DESCRIPTION AND JUSTIFICATION
John Staurulakis, Inc. Tariff F.C.C. No. 1
Transmittal No. 152
Farmers Telephone Cooperative, Inc. (SC), SAC 240520

Farmers Telephone Cooperative, Inc. (alternatively “FTC” or “Company”), through its consultant John Staurulakis, Inc. (JSI) hereby provides a Description and Justification for its individual rates proposed under Transmittal No. 152 of the John Staurulakis, Inc. Tariff F.C.C. No. 1 (JSI Tariff). FTC is an Issuing Carrier of the JSI Tariff. FTC 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 annual access charge filings.

JSI Tariff F.C.C. No. 1 governs the provision by FTC of interstate Switched Access, Special Access and Miscellaneous Services. The instant filing revises FTC’s rates for those services.

The filing is made in accordance with the Commission’s March 31, 2010 release entitled In the Matter of July 1, 2010 Annual Access Charge Tariff Filings, WCB/Pricing File No. 10-03, Order, DA 10-505. The filing proposes revised rates for the provision of the applicable Switched Access, Special Access, and Miscellaneous services. Material required pursuant to In the Matter of Material to be Filed in Support of 2010 Annual Access Tariff Filings, WCB/Pricing File No. 10-04, Tariff Review Plans, DA 10-506 is included as part of this filing.

Justification for Cost Support and Rate Development

In addition to the summary information provided herein, the cost support data associated with this filing comprising, in addition to the Tariff Review Plan (TRP) schedules, Attachments #1-7. The Certification of the cost support data for this filing is shown in Attachment #8 included separately.

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In accordance with Section 61.38(b)(1)(ii) of the Commission's rules and regulations, a projection of the Company's costs has been made for the fiscal year ending June 30, 2011 (also referred to herein as the July 1, 2010-June 30, 2011Test Year Cost of Service or "TYCOS" or "2011 TYCOS"). The costs for the twelve (12) month period ending June 30, 2011 have been based on financial estimates and projections of FTC, and are summarized as follows:

Summary Development of Traffic Sensitive Revenue Requirement ....Attachment #1

Part 69 - Access Charge Development ....Attachment #2

Part 36 – Separations of Costs ....Attachment #3

In accordance with Section 61.38(b)(1)(i) of the Commission's rules and regulations, attached is a cost of service study for the most recent twelve (12) month period ending December 31, 2009, identified as follows (also referred to herein as the 2009 Prior Year Cost of Service or "PYCOS"):

Summary Development of Traffic Sensitive Revenue Requirement ....Attachment #4

Part 69 - Access Charge Development..Attachment #5

Part 36 – Separations of Costs...Attachment #6

Additionally, the Company has included as Attachment #7 schedules analyzing revenue impacts of the filing.

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Interstate Rate Development Process

The Company follows the Commission's multi-step process to identify the cost of providing interstate access service by an incumbent local exchange carrier (ILEC). First, the rules require an ILEC to record all of its expenses, investments, and revenues in accordance with accounting rules set forth in our regulations [Uniform System of Accounts, Part 32 of the FCC's rules, 47 CFR §§ 32.1-.9000]. Second, the rules divide these costs between those associated with regulated telecommunications services and those associated with nonregulated activities [The Part 64 Cost Allocation Rules, 47 CFR §§ 64.901-.904]. Third, the rules determine the fraction of the incumbent LEC's regulated expenses and investment that should be allocated to the interstate jurisdiction [Part 36 of the FCC's rules, 47 CFR §§ 36.1-.641]. After the total amount of interstate cost is identified, the access charge rules translate these interstate costs into charges for the specific interstate access services and rate elements. Part 69 specifies in detail the rate structure for recovering those costs [47 CFR §§ 69.1-.612]. That is, the rules tell ILECs the precise manner in which they may assess charges on interexchange carriers and end users. The Company refers to the Part 36 and Part 69 cost studies collectively as the "cost study."

