the Commission waive and exempt the Company from (a) the Part 54.302 Rule and (b) the Part 36.621(a)(5) application of its Benchmark Framework limiting reimbursable capital and operating expenses for HCLS;

[45] *USF Transformation Order*, Appendix A, Section 54.302.
[46] *USF Transformation Order*, ¶¶ 210-26.

(2) That the Commission recognizes the Company's unique status and grounds for relief in accordance with this Petition for Waiver and find that approval of this Petition by the Commission is necessary and in the public interest in order for the Company to continue to provide voice and other services, and to continue the Company's capability to provide broadband and other services; and

(3) That the Commission grants such other and further relief that is lawful and reasonable and consistent with this Petition for Waiver.

Dated: November 27, 2012

Respectfully submitted,

By: ______________________

David Shipley, Vice President
South Park, L.L.C.
dba South Park Telephone Company
P.O. Box 19166
Colorado City, CO 81019

EXHIBIT 1 –

SOUTH PARK, L.L.C.
dba SOUTH PARK TELEPHONE COMPANY

EMAIL EXCHANGE BETWEEN [redacted] AND SOUTH PARK TELEPHONE

REDACTED IN ENTIRETY

EXHIBIT 2 –

SOUTH PARK, L.L.C.
dba SOUTH PARK TELEPHONE COMPANY

TOPOGRAPHICAL MAP

REDACTED - FOR PUBLIC INSPECTION

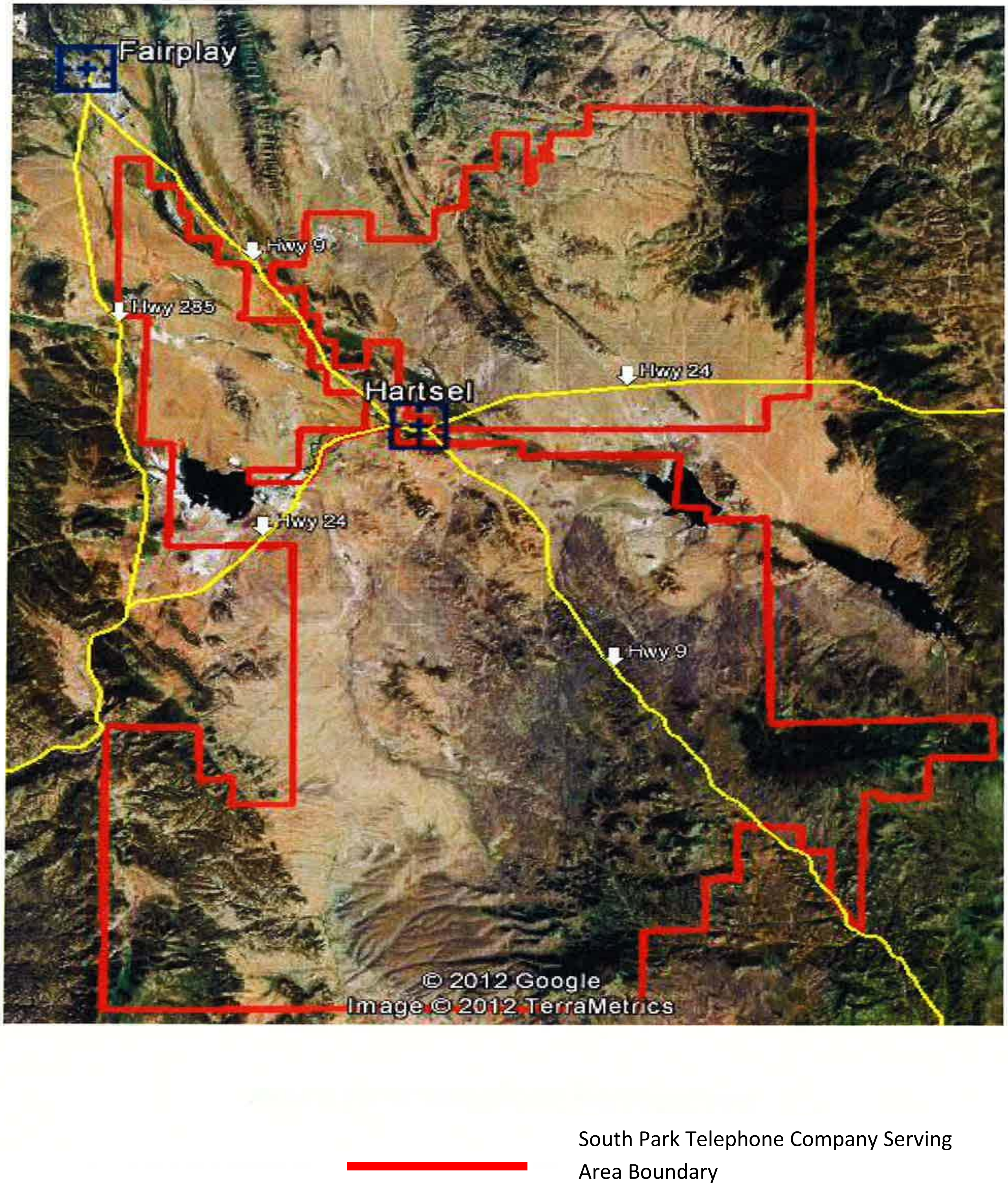

EXHIBIT 3 –

SOUTH PARK, L.L.C.
dba SOUTH PARK TELEPHONE COMPANY

STUDY AREA BOUNDARY MAP WITH GRID LINES

REDACTED - FOR PUBLIC INSPECTION

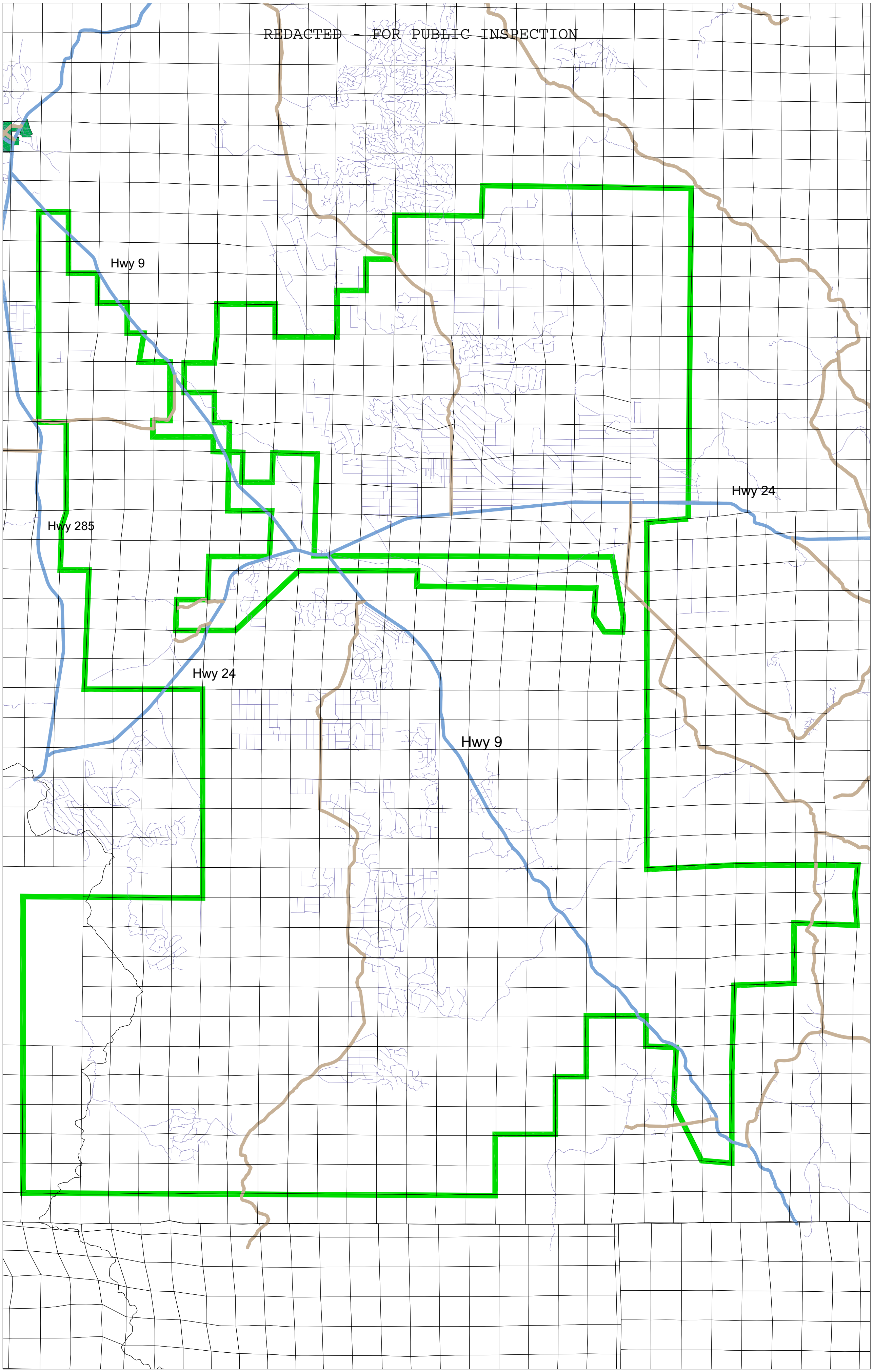

EXHIBIT 4 –

SOUTH PARK, L.L.C.
dba SOUTH PARK TELEPHONE COMPANY

NETWORK MAP

REDACTED IN ENTIRETY

EXHIBIT 5

ACCOUNTING AND ASSIGNMENT OF UNUSED OR SPARE EQUIPMENT OF FACILITIES

REDACTED IN ENTIRETY

EXHIBIT 6 -

NON-REGULATED COST IDENTIFICATION

REDACTED IN ENTIRETY

EXHIBIT 7 -

2009, 2010 & 2011AUDITED FINANCIALS

FOR CORONA HOLDINGS, INC.

REDACTED IN ENTIRETY

EXHIBIT 8

FIVE-YEAR FINANCIAL IMPACT ANALYSIS

REDACTED IN ENTIRETY