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MARY KATHRYN KUNC
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December 5, 2012

Marlene H. Dortch, Secretary
Attention: Wireline Competition Bureau
Federal Communications Commission
445 12th Street, SW Washington, DC 20554

Re: South Central Telephone Association, Inc.
Redacted Petition for Waiver of 47 C.F.R. Sections 54.302, and limits imposed under 26 FCC 17663 ¶ 220.

Dear Ms. Dortch:

On behalf of South Central Telephone Association, Inc. (the "Company"), the undersigned respectfully submits the above-referenced Redacted Petition for Waiver ("Petition"). This Petition is exempt from filing fee pursuant to Commission rules and the Commission's Fifth Order on Reconsideration in its ICC/USF Transformation Order, released November 16, 2012, FCC 12-137, ¶ 24.

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

Very truly yours,

Kendall Parrish

Kendall Parrish
Attorney for South Central Telephone Association, Inc.

Enclosure

cc: Chief, Wireline Competition Bureau

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Before the
Federal Communications Commission
Washington, D.C. 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 CENTRAL TELEPHONE ASSOCIATION, INC.

South Central Telephone Association, Inc. ("South Central" or the "Company") respectfully requests the Commission, pursuant to 47 C.F.R. § 1.3, for a waiver of certain of the reforms recently adopted by the Commission in its *USF/ICC Transformation Order*[1] that affect the distribution of universal service support to the

[1] *Connect America Fund; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Lifeline and Link-Up; Developing an Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; A National Broadband Plan for Our Future; Universal Service Reform-Mobility Fund,* Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Red. 17663, 17898-

Company and ultimately, South Central's continued ability to provide voice service in its study area and meet the FCC's goals for higher broadband speeds. Specifically, South Central requests that the Commission waive (i) its rule capping total support at $250 per line per month, including the phase in of such cap[2] and; (ii) its rule limiting reimbursable capital and operating costs for purposes of determining HCLS by using benchmarks.[3]

The Commission, in its *USF/ICC transformation Order,* acknowledged arguments raised by rural telephone companies and their representative organizations, that reductions in current support levels would threaten their financial viability and imperil service to consumers in rural areas. Accordingly, the Commission permitted any carrier "affected by the $250 per-line monthly cap may file a petition for waiver or adjustment of the cap" and that petitions for waiver generally must "clearly demonstrate that good cause exists for exempting the carrier from some or all of those reforms" and "that waiver is necessary and in the public interest to ensure that consumers in the area continue to receive voice service."[4] In its Fifth Order on Reconsideration, the Commission clarified that its discussion was "not to replace the ordinary standard for granting waivers under section 1.3 of the Commission's rules, but rather to provide guidance" to potential applicants.[5] The Commission further

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99, 1]723 (2011) ("*USF/ICC Transformation Order*").

[2] 47 C.F.R. § 54.302

[3] *USF/ICC Transformation Order*, 17745, para. 220.; *In the Matter of Connect America Fund*, WC Docket No. 10-90, *High-Cost Universal Service Support*, WC Docket No. 05-337, Order, DA 12-646 (rel. April 25, 2012)

[4] *Id.*, ¶¶ 278, 539.

[5] *Connect America Fund; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Lifeline and Link-Up; Developing an Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; A National Broadband Plan for Our Future; Universal Service Reform-Mobility Fund,*

clarified that its review of such waiver requests would consider the impact of reforms "not only on voice service alone, but also on continued operation of a broadband-capable network and the effect on consumer rates."[6]

South Central files this Petition for Waiver because it will be adversely affected by the Commission's universal service reforms and demonstrates herein that good cause exists to grant the waiver and that waiver is necessary and in the public interest to ensure that consumers in South Central's service area continue to receive voice service, to enable South Central to continue operation of a broadband-capable network and to ensure consumers in South Central's study area continue to receive services at rates reasonably comparable to those being paid by urban consumers.

