

DESCRIPTION AND JUSTIFICATION
John Staurulakis, Inc. Tariff F.C.C. No. 1
Transmittal No. 120
Farmers Telephone Cooperative, Inc. (SC)

Farmers Telephone Cooperative, Inc. (alternatively “Farmers” or “Company”), through its consultant John Staurulakis, Inc. (JSI) hereby provides a Description and Justification for its individual rates proposed under Transmittal No. 120 of the John Staurulakis, Inc. Tariff F.C.C. No. 1 (JSI Tariff). Farmers is an Issuing Carrier of 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 annual access charge filings.

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

The filing is made in accordance with the Commission’s March 24, 2006 releases entitled In the Matter of July, 2006 Annual Access Charge Tariff Filings, WCB/Pricing File No. 06-15, Order, DA 06-649, and In the Matter of Material to be Filed in Support of 2006 Annual Access Tariff Filings, WCB/Pricing File No. 06-15, Tariff Review Plans, DA 06-650.

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, 2007 (also referred to herein as the July 1, 2006-June 30, 2007 Test Year Cost of Service or “TYCOS” or “2007 TYCOS”). The costs for the twelve (12) month period ending June 30, 2007 have been based on financial estimates and projections of Home, and are summarized as follows:

Summary Development of Traffic Sensitive Revenue
RequirementAttachment #1
Part 69 - Access Charge DevelopmentAttachment #2
Part 36 – Separations of CostsAttachment #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, 2005, identified as follows (also referred to herein as the 2005 Prior Year Cost of Service or “PYCOS”):

Summary Development of Traffic Sensitive Revenue
RequirementAttachment #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.

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**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. § 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, 2006 and ending June 30, 2006.

**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 The Company has not elected to be subject to the provisions of Section
Category 36.3(b) which allows for assignment of costs from the Part 32 accounts
Relationships- to the separations categories/sub-categories, as specified herein, based
Section on the percentage relationships of the categorized/sub-categorized costs
36.3(b) to their associated Part 32 accounts for the twelve month period ending
December 31, 2000.

MAG Order – The Company uses a 30 percent factor for allocation of switching costs
Port 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- Reallocation of the TIC has been made pursuant to Section 69.415, 47
Transport C.F.R. § 415, in accordance with the Commission’s Declaratory Ruling
Inter- in DA 01-2871, released December 11, 2001. See MAG Plan for
connection Regulation of Interstate Services of Non-Price Cap Incumbent Local
Charge (TIC) Exchange Carriers and Interexchange Carriers, CC Docket No. 00-256,
Declaratory Ruling, DA 01-2871 (rel. Dec. 11, 2001).

Cash Working For cash working capital (CWC) included in net investment, the
Capital company has not changed its election under Section 65.820(d) and
continues to use the full lead-lag study method with a lead/lag of
19.1833 days as compared to 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 Commission’s 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
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Recap of Test Year Cost of Service (TYCOS) Compared with Prior Year Cost of Service (PYCOS) by Major Access Element

Following is a summary of the 2007 TYCOS compared with the 2005 and 2003 PYCOS.

	2003 PYCOS Trans 97 Attach. 5	2005 PYCOS Trans 120 Attach. 4	Change	% Change	2007 TYCOS Trans 120 Attach. 1	TYCOS (Under) 2005 PYCOS	% -Dif- ference
Common Line	\$10,404,603	\$11,859,328	\$1,454,725	14.0%	\$11,989,832	\$130,504	1.1%
<u>Traffic Sensitive:</u>							
Local Switching	705,739	710,297	4,558	0.6%	806,453	96,156	13.5%
Information	9,652	10,064	412	4.3%	10,428	364	3.6%
Transport	2,113,394	2,385,124	271,730	12.9%	2,622,690	237,566	10.0%
Total TS	2,828,785	3,105,485	276,700	9.8%	3,439,571	334,086	10.8%
Special Access	1,823,678	2,706,447	882,769	48.4%	2,157,966	(548,481)	-20.3%
Total Access	\$15,057,066	\$17,671,260	\$2,614,194	17.4%	\$17,587,369	(\$83,891)	-0.5%
Adjusted Special Access:							
Per Above	\$1,823,678	\$2,706,447	\$882,769		\$2,157,966	(\$548,481)	
PYCOS WBIAS					904,618	904,618	
Adjusted Special	\$1,823,678	\$2,706,447	\$882,769		\$3,062,584	\$356,137	13.2%
		\$17,671,26					
Adjusted Total Access	\$15,057,066	0	\$2,614,194		\$18,491,987	\$820,727	4.6%

As can be seen above, on an overall basis, adjusted to include the WBIAS revenue requirement for the TYCOS for purposes of comparability, the Company's projected total access revenue for the TYCOS will be 4.6% over that for the 2005 PYCOS. The most significant increase is that for Traffic Sensitive. Following is an analysis of changes in Account 2230 COE Transmission investment.

