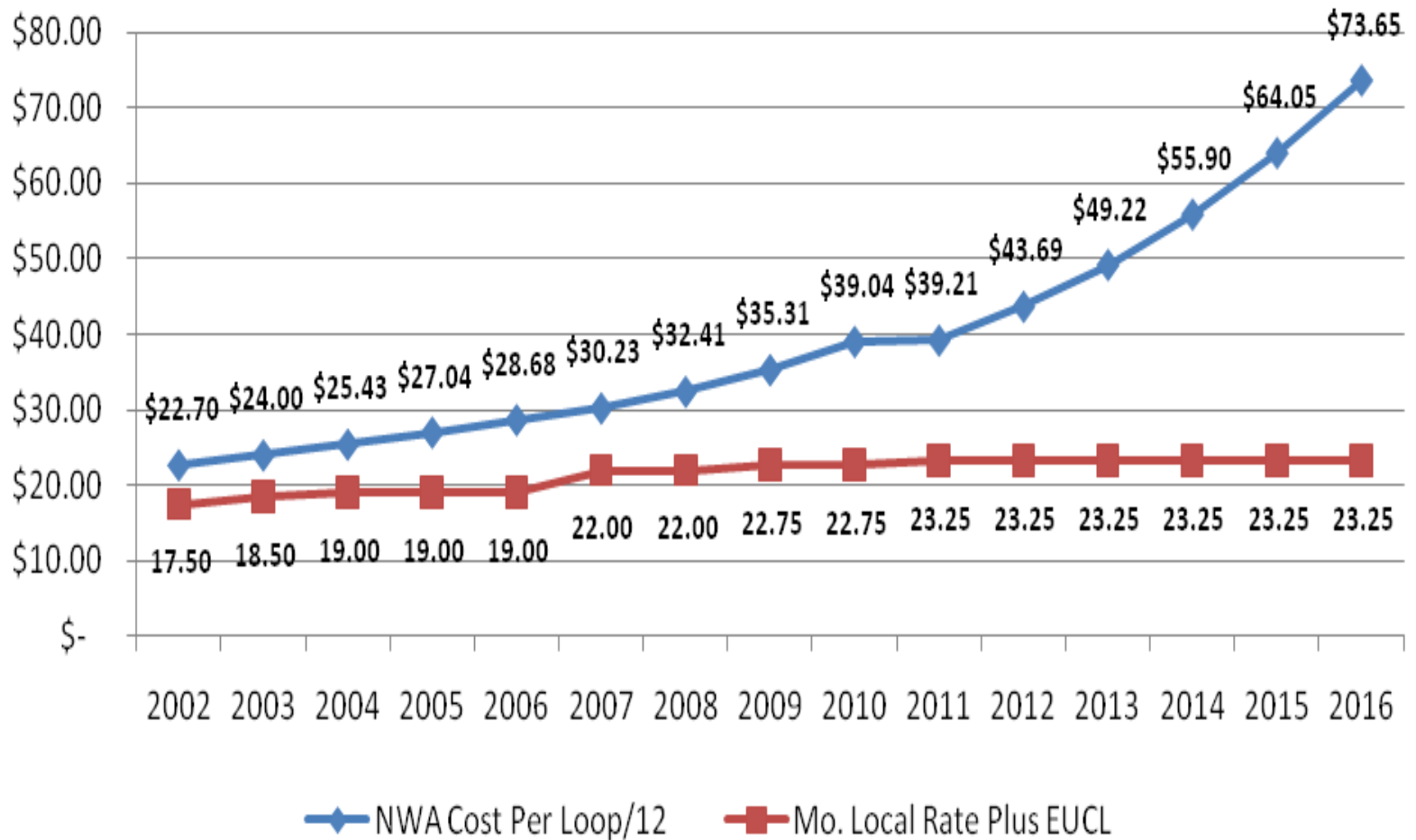


# Analysis of USF Reform NPRM Released 2/9/2011

COMPANY: AVERAGE OF ALL FWA CLIENT COMPANIES

Line	Description	Source	2010	2011	2012	2013	2014
<b>REGULATED REVENUES</b>							
<b>Revenues - USF Support:</b>							
LN1	NECA-ICLS	3 year forecast	\$1,216,486	\$1,242,252	\$1,276,004	\$1,324,219	\$1,391,234
LN2	NECA-LSS	3 year forecast	\$325,325	\$336,005	\$317,951	\$302,315	\$288,761
LN3	USF SNA	From USAC Appendix 1	\$71,405	\$69,625	\$47,760	\$47,760	\$18,720
LN4	USF HCL	3yr forecast and USAC Appedix 1	\$781,571	\$ 726,056	\$631,368	\$615,102	\$587,420
LN5	<b>SUBTOTAL -USF</b>	<b>=(Sum LN1 thru LN4)</b>	<b>\$2,394,787</b>	<b>\$2,373,938</b>	<b>\$2,273,082</b>	<b>\$2,289,396</b>	<b>\$2,286,136</b>
LN6	1.3 Loops		3,029	2,888	2,753	2,626	2,506
LN7	<b>Annual USF Support per Line</b>	<b>=(LN5 / LN6)</b>	<b>\$791</b>	<b>\$822</b>	<b>\$826</b>	<b>\$872</b>	<b>\$912</b>
<b>Other Regulated Revenues:</b>							
LN8	Other Interstate Revenues (ie. NECA settlements, Interstate Access, etc.)	Interstate Less ICLS and LSS	\$2,150,619	\$1,988,736	\$1,988,159	\$2,000,812	\$2,028,110
LN9	Other Revenue (ie Local, Intrastate Access, etc)	Total Reg Revenue Less Above	\$2,076,041	\$2,076,041	\$2,076,041	\$2,076,041	\$2,076,041
LN10	<b>SUBTOTAL - All other Reg. Revenues:</b>	<b>=(Sum LN8 + LN9)</b>	<b>\$4,226,661</b>	<b>\$4,064,777</b>	<b>\$4,064,201</b>	<b>\$4,076,854</b>	<b>\$4,104,151</b>
LN 11	<b>TOTAL REGULATED REVENUES</b>	<b>=(LN7 + LN10)</b>	<b>\$6,621,448</b>	<b>\$6,438,715</b>	<b>\$6,337,283</b>	<b>\$6,366,249</b>	<b>\$6,390,287</b>
<b>Regulated Operating Expense, Interest, Other:</b>							
LN12	Op. Expense	From Forecast	\$5,703,379	\$5,790,086	\$5,776,580	\$5,820,671	\$5,862,406
LN13	Interest	From Forecast	\$496,309	\$500,335	\$548,677	\$542,240	\$509,501
LN14	Other	All Other Income Stmt Items	\$10,657	\$2,329	\$12,364	\$6,506	\$3,423
LN15	<b>TOTAL OPERATING EXPENSE, INTEREST, ETC</b>	<b>=(Sum LN12 + LN14)</b>	<b>\$6,210,345</b>	<b>\$6,292,750</b>	<b>\$6,337,621</b>	<b>\$6,369,417</b>	<b>\$6,375,331</b>
LN16	<b>Net Income Before Tax</b>	<b>=(LN11 - LN15)</b>	<b>\$411,103</b>	<b>\$145,965</b>	<b>(\$338)</b>	<b>(\$3,167)</b>	<b>\$14,957</b>
LN 17	<b>Net Investment</b>	<b>3 Year Forecast</b>	<b>\$11,068,044</b>	<b>\$11,334,560</b>	<b>\$11,487,021</b>	<b>\$12,014,263</b>	<b>\$13,079,552</b>
LN 18	<b>ROR</b>	<b>=(LN16 / LN17)</b>	<b>3.71%</b>	<b>1.29%</b>	<b>0.00%</b>	<b>-0.03%</b>	<b>0.11%</b>
LN 18a	<b>HCL Cap Revenue Effect</b>	<b>From Forecast</b>			<b>(\$80,213)</b>	<b>(\$218,469)</b>	<b>(\$360,362)</b>