I. BACKGROUND

South Central serves a total of [redacted] access lines within its Oklahoma study area that encompasses part of Alfalfa County in the State of Oklahoma along the Oklahoma - Kansas border. The demographic makeup of the residents in Alfalfa County is as follows:

County	Population	65+	Median Income	% below poverty level
Alfalfa, OK	5,662	20.0%	$42,500	11.1%

Source: US Census Bureau, 2010 Quickfacts[7]

Within Alfalfa County, South Central provides wireline telephone service to two (2) rural communities. The demographic makeup of the residents of the communities served by

Report and Order and Further Notice of Proposed Rulemaking, *Fifth Order on Reconsideration*, FCC 12-137, para. 19 (rel. November 16, 2012) ("*Fifth Order on Reconsideration*")

[6] Id., para. 20.

[7] http://quickfacts.census.gov/qfd/states/40/40003.html.

South Central within those rural communities is as follows:

Community	Population	Median Age	Households	Land Area
Burlington, OK	152	36.5	57	.28 sq. mi.
Byron, OK	35	59.3	18	.24 sq. mi.
Amorita, OK	37	41.5	22	.26 sq. mi.

Source: 2012 City-Facts

Based on the above data, it is clear that a significant portion of the residents within South Central's study area are either elderly or below the federal poverty line. In addition, the above data shows that there are approximately 75 households in the communities served by South Central. When compared to the total number of access lines served by South Central, one can see that 75% of South Central's customers within its Oklahoma study area are located in rural areas of Alfalfa County.

South Central's Oklahoma study area encompasses 222 square miles in the northern portion of Oklahoma. South Central has installed approximately [redacted] route miles of copper and fiber telephone facilities to satisfy its carrier of last resort and minimum service quality obligations imposed by the Oklahoma Corporation Commission. Based on its end-of-year 2011 access lines in service, South Central serves [redacted] access lines per square mile and approximately [redacted] customers per route mile. South Central's Oklahoma study area consists of two rural exchanges. When all of the households located within the communities served by South Central are removed, South Central serves approximately [redacted] customers per mile in rural areas of its service area. South Central's service area can best be described as rural agricultural land with few small rural communities.

Wireless voice service alternatives in the area served by South Central are limited.

For example, two communications towers are constructed within South Central's Oklahoma study area.[8] Pioneer Telephone Cooperative, Inc., owns a tower in Byron, OK, and Sterling Acquisition 2008, LLC, owns a tower located in Burlington, OK. One tower currently has no installed antenna facilities and the other CMRS provider located on the tower utilizes microwave backhaul instead of terrestrial facilities. As a result, South Central does not provide service to either tower at this time. Based on the broadband availability information collected by the National Broadband Map project, 80.9% of South Central's study area is served by only a single wireless provider.

South Central is required to construct and maintain a high quality wireline network to comply with Oklahoma Corporation Commission ("OCC") rules and Rural Utilities Service ("RUS") requirements. Specifically, the OCC has designated South Central as the carrier of last resort in its service territory and therefore, must provide service to all requests for service to locations within one-quarter mile from its facilities, without additional construction charges.[9] The OCC also requires that South Central must furnish single party service with advanced calling features, access to 911, equal access to long distance providers, and operator services.[10] Despite OCC minimum service requirements, South Central has constructed and maintained its copper and fiber optic network such that it can offer voice and broadband services to its customers that are reasonably comparable to services that are available to urban customers. South Central has deployed state of the art telephone facilities in the most efficient manner available at the time of their

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8 http://wireless.fcc.gov/antenna/index.htm?job=home.

9 OAC 165:55-13-12.

10 OAC 165:55-13-10.

deployment. In addition, South Central has constructed and managed its network with attention to limited essential staff to respond to emergencies, bill services and respond to customers.

South Central has incurred significant costs to meet its state carrier of last resort obligations and state minimum service standards. Based on its most recent NECA cost study, South Central projected to receive total federal universal support in 2012 of $[redacted], or a total of $[redacted] per line per month. Based on the $250 per line cap imposed under the *USF/ICC Transformation Order*, South Central's total support would ultimately be reduced to $[redacted] per year – an annual shortfall of $[redacted]. Approximately $[redacted] of this projected shortfall would be experienced during the remaining portion of 2012, with the full shortfall of $[redacted] per year realized at the end of the transition period.

