DESCRIPTION AND JUSTIFICATION
John Staurulakis, Inc. Tariff F.C.C. No. 1
Transmittal No. 121
Horry Telephone Cooperative, Inc. (SC)

Horry Telephone Cooperative, Inc. (alternatively "HTC" or "Company"), through its consultant John Staurulakis, Inc. (JSI), hereby provides a Description and Justification for its individual rates proposed under Transmittal No. 121 of the John Staurulakis, Inc. Tariff F.C.C. No. 1 (JSI Tariff). HTC is an Issuing Carrier of the JSI Tariff. HTC 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 HTC of interstate Switched Access, Special Access and Miscellaneous Services. The instant filing revises HTC's rates for those services. With respect to Common Line, HTC participates in the National Exchange Carrier Association ("NECA") Common Line Pool and bills common line charges by reference to applicable rates in NECA Tariff F.C.C. No. 5.

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"). The costs for the twelve (12) month period ending June 30, 2005 (TYCOS) have been based on financial estimates and projections of HTC, 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, 2005, identified as follows (also referred to herein as the 2005 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.

Overview

On an overall basis, the reductions in rates proposed in this filing will lower charges to access customers by an average of 26 percent for Traffic Sensitive and 8 percent for Special Access. All proposed changes are reductions of rates.

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 the Commission's 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-.741]. 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 May 9, 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.

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, 2007.

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).

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, 2000.

***MAG Order* – Port Costs**

The Company uses a 66.57 percent factor for allocation of switching costs to the common line category based on a study submitted 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. *See* 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 John Staurulakis, Inc. 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.

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 July 1, 2006-June 30, 2007 Test Year Cost of Service (TYCOS) compared with the 2005 and 2003 PYCOS.

	2003 PYCOS Trans 97 Attach. 5	2005 PYCOS Trans 121 Attach. 4	Change	% Change	2006 TYCOS Trans 121 Attach. 1	TYCOS (Under) 2005 PYCOS	% -Diff- erence
Common Line	$12,389,036	$11,411,914	($977,122)	-7.9%	$11,432,561	$20,647	0.20%
Traffic Sensitive:							
Local Switching	900,364	803,118	(97,246)	-10.8%	730,637	(72,481)	-9.00%
Information	15,055	28,365	13,310	88.4%	15,127	(13,238)	-46.70%
Transport	3,518,925	2,974,324	(544,601)	-15.5%	3,036,652	62,328	2.10%
Total TS	4,434,344	3,805,807	(628,537)	-14.2%	3,782,416	(23,391)	-0.60%
Special Access	2,664,765	3,008,546	343,781	12.9%	1,625,199	(1,383,347)	-46.00%
Total Access	$19,488,145	$18,226,267	($1,261,878)	-6.5%	$16,840,176	($1,386,091)	-7.60%
Adjusted Special Access:							
Per Above	$2,664,765	$3,008,546	$343,781		$1,625,199	($1,383,347)	
WBIAS					1,527,341	1,527,341	
Adjusted Special	$2,664,765	$3,008,546	$343,781		$3,152,540	$143,994	4.8%
Adjusted Total Access	$19,488,145	$18,226,267	($1,261,878)		$18,367,517	$141,250	0.8%

As can be seen above, on an overall basis, adjusted to include the WBIAS revenue requirement for the TYCOS for purposes of comparability to prior years, the Company's projected total access revenue requirements for the TYCOS will be 0.8% over those for the 2005 PYCOS.

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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 121 Attach. 4	Change	% Change	2006 TYCOS Trans 121 Attach. 1	TYCOS (Under) 05 PYCOS	% Diff-erence
Total Company:							
Net Investment - Line 3	128,596,010	111,916,840	(16,679,170)	-14.9%	107,360,738	(4,556,102)	-4.1%
Exp/Taxes - Line 17	49,144,880	46,671,165	(2,473,715)	-5.3%	47,112,346	441,181	0.9%
Interstate:							
Net Investment - Line 3	39,461,312	34,020,017	(5,441,295)	-16.0%	32,595,717	(1,424,300)	-4.2%
Exp/Taxes - Line 17	15,053,985	14,412,078	(641,907)	-4.5%	14,710,653	298,575	2.1%
Interstate to Total Ratios:							
Net Investment	30.7%	30.4%			30.4%		
Expenses and Taxes	30.6%	30.9%			31.2%		

Based on review of the above comparisons, net investment is decreasing and expenses and taxes are rising at a rate below inflation. Net investment is decreasing because annual capital expenditures are projected to be at a level lower than additions to accumulated depreciation.

