**FARMERS DESCRIPTION AND JUSTIFICATION**
**PART 1[1] - Synchronous Optical Channel Service ("SOCS")**
**John Staurulakis, Inc. Tariff F.C.C. No. 1 -Transmittal No. 145**
**Farmers Telephone Cooperative, Inc. (SC)**
**May 20, 2009**

Farmers Telephone Cooperative, Inc. (alternatively "Farmers" or "Company"), through its consultant John Staurulakis, Inc. ("JSI"), hereby provides a Description and Justification for its proposed rates for Special Access Synchronous Optical Channel Service ("SOCS") in John Staurulakis, Inc. Tariff F.C.C. No. 1 ("JSI Tariff"). Farmers is an issuing carrier for the JSI Tariff. Farmers files interstate access rates on a prospective basis pursuant to Section 61.38 of the Commission's rules.

## Description of Filing

This summary together with the accompanying revised tariff material has been filed by JSI in order to comply with the rules and regulations of the Federal Communications Commission ("Commission") with respect to addition of new services. Farmers does not currently offer Special Access SOCS, thus the rates proposed under this transmittal are the introductory rates for Farmers under the existing Special Access SOCS regulations in the JSI Tariff.

## Justification for Cost Support and Rate Development

The Company provides the following cost support for the proposed SOCS rates contained in this transmittal for which descriptions follow.

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| Cost per Unit Development | Exhibit 1.A |
| Total Annual Projected Cost | Exhibit 1.B |
| Cost for Nonrecurring Charges | Exhibit 1.C |
| Proposed Rates and Projected Annual Revenue | Exhibit 1.D |
| Annual Revenue Impact of New Service Offering | Exhibit 1.E |
| Comparison of Proposed SOCS Rates to Rates of other ROR ILECs | Exhibit 1.F |
| Development of Levelized Carrying Charge Factor | Exhibit 1.G |
| Development of Discount Factors for Levelization | Exhibit 1.H |

[1] In addition to Farmers Description and Justification Part 1, Transmittal No. 145 also includes Farmers Description and Justification Part 2 for introduction by the Company of Ethernet Transport Service ("ETS").

## Exhibit 1.A. Cost per Unit Development

Exhibit 1.A summarizes the development by Farmers of the Special Access Synchronous Optical Channel Service ("SOCS") cost per unit. The SOCS cost is based on direct costs plus overhead. Direct costs comprise the levelized capital recovery costs of the direct investment required for each service. Overhead comprised the levelized carrying charges associated with direct plant investment required for provision of SOCS.

### Plant Investment per Demand Unit – Column B

Plant investment comprises the direct cost of materials, labor and labor overheads required for installation of the respective central office equipment ("COE") or cable and wire facility ("CWF") necessary to provision the respective services. These costs are presented in Column B. Material costs are based on the most recently available vendor costs together with labor costs and labor overheads. Channel Mileage Facility ("CMF") costs reflect optical fiber cable costs per installed mile. Channel Mileage Termination ("CMT") costs reflect electronics and other termination equipment located in the central office ("CO") at the Serving Wire Center ("SWC") for the SOCS Channel Mileage service. For Channel Termination ("CT") costs, both SWC CO-located termination equipment (electronics and other termination equipment) and CWF costs are reflected. The CWF costs reflected in the CT costs are based on the projected average CT distance between the SWC and the Customer Designated Premises ("CDP"). Any electronics or terminal equipment at the CDP for the CT must, under the tariff regulations, be provided by separately ordering an Optional Feature and Function Customer Node.

### Fill Factor – Column C

Plant investment per unit is adjusted for fill factor effect. For equipment and facilities that are necessary for discrete use for a single customer, the cost per unit reflects a 70% fill factor indicating that, on average, one out of four units installed will be idle awaiting service or idle after termination of service by a customer. Thus, for CTs, CMTs and Optional Features and Functions ("OFFs"), the Cost uses an 80% fill factor. For CMF, a fill factor of 100% is used due to the likelihood that absent use of the facilities for SOCS, they will support other transmission functions and not be idle.

### Plant Required to Support Service Unit– Column D

The plant required to support a service unit is presented in Column D. The plant value in Column D is based on application of the Fill Factor in Column C to the Plant Investment per Demand Unit in Column B.