Due to the high cost to meet state carrier of last resort and minimum service obligations and to offer its customers reliable voice service and broadband service, South Central has borrowed from the Rural Utilities Service ("RUS") of the United Stated Department of Agriculture in order to finance the construction and maintenance of its network. South Central's annual debt service on its RUS notes alone is $[redacted]. The reductions in federal universal service support will leave South Central with insufficient revenues to meet its current obligations and thus, will cause South Central to default on its federal RUS loan within a few months after implementation.

In short, the anticipated reduction of universal support to South Central is projected to cause significant financial harm to South Central. The financial harm to South Central will cause it to default on its RUS note and fail to have adequate cash flow to continue to provide voice service to residents in its service area. There are no wireline competitive alternatives for South Central's customer base if South Central becomes unable to continue to provide voice service. In addition, wireless alternatives are limited and provide low to moderate coverage in South Central's service area. As a result, should the federal universal service reforms be applied to South Central without waiver, voice service to residents in Alfalfa County, Oklahoma will be severely threatened and will likely cease to be available from a wireline provider.

Lifeline customers will have no wireline provider if South Central's federal universal service funds are reduced. As noted above, 13.7% of the residents in South Central's service territory are low income and live below the national poverty level. Therefore, a large number of residents in South Central's service territory are eligible for federal and state-subsidized telephone service through the Commission's Lifeline service rules. Only two CMRS providers have been designated as eligible telecommunications carriers ("ETCs") in South Central's service area and no other wireline providers have received ETC designation. To South Central's knowledge, the CMRS providers that have been designated as ETCs do not currently offer Lifeline service in the entirety of South Central's service area. Moreover, as discussed above, due to the lack of wireless facilities in South Central's service area, wireless service is sparse and has low to moderate coverage in South Central's service area. Therefore, in the event South Central is no longer financially capable of providing voice service in its study area, there is no reasonable alternative for low income Lifeline customers.

A waiver of the Commission's new USF rules is warranted in South Central's case.

To serve the public interest, the Commission should waive two of its recently adopted USF reforms as applied to South Central: (i) its rule capping total support at $250 per line per month, including the phase in of such cap and; (ii) its rule limiting reimbursable capital and operating costs for purposes of determining HCLS by using benchmarks. The Commission may waive its rules for good cause shown.[11] Good cause, in turn, may be found and a waiver granted "where particular facts would make strict compliance inconsistent with the public interest."[12] To make this public interest determination, the waiver cannot undermine the purposes of the rule, and there must be a stronger public interest benefit in granting the waiver than in applying the rule.[13]

The Commission may exercise its discretion to waive a rule when the particular facts make strict compliance inconsistent with the public interest.[14] In addition, the Commission may take into account considerations of hardship, equity, or more effective implementation of

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[11] 47 C.F.R. § 1.3. *See also ICA Global Communications (Holdings) Limited v. FCC*, 428 F.3d 264 (D.C. Cir. 2005) ("*ICA Global Communications*"); *Northeast Cellular Telephone Co. v. FCC*, 897 F.2d 1164 (D.C. Cir. 1990)("*Northeast Cellular*"); *WAIT Radio v. FCC*, 418 F.2d 1153 (D.C. Cir. 1969)("*WAIT Radio*").

[12] *Northeast Cellular* at 1166; see also *ICO Global Communications* at 269 (quoting Northeast Cellular); *WAIT Radio* at 1157-1159.

[13] See, e.g., *WAIT Radio* at 1157 (stating that even though the overall objectives of a general rule have been adjudged to be in the public interest, it is possible that application of the rule to a specific case may not serve the public interest if an applicant's proposal does not undermine the public interest policy served by the rule); *Northeast Cellular* at 1166 (stating that in granting a waiver, an agency must explain why deviation from the general rule better serves the public interest than would strict adherence to the rule).