In addition to following the Commission's prescribed rules, carriers reflect various Commission orders in development of interstate access revenue requirements. Further, certain options, elections or interpretations may apply. Following is a summary of major prescriptions, elections or interpretations reflected in development of the interstate access revenue requirement and, in turn, interstate access rates for the Company.

Common Line This filing does not include rates for Common Line rate elements such as End User Common Line charges. The Company is a member of the National Exchange Carrier Association (NECA) Common Line Pool. The Company's rate pages in JSI Tariff FCC No. 1 reference NECA Tariff FCC No. 5 for Common Line Rates including End User Common Line rates.

Traffic Sensitive The Company is not a member of the NECA Traffic Sensitive Pool and thus files rates for Traffic Sensitive, Special Access and Miscellaneous Charges as an issuing carrier for JSI Tariff FCC No. 1.

Wireline Broadband Internet Access Service

Effective April 1, 2006, the Company elected to provide Wireline Broadband Internet Access Service ("WBIAS') on a permissively detariffed, common-carriage basis under Title II of the Communications Act, as Amended. 47 U.S.C § 151-161. The Company made the election pursuant to *Appropriate Framework for Broadband Access to the Internet over Wireline Facilities, Universal Service Obligations of Broadband Providers*, CC Docket No. 02-33, WC Docket No. 05-271, Report and Order and Notice of Proposed Rulemaking, 20 FCC Rcd 14853 (2005), FCC 05-150 (Rel. Sep 23, 2005), (*Wireline Broadband Order*). Because WBIAS is a common-carriage service, apportionment of costs to WBIAS are based on Part 36 and Part 69. For Part 36, WBIAS plant investment is assigned to interstate. For Part 69, WBIAS plant investment is assigned to a new element in the access cost study, "WBI," along with expenses identified as WBIAS-specific and apportioned expenses. Supporting cost study and TRP materials indicate the new category WBI.

The Company's rate development for this filing excludes the WBIAS revenue requirement otherwise identified in the cost support. The WBIAS revenue requirement is recovered through charges to users of the WBIAS services pursuant to generally available rates, terms and conditions offered on a common-carriage basis.

Rate Development and Cost Support

The Company is a mandatory Section 61.38 filer, 47 C.F.R. § 61.38, and thus makes mandatory annual filings in even-numbered years with provision to the Commission of the cost support described in Section 61.38. Section 61.38 prescribes development of rates based on TYCOS and Test Year demand. The test year is prospective, comprising the twelve months beginning July 1, 2010 and ending June 30, 2011.

Part 36 Traffic Factors Freeze – Section 36.3(a)

The Company's Part 36 allocations reflect use of the Company's frozen traffic factors based on the 2000 separations study pursuant to Section 36.3(a) of the Commission's rules. 47 C.F.R. § 36.3(a). The Commission adopted Section 36.3(a) in the *2001 Separations Freeze Order*. See *Jurisdictional Separations and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, Report and Order, 16 FCC Rcd 11382, FCC 01-162 (rel. May 22, 2001). On May 16, 2006, the Commission released an Order in which it extended, on an interim basis, the freeze of Part 36 category relationships. See *Jurisdictional Separations and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, Order and Further Notice of Proposed Rulemaking, FCC 06-70 (rel. May 16, 2006).

