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March 30, 2012

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

RE: WC Docket Nos. 10-90, 07-135, 05-337 and 03-109;
CC Docket Nos. 01-92 and 96-45;
GN Docket No. 09-51 and WT Docket No. 10-208

Dear Ms. Dortch:

On March 29, 2012, Archie Macias of Wheat State Telephone, Inc. ("Wheat State"); Mary Meyer and Diantha Stutesman of Madison Telephone, LLC ("Madison"); Andrew Denzer of Moss Adams, LLP; and Derrick Owens, Eric Keber and Gerard Duffy representing the Western Telecommunications Alliance met with Amy Bender, Patrick Halley, Craig Stroup, Rodger Woock, Katie King, James Eisner and Gary Seigel of the Wireline Competition Bureau, to discuss various broadband investment and high-cost support matters affecting these Kansas rural telephone companies and their customers.

Mr. Macias described the $28 million fiber optic project which Wheat State has been planning for several years to upgrade the outmoded copper plant of its six rural Kansas exchanges (approximately 1,800 access lines), and for which Wheat State had received Rural Utilities Service ("RUS") loan approval in August 2011. The Commission's November 18, 2011 *USF/ICC Order and FNPRM*, and particularly the quantile regression limitations on reimbursable capital and operating costs, have created major concerns as to whether Wheat State can repay the RUS loan if it moves forward with the project. From a shorter-term perspective, Wheat State has determined that $6 million of duct facilities protecting its planned buried fiber lines constitute one of the costs that trigger substantial estimated disallowances during the first year of the presently proposed quantile regression mechanism. However, if Wheat State eliminates these duct facilities, it will be virtually certain to encounter more substantial outages and higher maintenance and repair costs in the future, as well as greater costs to deploy additional fibers in the future along its routes. From a longer-term perspective, Wheat State has no assurance that it can repay its 18-year RUS loan and generate the cash flow necessary to justify this long-term investment when the various quantile regression capital and operating expense limitations will change unpredictably as they are re-calculated every year.

Wheat State has also considered cutting back on its fiber project in some exchanges and outlying areas. However, its farm and ranch customers increasingly use broadband service to market and sell their cattle, hogs and other produce, and are demanding higher broadband speeds and greater service quality in outlying areas. There are no cable television operators or other terrestrial carriers that can provide the bandwith required for the online livestock auctions and similar services that are needed by Wheat State's rural customers. In addition, Wheat State provides essential backhaul services for several cellular towers and wireless carriers.

Finally, Wheat State noted that it has only three administrative employees (including Mr. Macias who doubles as its General Manager and its Controller), and that the increased reporting burdens imposed by the *USF/ICC Order and FNPRM* entail significant additional consulting expenses at a time when expanded corporate operations expense caps are reducing support for such costs. In addition, Mr. Macias noted that an April 1 deadline for the filing of audited financial statements by small carriers is virtually impossible due to the heavy demands upon auditing firms during the First Quarter of the year with respect to corporate annual reports for publicly traded companies, Securities and Exchange Commission ("SEC") filings and tax returns.

Ms. Meyer described the $7.0 million Broadband Initiatives Program ("BIP") loan and network upgrade project that Madison has almost completed, and that it will finish by July 2012. This broadband investment was undertaken by Madison in accordance with the American Recovery and Reinvestment Act of 2009, and was approved as a 50% loan/50% grant project to replace the outmoded copper lines and no-longer-supported circuit switch in Madison's Kansas exchange area (approximately 520 customers). Madison planned and implemented this project well before the *USF/ICC Order and FNPRM*, and is very concerned that the various reductions in high-cost support and intercarrier compensation revenue streams for rural local exchange carriers ("RLECs") will overwhelm its narrow projected margins, force it into default on its TIER (times interest earned ratio) loan covenants, and render it unable to repay its $3.5 million 20-year BIP loan.

It is too late now for Madison to scale back any portion of its almost-completed BIP project. Moreover, in addition to demand for online livestock auctions by its farm and ranch customers and to demand for backhaul capacity by cellular carriers, Madison has been encountering substantial demand from oil drilling companies at the edges of its service area for broadband services to provide security systems to guard against the theft of copper and iron and to allow for remote monitoring of their drilling activities.

Ms. Meyer also discussed the high cost of Middle Mile service in her portion of rural Kansas. Madison presently takes Middle Mile service from Sprint, which is the only carrier willing to provide service pursuant to a multiple-year contract (AT&T offers Middle Mile service to Madison only on a month-to-month basis), over an approximately 100-mile route to Wichita, Kansas. Madison's current Middle Mile cost is $9,600 per month (or, approximately $40 per month for each of Madison's 240 current DSL customers).

Pursuant to Section 1.1206(b) of the Commission's Rules, this submission is being filed for inclusion in the public record of the referenced proceedings.

Respectfully submitted,

Gerard J. Duffy

Gerard J. Duffy

cc: Amy Bender
Patrick Halley
Craig Stroup
Rodger Woock
Katie King
James Eisner
Gary Seigel

Attachment (Wheat State handout)

Wheat State Telephone, Inc.

Archie Macias, General Manager

Ex Parte Presentation to FCC Wireline Competition Bureau Staff

Washington, D.C.
March 29, 2012

Wheat State Comments on the Transformation Order

A. Wheat State Telephone has the following comments on the effects of the regression aspect of the order:

1. Based on the regression analysis Wheat State Telephone will not be able to deploy the construction project as approved by RUS.

2. Wheat State estimates that it would have to eliminate approximately $6,000,000 in rural duct work to remain under the estimated caps.

3. The FCC appears to be a 5 to 6 year plan. Wheat State needs to make 18 year decisions.

Wheat State Comments on the FCC Transformation Order (Continued)

B. Administrative Burdens and Corporate Operations Expense

1. Wheat State maintains a very limited administrative staff.

2. Compliance concerns.

CONCLUSIONS

- The rural telephone companies are already heavily regulated. We comply with audit and numerous reporting requirements. The FCC should not add to this burden, particularly with the pressure to reduce Corporate Operations Expense.

- Rate-of-Return regulation should be maintained for Rural ILEC's. The proposed rules force us to operate as a price-cap company without the economic environment to properly do so.

- Wheat State serves a high-cost area and our subscribers should have comparable affordable rates and telecommunications services. We need to economic support to deploy and maintain that infrastructure.

- A new fully funded Connect America Fund, should be a replacement for USF in our high cost area and contribute to ongoing operations, maintenance and upgrades.