Review of Earnings Rates

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

Access Category	2001/2002 Monitoring Period	2003/2004 Monitoring Period	2005 Calendar Year	2006-2007 TYCOS
Interstate Access, Total	09.82%	12.50%	19.47%	11.25%
Carrier Common Line	12.03%	11.25%	11.25%	11.25%
Special Access	11.73%	17.18%	18.92%	11.25%
Local Switching	09.52%	08.94%	17.36%	11.25%
Information	00.00%	00.00%	00.00%	00.00%
Local Transport	03.26%	14.52%	54.15%	11.25%
Traffic Sensitive Switched, Total	05.20%	12.44%	41.59%	11.25%

The Company does not have a history of over-earning. Local Switching and Transport over-earnings during 2005 resulted from unexpected growth in traffic due to routing by wireless carriers of traffic through IXCs. Wireless carriers have undertaken since late 2005 to migrate traffic away from routing through IXCs to the direct connections.

Special access over-earnings have resulted in recent years because of higher than projected growth in demand for DSL and DS-3 High Capacity Services.

The Company is reducing rates significantly for this filing to target earning at the authorized rate of return.

Analysis of Switched Access Minute Demand

	LS Premium	Tandem Sw Termination	Tandem Switching	800 DB Query
TY 7/06-6/07 Trans 121	354,205,630	438,705,633	165,097,453	29,299,981
TY 7/04-6/05 Trans 97	293,099,732	374,976,191	153,402,286	24,571,701
Change	61,105,898	63,729,442	11,695,167	4,728,280
% Increase	20.85%	17.00%	7.62%	19.24%
TY 7/06-6/07 Trans 121	354,205,630	438,705,633	165,097,453	29,299,981
2005 Actual	370,284,086	479,268,580	195,671,255	27,718,729
Change	-16,078,456	-40,562,947	-30,573,802	1,581,252
% Increase	-4.34%	-8.46%	-15.63%	5.70%

The Company has had a spike in Switched Access minutes over the past few years attributable principally to the routing by wireless carriers of traffic to the Company through IXCs instead of directly. The Company has not been able to segregate from other IXC traffic the wireless carrier traffic transited by IXCs. This situation is abating as wireless carriers have begun to reroute their interconnection traffic from IXCs to direct facilities with the Company.

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Recap of Revenue Impact for Proposed Rate Revisions

The impact of rate changes for Traffic Sensitive elements will be a reduction in charges to customers totaling $1,342,685, a rate of decrease of 26.31 percent.

Element	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	354,205,630	$0.002600	$0.002000	-23.10%	$920,935	$708,411	($212,523)
Infor Surcharge (Per 100 Mins)	354,205,630	$0.004356	$0.004271	-2.00%	15,429	15,128	-301
Transport (per Attach 7, Page 3)					4,167,214	3,037,353	-1,129,861
Total Revenue Impact					$5,103,578	$3,760,892	($1,342,685)
Percentage Impact							-26.31%
Key Transport Rate Changes							
Tandem Switched Facility	5,045,115,433	$0.000326	$0.000229	-29.80%	$1,644,708	$1,155,331	($489,376)
Tandem Switched Termination	438,705,633	$0.001296	$0.000910	-29.80%	568,563	399,222	(169,340)
Tandem Switching	165,097,453	$0.006639	$0.004567	-31.20%	1,096,082	754,000	(342,082)
800 Database Query	29,299,981	$0.005000	$0.003900	-22.00%	146,500	114,270	(32,230)
Subtotal					3,455,852	2,422,824	-1,033,028
All Other					711,362	614,529	-96,833
Total Transport					4,167,214	3,037,353	-1,129,861
Percentage Impact							-27.11%

Impact of Special Access Rate Changes

The Company proposes decreasing Special Access rates by 8 percent across the board.

	Revenue at Current Rates	Revenue at Proposed Rate	Projected Revenue Impact	Percentage Impact
Total Special Access	$1,711,533	$1,573,048	-$138,485.0	-8.09%

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