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Part 36 Category Relationships-Section 36.3(b)	The Company has not elected to be subject to the provisions of Section 36.3(b) which allows for assignment of costs from the Part 32 accounts to the separations categories/sub-categories, as specified herein, based on the percentage relationships of the categorized/sub-categorized costs to their associated Part 32 accounts for the twelve month period ending December 31, 2009.
***MAG Order* – Port Costs**	The Company uses a 30 percent factor for allocation of switching costs to the common line category pursuant to paragraph 95 of the MAG Order. See as part of the Company's original "MAG Filing" under Transmittal No. 63 effective January 1, 2002. See *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket No. 00-256, Second Report and Order and Further Notice of Proposed Rulemaking, 16 FCC Rcd 19613, FCC 01-304 (rel. Nov. 8, 2001) (*MAG Order*).
***MAG Order*-Transport Inter-connection Charge (TIC)**	Reallocation of the TIC has been made pursuant to Section 69.415, 47 C.F.R. § 415, in accordance with the Commission's Declaratory Ruling in DA 01-2871, released December 11, 2001. See MAG Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, CC Docket No. 00-256, Declaratory Ruling, DA 01-2871 (rel. Dec. 11, 2001).
Cash Working Capital	For cash working capital (CWC) included in net investment, the company has not changed its election under Section 65.820(d) and continues to use the currently prescribed Wireline Competition Bureau B Company standard allowance of 15 days. The Company develops "total-company" CWC and apportions it among interstate and intrastate operations based on the basis of total expenses less non-cash expense items consistent with Section 36.182(a) of the Commissions rules. 47 CFR § 36.182(a). In response to the AT&T petition respecting the 2004 annual filing, the Company defended the reasonableness of the "total company" approach in its response to AT&T. See *Petition of AT&T Corp. Addressing July 1, 2004 Annual Access Charge Tariff Filings*, WCB 04-18, (June 28, 2004) (*AT&T Petition or Petition*) and John Staurulakis, Inc. Reply, *July 1, 2004 Annual Access Charge Tariff Filings*, WCB 04-18, (June 29, 2004). The Pricing Policy Division did not address the "total company approach" in any of its post-filing orders respecting the 2004 annual access filing.

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DEM Weighting

In an order adopted March 17, 2010, the Commission addressed the inequitable asymmetry in its rules governing high cost local switching support ("LSS"). See *High-Cost Universal Service Support, Jurisdictional Separations, Coalition for Equity in Switching Support Petition for Reconsideration*, WC Docket No. 05-337, CC Docket No. 80-286, Report And Order and Memorandum Opinion and Order, FCC 10-44, 25 FCC Rcd 3430 (Rel. March 18, 2010) Prior to this order, the ILEC Dial Equipment Minute ("DEM") weighting factor could only decrease due to line counts increasing above the DEM Weighting thresholds codified in the Commission's Part 36 Jurisdictional Separations rules. 47 C.F.R. §§ 36.125(j) and 54.301(a)(2)(ii). Together, these provisions were known as the "One-Way Rule."). The Commission addressed the inequity in the rule and, effective January 1, 2010, modified the rules to permit ILECs that have lost lines to receive additional LSS when they cross below a threshold (47 C.F.R. §§ 36.125(j)).

Because the Company's access lines (Category 1.3 Loops) fell from 50,261 at December 31, 2008 to 47,267 at December 31, 2009 and continue on a downward trend, the Company is utilizing a DEM Weighting Factor of 2.0 compared with use of 1.0 for the July 1, 2008 through June 30, 2009 Test Year Cost of Service used for the Company's 2008 annual filing. Because the effect of DEM weighting is recovered through Local Switching Support, the change in DEM weighting has minimal impact on the change in Local Switching rates.

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Revenue Impact of Rates Proposed in Annual Filing

As shown on Table 1, the only significant increases in rates are those for the Local Transport Category (the percentage revenue impact of projected demand applied to proposed rates is equal to the composite percentage change in rates for each category).

Table 1 – Revenue Impact of Proposed Rates

	Access Category	Source	Revenue at Current Rates	Revenue at Proposed Rates	Revenue Impact of Proposed Rates	Composite % Change in Rates
1	Special Access	Attachment 7, Page 4	$ 3,286,836	$ 3,320,080	$ 33,244	1.01%
2	End Office	Table 2	761,805	695,229	(66,576)	-8.74%
3	Information	Table 2	10,775	9,833	(942)	-8.74%
4	Local Transport	Attachment 7, Page 3	1,836,156	2,476,336	640,180	34.87%
5	Combined Switched Access	Sum Lines 2 through 4	2,608,736	3,181,398	572,662	21.95%
6	Total Categories Tariffed in JSI Tariff FCC No. 1	Line 1 + 5	5,895,572	6,501,478	605,906	10.28%
7	Common Line (End User Charges + ICLS)	Attachment 1, Form 1	13,716,555	13,716,555	-	0.00%
8	Total Impact of Filing on Revenue	Line 6 + Line 7	$ 19,612,127	$ 20,218,033	$ 605,906	3.09%