[14] The Commission has considerable discretion as to whether to waive its rules. *See Office of Communication of United Church of Christ v. FCC*, 91 F.2d 803, 812 (D.C. Cir 1990) (upholding the Commission's grant of 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 has observed, the Commission's waiver determinations 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-valve 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).

overall policy on an individual basis.[15] In short, a waiver is justified when special circumstances warrant a deviation from general rules and such deviation will serve the public interest.[16]

Such circumstances exist here. First, without a waiver, consumers would be at risk of losing access to reliable terrestrial voice and broadband services. Such an outcome is contrary to federal universal service principles and FCC rules. In addition, apart from retail consumers losing access to voice services, South Central provides the only terrestrial network capable of backhaul services for all the competing providers in its territory, which also would be in jeopardy absent a waiver. Second, the Commission's $250 per line monthly cap is too low given the extraordinarily high costs that South Central faces to provide voice and broadband services in its rural study area. Third, the FCC's regression analysis and benchmarks, when applied to South Central, would not provide sufficient support to meet the Commission's universal service goals would severely undermine South Central's ability to continue to provide terrestrial voice service. Fourth, a waiver would not undermine the Commission's USF reform objectives because despite the unique challenges of serving an exceptionally remote and economically challenged area, South Central has already taken measures to reduce its costs. Finally, a waiver is justified in that it would provide South Central adequate time to implement its strategy to move from federal support to a broadband network.

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[15] *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 F2d 1164, 1166 (D.C. Cir. 1990).
[16] *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).

Absent a waiver, consumers would be at risk of losing access to wireline voice and broadband services. As noted above South Central is the only wireline voice and broadband provider that covers its entire territory. Its only competitors for voice telephony service are wireless providers that offer limited coverage in South Central's study area. Furthermore, to the extent these wireless providers seek to offer reliable service in South Central's territory, such carriers would necessarily rely on South Central for critical backhaul services for all cellular towers to be located in South Central's territory. Consumers living outside of reliable wireless signal range must rely entirely on South Central for voice services. Similarly, broadband services outside of South Central's offering are very limited. Wireless providers only offer limited data services in the area, and there is no cable provider in the area. Satellite service in South Central's service area experiences coverage limitations and capacity limits that are not likely to be resolved in the near term.

Despite the fact that South Central provides critical voice and data services, as demonstrated in South Central's audited financial statements, attached hereto, within the first months of the total USF per-line cap phase-in, the Commission's new USF rules will cause South Central to default on its loans. As a consequence, South Central will immediately need to limit capital expenditures on the upkeep and maintenance of its networks, which will in turn immediately impact South Central's current customers. Moreover, the Company will be out of cash immediately following the second year of the total cap phase-in. Therefore, South Central will not be able to continue to provide voice and broadband services absent a waiver.

Further, the Commission's proposed regression methodology, which is intended to generate caps based on the costs of "similarly situated" providers, is flawed. Multiple carriers in the record have pointed out, and the FCC has acknowledged, that there are inaccuracies in the representation of carrier's footprints, which are utilized to determine certain independent variables used to create the quantile regression analysis model. Changes to these variables across the industry will impact the correlations of those variables to the costs of the carriers and ultimately change the coefficients in the model to determine the 90th percentile calculation. Due to the myriad inaccuracies, the application of the rules to South Central could result in the Company's comparison to carriers that are not "similarly situated" but in fact have much lower costs than South Central.

II. JUSTIFICATION FOR THE WAIVER

In the *USF/ICC Transformation Order*, the Commission adopted rules and a framework which will substantially reduce the level of Federal USF revenues that South Central has available to (a) maintain and operate its telecommunications network, (b) provide voice service to its customers, and (c) make principal and interest payments on its RUS loan.

A. Rule Limiting Support to $250 Per-line Per Month

In the *USF/ICC Transformation Order*, the Commission adopted a rule limiting total federal USF support to $250 per-line per-month[17]:

> "*274. Discussion.* After consideration of the record, we find it appropriate to implement responsible fiscal limits on universal service support by immediately imposing a presumptive per-line cap on universal service support for all carriers, regardless of whether they are incumbents or competitive ETCs. For administrative reasons, we find that the cap shall be implemented based on a $250 per-line monthly basis rather than a $3,000 per-line annual basis because USAC disburses support on a monthly basis, not on an annual basis. We find that support drawn from limited public funds in excess of $250 per-line monthly (not including any

[17] *USF/ICC Transformation Order*, Appendix A, Final Rules, Part 54.302

new USF/ICC TRANSFORMATION support resulting from ICC reform) should not be provided without further justification.

