

**FARMERS DESCRIPTION AND JUSTIFICATION**  
**PART 2<sup>1</sup> - Ethernet Transport Service (“ETS”)**  
**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 the introduction of Public Packet Data Network Ethernet Transport Service offerings (“ETS”) in John Staurulakis, Inc. Tariff F.C.C. No. 1 (“JSI Tariff”). The Company is an issuing carrier for the JSI Tariff in which it files interstate access rates on a prospective basis pursuant to Section 61.38 of the Commission’s rules. Additionally, JSI proposes in this filing introduction of ETS Meet Point Interface (“MPI”) regulations concomitant with the proposed introduction by Farmers as part of its ETS offerings MPI facilities.

**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 ETS, thus the rates proposed under this transmittal are the introductory rates for the Company under the existing Public Packet Data Network-ETS regulations at Section 16.4 of the JSI Tariff together with the proposed additional regulations for the ETS MPI. With respect to earnings monitoring, all Public Packet Data Network revenue and costs are included in the Special Access category which will be the case also for ETS once subscriptions for the proposed offering begin.

**Justification for Introduction of ETS Meet Point Interface (“MPI”)**

Under this transmittal, JSI proposes additions of regulations to the existing ETS regulations to add MPI capability. The ETS Meet Point Interface (ETS-MPI) rate element is for a standard Ethernet defined interface between the SWC Ethernet switch and a customer location outside the telephone company’s serving area. Access customers located in the serving area of an adjacent telephone company may order an ETS-MPI from the telephone company offering ETS-MPI service for connection to the Ethernet facilities ordered by the customer from the telephone company with a serving area adjacent to that of the telephone company at the meet point between the two telephone companies. Interstate interexchange carriers may order an ETS-MPI for connection to Ethernet facilities ordered by the interexchange carrier from a telephone company with a serving area adjacent to that of the Telephone Company. ETS-MPIs will be billed by the telephone company subject to the Meet Point Billing provisions of Section 2.4.7(B) of the JSI Tariff. Standard Ethernet signaling protocols provided by the telephone company will apply to the interface. The ETS-MPI rate element includes termination at the network side of the Telephone Company Ethernet switch and the telephone company’s portion of the facilities up to the meet point.

---

<sup>1</sup> Farmers Description and Justification Part 1, also attached, comprises the description and justification for introduction by Farmers of Special Access Synchronous Optical Service (“SOCS”) under existing regulations in John Staurulakis, Inc. Tariff F.C.C. No. 1.

**Farmers Telephone Cooperative, Inc.**

**JSI Transmittal No. 145**

**Description and Justification – Part 2 – Ethernet Transport Service (“ETS”)**

The proposed regulations for ETS MPI are similar to the Multi-Megabit Ethernet Transmission Service (METS) Interface offering currently provided three issuing carriers for the JSI Tariff. These three issuing carriers are Rock Hill Telephone Company, Lancaster Telephone Company and Fort Mill Telephone Company (affiliated Comporium Companies). All three Comporium Companies currently offer the METS MPI at the same rates. The METS MPI offering consolidates the Channel Mileage Termination and Channel Mileage Facility rate elements into a single element (MPI) offered at three mileage bands. The proposed ETS-MPI proposes two rate elements, an MPI Channel Mileage Termination element and an MPI Channel Mileage Facility element comparable to Special Access channel mileage rate structures.

**Justification for Cost Support and Rate Development**

The Company provides the following cost support for the proposed ETS rates contained in this transmittal.

|   |                      |
|---|----------------------|
| <b>Cost per Unit Development - ETS Channel Terminations</b>         | <b>Exhibit 2.A.1</b> |
| <b>Cost per Unit Development - ETS Ports</b>                        | <b>Exhibit 2.A.2</b> |
| <b>Cost per Unit Development - ETS Meet Point Interfaces</b>        | <b>Exhibit 2.A.3</b> |
| <b>Cost per Unit Development - ETS Virtual Connections</b>          | <b>Exhibit 2.A.4</b> |
| <b>Total Annual Projected Demand and Cost</b>                       | <b>Exhibit 2.B</b>   |
| <b>Cost for Nonrecurring Charges</b>                                | <b>Exhibit 2.C</b>   |
| <b>Proposed Rates and Projected Annual Revenue</b>                  | <b>Exhibit 2.D</b>   |
| <b>Annual Revenue Impact of New Service Offering</b>                | <b>Exhibit 2.E</b>   |
| <b>Comparison of Proposed ETS Rates to Rates of other ROR ILECs</b> | <b>Exhibit 2.F</b>   |
| <b>Development of Carrying Charge Factor</b>                        | <b>Exhibit 2.G</b>   |
| <b>Development of Discount Factors for Levelization</b>             | <b>Exhibit 2.H</b>   |