Table 2 – Calculation of End Office Changes

The following Table serves to convert the data for Attachment 7, Page 2 to the format displayed in Table 1 above.[1]

	Current Rate[2]	Proposed Rate	Decrease in Rate	% De-crease	Projected MOU 000's - Attachment 7 Page 2	Revenue at Current Rates	Revenue at Proposed Rates	Revenue Effect
Category	A	B	C = B - A	D = C/A	E	F = E*A	G= E* B	H = G - F
Local Switching	$0.00675	$0.00616	($0.00059)	-9.58%	112,859,914	761,804	695,228	($66,576)
Information Surcharge	$0.0095	$0.0087	($0.00083)	-9.57%	112,859	10,775	9,833	($941)

[1] Attachment 7 calculates revenue at the current and proposed rates for Switched Access Transport and Special Access, but for Local Switching compares the current and proposed rates, but calculates only the proposed revenue at the proposed rate and projected demand).

[2] The Information Surcharge is assessed on a per-100 MOU basis, thus the demand equals the Local Switching demand divided by 100.

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Increases in Local Transport Rates

The Company proposes Local Transport rates at an average level of 35 percent above the current rates tariffed in the 2008 Annual Filing. This level of increase is necessary to return the Company's Local Transport revenues from significant under-earning for the most recent calendar year, 2009, for which the Local Transport category had a negative rate of return of 9.32 percent. See Table 3 below.

Table 3 – Analysis of 2009 Local Transport Under-Earning

Description	Source	2009 Local Transport
1. Total Revenues	March 2010 FCC Form 492	$2,116
2. Total Expenses and Taxes	" "	$2,499
3. Oper. Inc. (Net Return) (1-2)	" "	($383)
4. Rate Base-(Avg. Net Invest.)	" "	$4,108
5. Rate of Return (3/4) Annualized	" "	-9.32
6. Revenue (Over) Under Revenue Requirement	Input based on Formula	**$845**
Percent of Revenue Represented by (Over) Under	Line 6 / Line 1	39.9%
7. Net Return with Revenue Differential	Line 3 + Line 6	$462
8. Rate of Return with Revenue Shortfall Added	Line 7 / Line 4	11.25%

Based on the analysis contained in Table 3, *ceteris paribus*, the Company would have needed to increase its rates by 40 percent to earn at the authorized rate of return for Local Transport. The under-earnings for 2009 are due largely to a final revenue requirement for Local Transport significantly higher than that used for the TYCOS upon which rates were developed in 2008. Table 4 below analyzed the changes in Local Transport revenue requirement.

Table 4 – Analysis of Changes in Local Transport Revenue Requirements

1	2008 Annual Filing TYCOS (July 1, 2008 thru June 30, 2009)	$2,196,926	See 2008 Annual Filing, TRP-MAG-1
2	2009 Cost of Service (PYCOS for 2010 Annual Filing)	$$2,961,094	See Attachment 4, Form 1
3	Effect on Rates Effective July 1, 2008	$764,168	Line 2 less Line 1
4	2010 Annual Filing TYCOS (July 1, 2010 thru June 30, 2011)	$2,474,626	See 2010 TRP MAG-1
5	Effect of reduced 2010 TYCOS revenue requirement on Rates Proposed for July 1, 2010	($486,468)	Line 4 less Line 2
6	Combined Effect of Changes in Revenue Requirement on Change in Current Rates to Proposed Rates (Required Increase in Revenue)	$277,700	Line 3 + Line 5

For purposes of analyzing the increase in Local Transport rates, the analysis in Table 5 following serves to isolate the elements with the most significant increases, the Tandem Switched Transport rate elements.