<b>NPRM Impacts</b>					<b>2012</b>	<b>2013</b>	<b>2014</b>
LN 20	High Cost Loop Fund				(\$20,097)	(\$27,373)	(\$20,766)
LN 21	Safety Net Additive				(\$22,635)	(\$41,717)	(\$36,508)
LN 22	LSS				(\$119,340)	(\$242,296)	(\$361,636)
LN 23	ICLS				(\$55,710)	(\$113,108)	(\$168,818)
LN 24	\$3000/Ln Support Limitation	= Compare to Line 7			(\$64,888)	(\$45,169)	(\$20,611)
LN 25	<b>Total Support Reduction</b>	<b>=(Sum LN20 thru LN24)</b>			<b>(\$282,669)</b>	<b>(\$469,664)</b>	<b>(\$608,340)</b>
LN 25A	<b>Total Monthly Support Reduction Per Line</b>	<b>=(Line 25 / Line 6 / 12)</b>			<b>(\$9)</b>	<b>(\$15)</b>	<b>(\$20)</b>
LN 26	<b>Estimated USF Support to be received if current NPRM is implemented:</b>				<b>\$1,990,413</b>	<b>\$1,819,732</b>	<b>\$1,677,796</b>
LN 27	Modified Net Income	=(LN16 + LN25)			(\$283,007)	(\$472,832)	(\$593,383)
LN 28	Modified ROR	=(LN28 / LN 17)			<b>-2.46%</b>	<b>-3.94%</b>	<b>-4.54%</b>
LN 29	Modified TIER	<b>=(LN13+LN27)/LN13)</b>			0.4842	0.1280	-0.1646

## Nationwide Avg Loop Cost Per Month Vs. Local Rates Plus EUCL - Kansas



1. The objective of the HCLF was to provide support for high loop costs that are 115% above the **actual** nationwide average cost per loop. This support would insure that local rates in rural high cost areas were comparable to the average (primarily urban) local exchange rate.
2. However, in 2001 the HCLF was capped and indexed to the net percentage change in line growth and inflation. As a result of this change, the nationwide average cost shown on the chart is no longer the actual nationwide average cost, but is a theoretical average (unrelated to the actual average) developed to distribute the HCLF.
3. The practical effect of this change is that this theoretical average is the benchmark rate for rural ILECs. Rural ILECs now must recover the majority of loop costs up to this theoretical average from sources other than the HCLF if they are to have an opportunity to earn an authorized return.
4. For example, in 2010, the theoretical average is approximately \$39. This means that in reality, rural ILECs get no HCLF support for loop costs up to \$39, even though the actual nationwide average may be closer to the \$23 level reflected in Kansas local exchange rates.
  - To earn the return authorized by the Commission, Kansas rural ILECs would have to raise their local exchange rates to approximately \$39, a level that is not comparable to urban rate levels.
  - Rural ILECs have not raised rates to this level, and if they have not sought recovery from the KUSF, they are adsorbing or imputing a large share of the rate difference.