275. This rule change will be phased in over three years to ease the potential impact of this transition. From July 1, 2012 through June 30, 2013, carriers shall receive no more than $250 per-line monthly plus two-thirds of the difference between their uncapped per-line amount and $250. From July 1, 2013 through June 30, 2014, carriers shall receive no more than $250 per-line monthly plus one-third of the difference between their uncapped per-line amount and $250. July 1, 2014, carriers shall receive no more than $250 per-line monthly."[18]

This rule will not provide South Central with sufficient federal support to enable it to make investments required to provide voice and broadband services which are reasonably comparable to that in urban areas. Specifically, because South Central's study area is exclusively rural and agricultural in nature with extremely low customer density, South Central's costs are higher than average. In addition, the residents in South Central's study area are elderly and low income individuals with no reasonable alternatives for voice service. As a result, implementation of the total support cap with respect to South Central will leave residents in South Central's study area without voice service.

B. Framework to Limit Reimbursable Capital and Operating Costs

In the *USF/ICC Transformation Order*, separate and apart from the Part 54.302 rule adopted by the Commission, the Commission adopted a separate framework to further limit the recovery of network investments and expenses from the Federal USF in the following manner:[19]

"210. In this section, we adopt a framework for ensuring that companies do not receive more support than necessary to serve their communities. The framework consists of benchmarks for prudent levels of capital and operating costs; these costs

[18] Id. ¶ 274-275
[19] Id. ¶ 210-26 and Appendix H

> are used for purposes of determining high-cost support amounts for rate-of-return carriers. This framework will create structural incentives for rate-of-return companies to operate more efficiently and make prudent expenditures. In the attached FNPRM, we seek comment on a specific proposed methodology for setting the benchmark levels to estimate appropriate levels of capital expenses and operating expenses for each incumbent rate-of-return study area, using publicly available data. We delegate authority to the Wireline Competition Bureau to implement a methodology and expect that limits will be implemented no later than July 1, 2012."[11]

The methodology was adopted by the Wireline Competition Bureau on April 25, 2012, and became final on June 28, 2012. Similar to the per-line monthly cap on universal service, the regression analysis and benchmarks fail to recognize the extremely rural and agricultural nature of South Central's service area and the costs to serve such an area. Therefore, implementation of the methodology and benchmarks will, even if the FCC were to waive its total support cap as to South Central, fail to provide South Central adequate support to continue to meet its RUS loan obligations and severely limit its ability to provide voice services.

C. The Commission Rules Will Undermine South Central's Ability To Provide Voice Service To Customers

In anticipation of changes to federal universal service mechanisms and the steady erosion of intercarrier compensation receipts over the past several years, South Central has reviewed its operations to identify additional sources of revenue and potential cost savings. Unfortunately, due to its low customer density and high route miles per customer, additional expense savings are unavailable and due to FCC policies, additional revenues are likewise not available.

1. Existing Sources of Revenue are Insufficient

Absent the requested waiver, South Central's High Cost Support would ultimately

REDACTED – FOR PUBLIC INSPECTION

decrease by $[redacted] per line[20] or $[redacted] annually. This represents an annual decrease in total revenues of nearly [redacted]%. As described below, South Central cannot look to other sources of revenue to fill the void left by an arbitrary limitation on support in high cost areas.