Table 5 – Analysis of Proposed Increase in Local Transport Rates

	Element or Category	Projected Demand (000s)	Current Rate	Billing at Current Rate	Proposed Rate	Billing at Proposed Rate	Revenue Impact	Percentage Revenue Impact
1	Combined Direct Trunked Transport	Various	Various	$442,406		$446,860	$4,454	1.0%
2	800 Data Base Query	7,887	$0.007700	$60,728	$0.007700	$60,728	$0	0.0%
3	Tandem Switched Facility	2,253,840	$0.000192	$432,737	$0.000323	$727,990	$295,253	68.2%
4	Tandem Switched Termination	185,839	$0.001009	$187,511	$0.001399	$259,988	$72,477	38.7%
5	Tandem Switching	83,074	$0.008580	$712,774	$0.011806	$980,771	$267,997	37.6%
6	Subtotal Tandem Switched Transport (Sum Lines 3 thru 5)			$1,333,022		$1,968,749	$635,727	47.7%
7	Total Local Transport (Sum Lines 1+2+6)			$1,836,156		$2,476,337	$640,181	34.9%

The major increases in Local Transport rates reside within the Tandem Switched Transport rates. The proposed increases in Direct Trunked Transport rate elements are approximately 1 percent reflective of the rate of increase for Special Access rates. Proposed rates for Direct Trunked Transport elements reflect the mirroring of the proposed interstate Special Access rates for High Capacity circuits consistent with Section 69.108 of Part 69 of the Commission rules. See 47 C.F.R. § 69.108. The Local Transport revenue requirement less Direct Trunked Transport is essentially recovered from Tandem Switched Transport rate elements under the Commissions rules.

In addition to the upward pressure on Tandem Switched Transport rates from the changes in revenue requirements discussed above, decreases in demand have created additional upward pressure on Tandem Switched Transport rates. Table 6 below analyzes the impact of changes in demand on the rate design for the July 1, 2010 through June 30, 2011 test year.

Table 6 – Analysis of Changes in Tandem Switched Transport Demand

	Element	Forecasted 12 Months Ending June 30, 2009 Used in 2008 Annual Filing (000s)	2009 Calendar Year Actual (000s)	Difference (000s)	Percentage Difference	Current Rate	Revenue Loss at Current Rates
	Effect of 2009 Actual Demand below Forecast						
1	Tandem Switched Facility	2,165,362	2,457,610	292,248	13.5%	$0.000192	$56,112
2	Tandem Switched Termination	200,465	114,659	(85,806)	-42.8%	$0.001009	-$86,578
3	Tandem Switching	111,733	89,705	(22,028)	-19.7%	$0.008580	-$189,000
	Total Effect of Changes in Demand						-$219,466
	Element	**2009 Calendar Year Actual (000s)**	**Projected TYCOS - July 1, 2010 to June 30, 2011 (000s)**	**Difference (000s)**	**Percentage Difference**	**Current Rate**	**Revenue Loss at Current Rates**
	Effect of Decrease in Projected Demand from 2009						
4	Tandem Switched Facility	2,457,610	2,250,785	(206,825)	-8.4%	$0.000192	-$39,710
5	Tandem Switched Termination	114,659	185,778	71,119	62.0%	$0.001009	$71,759
6	Tandem Switching	89,705	83,074	(6,631)	-7.4%	$0.008580	-$56,894
							-$24,845
7	**COMBINED EFFECT OF CHANGES IN DEMAND**						**-$244,312**

The combined effect of the changes in Local Transport revenue requirement presented in Table 4 above together with the effect of changes in demand presented in Table 6 largely explain the proposed increases in Local Transport rates for the Company.

CONCLUSION

Based on the foregoing together with the cost support provided with the annual filing of Farmers Telephone Cooperative, Inc. JSI, on behalf of FTC, respectfully recommends acceptance by the Commission without suspension of the rates proposed in this transmittal.