### Net Salvage Factor – Column E

In addition to the initial plant investment required for service units, direct cost capital recovery reflects the projected net salvage value related to the plant. The cost study uses the low range salvage factors from the Commission's "Depreciation Ranges Adopted in CC Docket no. 98-137, December 17, 1999. The low range salvage factors for both fiber cable and wire facilities ("CWF") and central office ("CO") digital transmission equipment are negative, respectively -20% and -5%, reflective of removal costs greater than salvage proceeds.

**Estimated Net Salvage – Column F**
The estimated net salvage is determined by multiplying the plant investment, adjusted for the fill factor, presented in Column D by the net salvage factor in Column E. As mentioned above, the net salvage factors for both CWF and CO digital transmission equipment are negative reflecting cost-of-removal greater than salvage proceeds. Thus the values in Column F are positive, effecting an increase in the value of the plant investment that will be levelized for determination of the per-unit direct costs.

**Discount Factors – Column G**
In order to levelize the effect of net salvage, the net salvage values require simple discounting to the Year 0 levelization point. The discount rates are calculated at Exhibit 1.H based on the authorized interstate rate of return discounted for the number of years reflected in the respective depreciation rates for CWF and CO digital transmission equipment.

**Present Value of Net Salvage – Column H**
Column H contains the discounted net salvage value for each plant element based on application of the discount factors in Column G to the Estimated Net Salvage in Column F.

**Plant Investment with Discounted Net Salvage – Column I**
Column I contains the plant investment for which capital recovery is required. Capital recovery comprises both depreciation and return. The plant investment on which capital recovery is required includes both the Column D Plant Required to Support Service Unit value and the related Column H Present Value of Net Salvage for the plant.

**Levelization Factors– Column J**
Use of levelized capital recovery factors allows capital costs to reflect depreciation, return on net investment and the effect of net salvage value on the use of the plant for provision of SOCS. The levelization factors developed in Exhibit 1.H are brought forward to Column J at Exhibit 1.A. There are two levelization factors, one for seven-year life plant covering all of the electronic equipment and one for 25-year life plant covering all of the fiber facilities.

**Levelized Capital Recovery Cost – Column K**
Column K shows the direct levelized plant required per in-service unit, produced by multiplying the Column I Plant Investment with Discounted Net Salvage by the respective levelization factor in Column J.

**Overhead – Column L**
In addition to direct costs capital recovery, the cost calculations at Exhibit 1.A include provision for overheads. Overheads are determined based on application of the Carrying Charge Factor ("CCF") determined at Exhibit 1.G. The CFF is applied to the amount for the service element in Column D "Plant Required to Support Service Unit" to determine the applicable overhead.

**Combined Annual Cost – Column M**
Column M of Exhibit 1.A shows the combined annual cost for each plant investment unit. Column M is the sum of the direct costs from Column K and the overhead from Column L.

**Adjustment for Uncollectibles – Column N**

The combined annual cost is adjusted for estimated uncollectibles by dividing the cost amount by 98%. 98% reflects the residual after an estimated uncollectible revenues at a rate of two percent of billed Special Access charges.

**Monthly Cost – Column O**
The monthly revenue required is equal to the annual Cost in Column N divided by 12.

### Exhibit 1.B. Total Annual Projected Cost

Exhibit 1.B presents the projected annual cost for introduction of SOCS by Farmers. Column B carries forward from Exhibit 1.A-Column O, the monthly cost for each SOCS element. Column C presents the projected annual demand for each element based on the forecasted demand in Exhibit 1.D. Column D presents the projected annual cost based on the projected demand in Column C, applied to the monthly cost for the respective element presented in Column B.

### Exhibit 1.C. Cost for Channel Termination Nonrecurring Charge

Exhibit 1.C comprises development of the nonrecurring charge rates for the SOCS CT and the Optional Features and Functions. These charges have been developed based on estimated time for carrying out the activities associated with installation together with the fully-loaded labor rates for the types of personnel carrying out the functions.