a. Local Revenue

This revenue loss cannot be made up through rate increases to local South Central customers. Under Oklahoma law, South Central can increase its local exchange service rate up to $2.00 per month per year on a streamlined basis.[21] In accordance with state law, South Central intends to implement the first of several $2.00 rate increases that will be necessary to meet the Commission's $30.00 Residential Rate Ceiling adopted in the *USF/ICC Transformation Order*. Local rate increases up to the Residential Rate Ceiling, however, do not provide meaningful contribution to South Central's high cost of service in its rural service area. For example, each increase of $2.00 to South Central's monthly local exchange service rate only generates $[redacted] per year in additional revenues. If the Commission's Residential Rate Ceiling was set aside and South Central was forced to increase local customer rates to compensate for the Federal USF revenues lost as a result of the $250 per line per month Federal USF cap and other USF reforms, the effect would be an unaffordable and unreasonable increase in those customer rates. For example, South Central would have to increase its local exchange rates by $257.80 per line per month

[20] Federal USF amounts from the Universal Service Administrative Company High Cost Support At http://www.usac.org/hc/tools/disbursements/default.aspx. for South Central for 2011 is $1,587,456. See Appendix B. Under the $250 per line per month cap and other reforms to USF adopted by the FCC, South Central's total federal support would fall to $[redacted] for 2012, $[redacted] in 2013, and $[redacted] in 2014.

[21] 17 O.S. §137.

during the phase-in and beyond to recover the federal USF lost as a result of the FCC's rules.[22] In short, South Central cannot recover the $[redacted] in lost Federal USF as a result of the *USF/ICC Transformation Order* from its customers without rates soaring to levels significantly higher than rates being paid by urban consumers for similar services and increasing the likelihood of South Central losing its entire customer base.

It is clearly unreasonable to expect customers to absorb these rate increases and retain their phone service. In addition those rates would violate the Act's requirement for affordable rates that are comparable to those charged in urban areas.

b. Intercarrier Revenues

Further, South Central cannot recover the lost USF funding from its switched intercarrier compensation rates. In its Order, the FCC has capped and is, over a transition, eliminating most of the switched intercarrier compensation revenue.[23] The only intercarrier compensation rate that was not capped by the Commission is the intrastate originating switched access rate. If South Central attempted to recover its Federal USF revenue loss from this revenue source, this rate would have to increase exponentially. As the Commission recently acknowledged in its order addressing call completion issues in rural areas, Interexchange carriers would not be willing to serve customers in South Central's service

[22] Each year's annual per line reduction of $[redacted] per line divided by 12 months to give a monthly reduction per line.
[23] *USF/ICC Transformation Order*, Appendix A – Final Rules:
• Most Intercarrier compensation rates capped and then transitioned to zero rate level – Part 51.909

area.[24] Even if the interexchange carriers continued to provide service, after these switched access rate increases are added to customer toll rates, it is a given that all the landline toll customers in South Central's service area would disconnect this service and thus, no revenue recovery would be realized.

c. Other Revenues

South Central is working to expand the scope of its services as well as exploring various avenues of economic development. Most of these efforts, however, depend on maintenance and improvements to South Central's switching and distribution plant. With the exception of Interexchange fiber, the existing plant is incapable of delivering the advanced services common to most urban areas and available in many rural areas. The deployment of these facilities should not increase regulated operating costs, with the exception of depreciation and interest expense and possibly property taxes and insurance.

2. Potential Areas for Cost Savings

South Central has taken steps to minimize its costs. Over the past several years the company has reduced corporate costs, primarily through reorganization of functions, improved software, and implementation of new procedures. These savings have been achieved despite a rapidly growing regulatory burden. The company provides only basic benefits to its employees required by law. South Central has been audited twice in recent years by USAC whose auditors found no waste, fraud or abuse and made no recommendations of disallowance of South Central's costs. These are costs such as property

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[24] *In the Matter of Developing an Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135, *Declaratory Ruling*, DA 12-154, (rel. Feb. 6, 2012).

taxes, customer service, installation and repair services, accounting costs, administrative costs of providing information to various regulatory agencies, switch, router, and other maintenance contracts and as well as corporate costs such as rent and insurance.

3. Impact of Reduced High Cost Support

While South Central will continue to seek ways to increase revenues and decrease costs, it is apparent that none of its efforts will be anywhere near sufficient to offset the Commission's rule limiting total federal USF support to $250.00 per line. The remaining revenue streams available to South Central would not support ongoing operations and puts the availability of voice service at risk for those residents in South Central's service area.

