FARMERS TELEPHONE COOPERATIVE, INC. (SC)
DESCRIPTION AND JUSTIFICATION
I: Mid-Course Special Access Rate Reduction
II: 10 Gbps Ethernet Transport Service

John Staurulakis, Inc. Tariff F.C.C. No. 1 -Transmittal No. 177
December 17, 2013

Farmers Telephone Cooperative, Inc. (alternatively “Farmers” or “Company”), through its consultant John Staurulakis, Inc. (“JSI”), hereby provides a Description and Justification for its proposed mid-course Special Access filing to decrease rates and introduction of a new speed, 10 Gbps to its 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 of the JSI Tariff in which it files interstate access rates on a prospective basis pursuant to Section 61.38 of the Commission’s rules.

Part I Mid-Course Filing to Reduce Special Access Rates

The Company projects a reduction to its Special Access revenue requirement for the year ending 2014. The next mandatory filing for the Company will be on June 16, 2014 with an effective date of July 1, 2014. The Company voluntarily elects to reduce its Special Access rates effective January 1, 2014. The Company’s projected 2014 Special Access revenue requirement is $3,910,159. $71,992 of the projected Special Access revenue requirement will be recovered through the projected demand for the new 10 Gbps Ethernet Transport Service offerings discussed in Part II of this Description and Justification. $3,838,036.53 of the projected 2014 Special Access revenue requirement will be recovered from the existing Special Access offerings at projected 2014 demand. At current rates, the projected 2014 Special Access demand would generate $4,601,338 in revenue. This filing allows for a projected decrease in 2014 Special Access revenue for existing offerings of $763,301, a rate of decrease of 16.6%.

The Company is providing the following cost support for the proposed reduction in existing Special Access rates.

Summary Development of Traffic Sensitive Revenue Requirement	Exhibit 1, Attachment #1
Part 69 - Access Charge Development	Exhibit 1, Attachment #2
Part 36 – Separations of Costs	Exhibit 1, Attachment #3

Additionally, the Company has included as Exhibit 1, Attachment #4 comprising a presentation of the proposed reduced-Special Access rates with comparison to the current rate for the same element. Attachment #4 also presents the projected 2014 demand for each Special Access rate element and the projected 2014 effect of the reduction in rate for the element. Finally, Attachment #4 totals the projected revenue from decreases in Special Access rates for juxtaposition with the projected 2014 Special Access revenue requirement.

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 F.C.C. No. 1 reference NECA Tariff F.C.C. No. 5 for Common Line Rates including End User Common Line rates.

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

With respect to Traffic Sensitive rates, this filing is limited to Special Access. Switched Access rate elements are subject to a freeze and otherwise not affected by the reductions in Special Access costs. With respect to Wireline Broadband Internet Access Service ("WBIAS"), the Company provides the service 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.

CONCLUSION

Based on the Description and Justification herein together with the accompanying Exhibit 1, the Company believes the proposed mid-course Special Access rate reductions are reasonable in all respects and supported by both the historical and projected demand and cost. Moreover, the Company has complied with all prescriptions regarding development of its interstate cost of service and, in turn, rate calculations.

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Part II Introduction of 10 Gbps Ethernet Transport Service (ETS)

Justification for Cost Support and Rate Development

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

Cost per Unit Development - ETS Channel Terminations	**Exhibit 2.A.1**
Cost per Unit Development - ETS Ports	**Exhibit 2.A.2**
Cost per Unit Development - ETS Meet Point Interfaces	**Exhibit 2.A.3**
Cost per Unit Development - ETS Virtual Connections (EVCs)	**Exhibit 2.A.4**
Total Annual Projected Demand and Cost	**Exhibit 2.B**
Proposed Rates and Projected Annual Revenue	**Exhibit 2.C**
Annual Revenue Impact of New Service Offering	**Exhibit 2.D**
Development of Carrying Charge Factor	**Exhibit 2.E**
Development of Discount Factors for Levelization	**Exhibit 2.F**

Exhibit 2.A.1

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 the fill factor effect. For equipment and facilities that are necessary for discrete use for a single customer, the cost per unit reflects 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 the 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 -10% 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. Because the cost of removal of the plant will be greater than any salvage, net salvage is estimated to be negative. As negative net salvage increases capital costs for which recovery is required.

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.F 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 provisions for overheads. Overheads are determined based on application of the Carrying Charge Factor ("CCF") determined at Exhibit 2.E. The CFF is applied to the amount for the service element in Column D "Plant Required to Support Service Unit" to determine the applicable overheads.

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.

CONCLUSION

Based on the Description and Justification herein, together with the accompanying Exhibit 2, the Company believes the proposed rates for its new ETS 10 Gbps offerings are reasonable in all respects and supported by projected demand and cost. Moreover, the Company has complied with all prescriptions regarding development of its interstate cost of service and, in turn, rate calculations.