**Farmers Telephone Cooperative, Inc.**

**JSI Transmittal No. 145**

**Description and Justification – Part 2 – Ethernet Transport Service (“ETS”)**

**Exhibit 2A.1 - Cost Per Unit Development – ETS Channel Terminations**

**Exhibit 2.A.2 – Cost Per Unit Development – ETS Ports**

**Exhibit 2.A.2 – Cost Per Unit Development –ETS Meet Point Interfaces**

Exhibits 2.A.1, 2.A.2 and 2.A.3 summarize the development by Farmers of the Ethernet Transport Service (“ETS”) costs per unit for Channel Terminations (“CTs”), ETS Ports and ETS Meet Point Interfaces (“MPIs”). Each of these three exhibits utilizes the same cost development template with consistent column headings and formulae.

**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.

**Fill Factor – Columns 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 reflective that, on average, a portion of the units installed will be idle awaiting service or idle after termination of service by a customer.

**Plant Required to Support Service Unit– Columns 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 leveled for determination of the per-unit direct costs.

**Farmers Telephone Cooperative, Inc.**

**JSI Transmittal No. 145**

**Description and Justification – Part 2 – Ethernet Transport Service (“ETS”)**

**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 2.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 service. The levelization factors developed in Exhibit 2.H are brought forward to Column J. 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 copper or 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 include provision for overheads. Overheads are determined based on application of the Carrying Charge Factor (“CCF”) determined at Exhibit 2.G. The CCF 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 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 estimated uncollectible revenue 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.

**Farmers Telephone Cooperative, Inc.**

**JSI Transmittal No. 145**

**Description and Justification – Part 2 – Ethernet Transport Service (“ETS”)**

**Exhibit 2.A.4 - Cost per Unit Development - ETS Virtual Connections (“EVC”)**

Because of the shared-network nature of ETS Virtual Connection (“EVC”), the cost of service analysis is different than that for the services analyzed at Exhibits 2.A.1, 2.A.2 and 2.A.3. For ETS, the first step at Exhibit 2.A is estimation of the monthly cost of supporting the aggregate demand for each type of EVCs, regular and extended. The second step is estimation of the total monthly demand in EVC capacity. The third step is calculation of the cost per unit of EVC capacity (a single bit per second or “bps”) based on the ratio of cost to aggregate capacity demand in bps. The fourth step is to extend each Mbps or Gbps capacity offering by the bps cost to determine the monthly cost for each EVC offering.

**Exhibit 2.B. Total Annual Projected Revenue Requirement**

Exhibit 2.B presents the projected annual revenue requirement for introduction of ETS by Farmers. Column B carries forward from Exhibits 2.A.1, 2.A.2, 2.A.3 and 2.A.4 the monthly revenue requirement for each ETS element. Column D presents the projected annual demand for each element from Exhibit 2.D. Column E presents the projected annual revenue requirement based on the projected demand in Column D, applied to the monthly revenue requirement for the respective element presented in Column B.

**Exhibit 2.C. Revenue Requirement for Channel Termination Nonrecurring Charge**

Exhibit 2.C comprises development of the nonrecurring charge rates for the ETS offerings. 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 2.D. Proposed Rates and Projected Annual Revenue**

Exhibit 2.D lists the proposed rates in Column C for introduction by Farmers of ETS and projects annual revenue in Column E based on projected demand in Column D applied to the proposed rates.

**Exhibit 2.E. Analysis of Revenue Impact of New Service Offering**

Exhibit 2.E presents the Company’s analysis of the revenue impact of the introduction of ETS. The projected annual revenues from Exhibit 2.D are netted with respective monthly recurring charge revenue requirement from Exhibit 2.B and nonrecurring revenue requirement from Exhibit 2.C. The analysis shows that projected revenues from new services will be within one percent of projected costs. Projected annual ETS revenues are projected to increase Special Access Revenue by approximately 9 percent, although the Company expects that there will be migration from existing Special Access High Capacity services to ETS that will bring the 9 percent down.

**Exhibit 2.F. Comparison of Proposed Rates to NECA and JSI Issuing Carriers**

Exhibit 2.F provides a comparison of the proposed ETS 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 ETS rates approximate NECA Band 4 ETS rates.

**Farmers Telephone Cooperative, Inc.**

**JSI Transmittal No. 145**

**Description and Justification – Part 2 – Ethernet Transport Service (“ETS”)**

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. ETS 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 ETS 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 ETS rates for other issuing carriers for the JSI Tariff, the proposed Farmers rates are generally in the middle.

NECA Tariff FCC No. 5 does not include an ETS-MPI offering, thus Exhibit 2.H does not present any comparison for the proposed Farmers ETS-MPI rates.

**Exhibit 2.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 ETS.

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 ETS 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 2.H. Development of Discount Factors for Levelization**

Exhibit 2.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 ETS revenue will be treated as Cooperative member-sourced income.