### Exhibit 1.D. Proposed Rates and Projected Annual Revenue

Exhibit 1.D lists the proposed rates in Column B for introduction by Farmers of SOCS and projects annual revenue in Column D based on projected demand presented in Column C applied to the proposed rates. Proposed demand is based on inquiries from customers requesting introduction of SOCS by the Company.

The Company believes that care must be taken in the establishment of its introductory SOCS rates. Because of the much greater capacity of SOCS in comparison to High Capacity DS1 and DS3 services, the Company reflects industry concerns regarding the migration from High Capacity services to SOCS. Based on discussions with potential customers for SOCS, the Company believes that in most cases any order for SOCS will have a concomitant termination of a High Capacity service. See Exhibit 1.E, Analysis of Revenue Impact of New Service Offering.

Because the analysis of the impact on reductions in High Capacity demand indicate an erosion in revenue far in excess of any reduction in costs, the Company has set its introductory rates for SOCS at rates comparable to other similarly situated ILECs settling on the basis of rate-of-return. Exhibit 1.F presents comparison of the Company's proposed SOC rates to the rates of other carriers.

### Exhibit 1.E. Analysis of Revenue Impact of New Service Offering

Exhibit 1.E presents the Company's analysis of the revenue impact of the introduction of SOCS. The projected annual revenues from Exhibit 1.D are netted with respective monthly recurring charge Cost from Exhibit 1.C and nonrecurring Cost from Exhibit 1.B. The analysis shows that the projected net impact on Special Access revenue from introduction of SOCS is less than three percent.

### Exhibit 1.F. Comparison of Proposed Rates to NECA and JSI Issuing Carriers

Exhibit 1.F provides a comparison of the proposed SOCS rates for National Exchange Carrier Association, Inc. ("NECA") Tariff FCC No. 5. and other issuing carriers for the JSI Tariff. The exhibit shows that the proposed Farmers SOCS rates approximate NECA Band 4 SOCS rates.
NECA Tariff FCC No. 5 assigns each issuing carrier to various rate bands at Section 17.5.1, including those for Local Transport / Special Access. SOCS is a Special Access service. There are nine NECA Rate Bands, with the lowest rates tariffed under Band 1 and progressively higher rates under the succeeding Rate Bands 2 through 9. For Local Transport / Special Access, over 90 percent of NECA issuing carriers fall in Bands 7 through 9. Thus, the proposed Farmers SOCS rates approximating the NECA Band 4 rates are lower than those for the overwhelming majority of rural rate-of-return ILECs. In comparison to the SOCS rates for other issuing carriers for the JSI Tariff, the proposed Farmers rates are generally in the middle.

### Exhibit 1.G Development of Carrying Charge Factor ("CCF")

The Carrying Charge Factor ("CCF") serves to project overhead associated with provision of the proposed introduction by Farmers of SOCS.

The CCF for determination of overheads is based on the most recent annual access filing by the Company with the Commission, the 2008 annual filing of the 2009 Test Year Cost of Service ("TYCOS"). The simplest CCF for use in estimating costs for introduction of new services is a CCF based on the ratio of total revenue requirement to total plant in service. Under such a simple CCF, the "carrying charges" include depreciation, return, taxes and operating expenses. In contrast, the method used in the cost study for the proposed Farmers SOCS must reflect the coverage of return and depreciation as levelized capital recovery costs on direct investment (see explanations foregoing).
Accordingly, the CCF developed for this cost study in order to project overhead is based on costs associated with expenses excluding depreciation expense other than depreciation expense for support assets. Similarly, the CCF excludes return other than estimated return associated with support assets. As Farmers is a cooperative income tax recovery is not a consideration.

### Exhibit 1.H. Development of Discount Factors for Levelization

Exhibit 1.H serves to show development of the levelization factors based on the authorized interstate rate of return of 11.25%. A levelized rate is one that is calculated to remain constant over a recovery period and is set at the level at which the discounted present value of the stream of payments is equal to the discounted present value of the stream of costs over the period. See Telephone Number Portability, CC Docket No. 95-116, Memorandum Opinion and Order on Reconsideration, and Order on Application for Review, 17 FCC Rcd 2578, FCC 02-16 (Rel. Feb. 15, 2002). The rate-of-return is not adjusted for income taxes inasmuch as the SOCS revenue will be treated as Cooperative member-sourced income.