Like many telecommunications service providers, the company has non-regulated operations. In South Central's case this consists primarily of wireless broadband services provided to various rural areas of Oklahoma and southern Kansas. Due to scale and commonality of some functions, these operations are mutually dependent. That is to say, the existence of non-regulated operations enables regulated operations to be more cost effective through sharing of common costs. And the reverse is also true of the non-regulated operations. If South Central cannot afford to pay its share of common costs, then those resources will be available for neither. As a result, in addition to the loss of services within South Central's study area; broadband service will be decreased or eliminated in those areas served by non-regulated operations.

South Central is a borrower from the Rural Utilities Service (RUS). Annual payments on existing debt (principal and interest) will equal $[redacted] in 2012 and will increase to $[redacted] in 2013. The RUS loan covenant with South Central requires that South Central have sufficient revenues to pay the principal and 1.5 times the interest.[25] The new rules will reduce South Central's income significantly and push the company into default of its RUS TIER loan covenant. Moreover, the reduction in revenues, which cannot be obtained through other sources, will severely constrain South Central's ability to pay its principal and interest payments on RUS debt – within the first few months of the phase in of the per-line cap on universal service.

D. South Central Meets the Requirements in the Commission's Order to Receive a Waiver of the Ordered Rule and Framework[26]

Additional Exhibits to this Petition for Waiver provide justification for support in excess of the cap and support a Commission waiver of the USF rules specified herein. The required information shows that the ordered Part 54.302 rule and the Framework to Limit Reimbursable Capital and Operating Costs reductions in current Federal High Cost Support revenue would (a) end South Central's financial viability, (b) eliminate voice service to consumers in the area where South Central provides service, and (c) force South Central to default on its loan payments to RUS.

South Central is filing this Petition for Waiver that clearly demonstrates that good cause exists for exempting South Central from (a) the Part 54.302 rule and (b) the Framework to Limit Reimbursable Capital and Operating Costs. Approval by the Commission of the

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[25] Loan Agreement between South Central Telephone Company and the United States of America – Section 5.12 Tier Requirement:

> "From the date of this Agreement until the date specified in Schedule 1, the Borrower will maintain a TIER of at least 1.5."
>
> The ability to pay interest on a RUS loan is measured by a Times Interest Earned (TIER) ratio by RUS. A ratio below one means that a company has insufficient net income to pay the loan interest.

[26] *USF/ICC Transformation Order*, ¶¶ 539 to 544.

Waiver is necessary and in the public interest to ensure that consumers in the area served by South Central continue to receive voice and broadband service.

South Central is providing the following confidential information in support of this Petition for Waiver:

Exhibit A - South Central's most recent cost of service study (Part 36/69);

Exhibit B - Financial statements for the year ended 12/31/11;

Exhibit C - Outstanding RUS loan information.

Commission grant of a waiver to South Central would be consistent with the objectives stated in the Commission's Order as well as the 1996 Act. South Central's existing network was designed and constructed under RUS standards and utilized funds provided by RUS loans. The approval of the past and current RUS loans and the construction of South Central's network were undertaken consistent with universal service principles, objectives, and intent of the 1996 Act. Without its existing levels of universal service funding, South Central's revenues would not be sufficient to achieve the purposes of section 254 of the Act and consumers would be at risk of losing voice services as well as existing and proposed broadband services in the area.

IV. CONCLUSION

A waiver of the two specified changes to the Commission's USF rules as applied to South Central 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." In addition, the

Commission is concerned about subsidizing service where competition for such services exists. These concerns are plainly not in jeopardy in South Central's case. South Central has already taken measures to provide services in a manner that is cost-effective despite its high costs. In addition, there is no meaningful competition for voice service in South Central's study area. Accordingly, for the reasons described above, the Commission should grant South Central's request for a waiver of its universal service reforms for the issues described above, and enable it to seek further waivers as appropriate, should South Central discover that there are additional situations in which it is either technically or economically infeasible for it to comply with the Commission's rules.

Respectfully submitted,

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