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Recap of TYCOS Total Company Net Investment and Total Operating Expenses and Taxes Compared with 2005 and 2003 PYCOS Unseparated Totals

	2003 PYCOS Trans 97 Attach. 5	2005 PYCOS Trans 120 Attach. 4	Change	% Change	2006 TYCOS Trans 120 Attach. 1	TYCOS (Under) 05 PYCOS	% Dif- ference
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Total Company:

Net Investment - Line 3	\$19,346,838	\$135,994,658	\$ 16,647,820	12.2%	\$136,092,877	98,219	0.1%
Exp/Taxes - Line 17	47,911,790	53,010,578	5,098,788	9.6%	54,810,140	1,799,562	3.4%

Interstate:

Net Investment - Line 3	31,713,948	37,767,888	6,053,940	16.0%	38,443,510	675,622	1.8%
Exp/Taxes - Line 17	11,631,566	13,484,251	1,852,685	13.7%	14,231,798	747,547	5.5%

Interstate to Total Ratios:

Net Investment	26.6%	27.8%			28.2%		
Expenses and Taxes	24.3%	25.4%			26.0%		

Review of Earnings Rates

Following is the TRP Earnings data comparing rates-of-return for the Company.

Access Category	2003/2004 Monitoring Period	2005 Calendar Year	2006-2007 TYCOS
Interstate Access, Total	11.50%	11.11%	11.25%
Carrier Common Line	11.25%	11.25%	11.25%
Special Access	12.01%	7.59%	11.25%
Local Switching	20.09%	17.78%	11.25%
Information	0.00%	0.00%	11.25%
Local Transport	8.36%	12.02%	11.25%
Traffic Sensitive Switched, Total	12.02%	13.74%	11.25%

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Recap of Revenue Impact for Proposed Traffic Sensitive Rate Revisions

<u>Element</u>	Projected TYCOS Demand	Current Rate	Proposed Rate	Incr/-(Decr) in Rate	Revenue at Current Rate	Revenue at Proposed Rate	Projected Revenue Impact
Local Switching per minute	193,022,912	\$0.004200	\$0.004050	-3.60%	\$810,696	\$781,743	(\$28,953)
Infor Surcharge (Per 100 Mins)	193,022,942	\$0.005570	\$0.005402	-3.00%	10,752	10,427	-324
Transport (per Attach. 7, Page 3)					2,617,404	2,622,706	5,302
Total Revenue Impact					<u>\$3,438,852</u>	<u>\$3,414,876</u>	<u>(\$23,976)</u>
TYCOS Projected Traffic Sensitive Revenue							\$3,414,876
Revenue Impact as Percentage of Projected TYCOS Traffic Sensitive Revenue							-0.70%
<u>Key Transport Rate Changes</u>							
Tandem Switched Facility	3,593,619,048	\$0.000070	\$0.000042	-40.00%	\$251,553	\$150,932	(\$100,621)
Tandem Switched Termination	385,466,321	\$0.000328	\$0.000193	-41.20%	126,433	74,395	(52,038)
Tandem Switching	193,022,985	\$0.007022	\$0.007566	7.70%	1,355,407	1,460,412	105,005
800 Database Query	12,983,860	\$0.005300	\$0.005700	7.50%	68,814	74,008	5,194
Subtotal					1,802,208	1,759,747	-42,461
All Other					815,196	862,959	47,763
Total Transport					<u>2,617,404</u>	<u>2,622,706</u>	<u>5,302</u>

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Following is a summary comparison of key Local Switching (LS) and Local Transport demand data.

	LS Premium	Tandem Sw Termination	Tandem Switching	800 DB Query g
2007 TYCOS Tans 120	193,022,912	385,466,321	193,022,985	12,983,860
2005 TYCOS Trans 97	183,413,001	407,493,902	183,403,019	14,376,415
Change	9,609,911	-22,027,581	9,619,966	-1,392,555
% Change	5.24%	-5.41%	5.25%	-9.69%

	LS Premium	Tandem Sw Termination		800 DB Query
2007 TYCOS Tans 120	193,022,912	385,466,321	193,022,985	12,983,860
2005 Actual	200,889,949	401,774,346	200,890,021	14,266,766
Change	-7,867,037	-16,308,025	-7,867,036	-1,282,906
% Change	-3.92%	-4.06%	-3.92%	-8.99%

Impact of Special Access Rate Changes

The Company proposes decreasing Special Access rates by 11.48 percent overall in order to realize revenues equal to the 2007 TYCOS Special Access revenue requirement. WBIAS costs and revenues have been excluded from the analysis below.

	Revenue at Current Rates	Revenue at Proposed Rate	Projected Revenue Impact	Percentage Impact
Total Special Access	\$2,038,528	\$2,158,034	\$47,377.0	2.32%