

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the matter of the Application of Oregon)	
Farmers Mutual Telephone Company to)	
Authorize a Minimum Depreciation Rate)	Case No. TO-2008-0070
and to Record Depreciation Expense in)	
Excess of Such Minimum Rate.)	

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission and for its recommendation states:

1. On September 7, 2007, Oregon Farmers Mutual Telephone Company (Company) filed an application with the Missouri Public Service Commission requesting authority to establish a minimum depreciation rate for Account No. 2212.xxx and to record depreciation expense in excess of such minimum rate pursuant to Section 392.280.2, RSMo 2000. According to the Company's application, it is preparing to upgrade its plant in order to improve service to customers.

2. The Commission has directed the Staff to file either its recommendation or a status report no later than October 15, 2007. On October 15, the Staff filed a status report stating that it expects to file its recommendation no later than October 24.

3. Section 392.280.2 RSMo provides that a telecommunications company may request the Commission to authorize minimum depreciation rates in lieu of fixed rates, and to record depreciation expense on the basis of depreciation rates in excess of such minimum rates.

4. In the attached Memorandum, labeled Appendix A, the Staff explains that the Company plans to retire its switch at the end of the third quarter of 2010. The Staff recommends that the Commission authorize the Company to record depreciation expense for Account 2212, Digital Circuit Equipment, for a three-year period beginning October 1, 2007 and ending

September 30, 2010, at a higher depreciation rate of 10.34% in excess of the minimum 6.67% depreciation rate. The higher depreciation rate will allow the Company an opportunity to recover its investment in its current switch prior to its planned retirement.

WHEREFORE, the Staff recommends that the Commission approve the Company's request.

Respectfully submitted,

/s/ William K. Haas

William K. Haas
Deputy General Counsel
Missouri Bar No. 28701

Attorney for the Staff of the
Missouri Public Service Commission
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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 24th day of October 2007.

/s/ William K. Haas

William K. Haas

MEMORANDUM

Staff Recommendation

To: Missouri Public Service Commission Official Case File
Case No. TO-2008-0070 Oregon Farmers Mutual Telephone Company

From: Rosella L. Schad, PE, CPA
Engineering & Management Services Department

/s/ Rosella L. Schad 10/24/07
Engineering & Management Services/Date

/s/ William K. Haas 10/24/07
General Counsel Division/Date

Subject: Application of Oregon Farmers Mutual Telephone Company to Authorize A Minimum Depreciation Rate and to Record Depreciation Expense in Excess of Such Minimum Rate.

Date: October 24, 2007

Staff recommends that the Commission approve the Company's application and authorize the Company to book a higher depreciation rate of 10.34% for Account 2212, Digital Circuit Equipment, for a three-year period beginning October 1, 2007 and ending September 30, 2010, and to record depreciation expense on the basis of this depreciation rate, in excess of the minimum 6.67% depreciation rate established in Case No. TT-2001-0328. Although the Company referred to its current digital switch as being "technologically obsolete" in its application, the Company clarified this in its Response to Staff DR. No. 1, Attachment 1 to this Staff Recommendation, by stating that the current switch "may not be obsolete at this point in time", and that it did not plan to retire the switch until the end of the third quarter of 2010. Accordingly, the Company has requested that the accelerated depreciation rate of 10.34% terminate concurrent with the planned retirement of the switch. The Company also indicated it intends to expense the additional depreciation for the digital switching account 2212 and that the increased amount of Interstate revenue requirement will be from Local Switching Support and NECA Interstate settlements. Since the increased revenue requirement is prospective, Staff does not have sufficient information to estimate the overall impact to the federal high cost fund.

Staff concurs with the Company that it may request the Commission to authorize minimum depreciation rates in lieu of fixed rates, and to record depreciation expense on the basis of depreciation rates in excess of such minimum rates as provided in Missouri Revised Statutes, Chapter 392, Section 392.280. The Staff recommends that the Commission approve the Company's request in this application, as it will allow the Company an opportunity to recover its investment in its current digital switch through depreciation expense prior to its planned retirement at September 30, 2010.

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to Authorize A Minimum Depreciation Rate)
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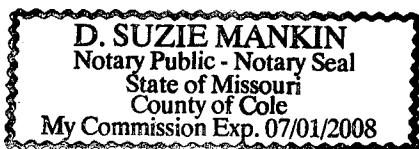
AFFIDAVIT OF ROSELLA L. SCHAD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

ROSELLA L. SCHAD, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by her; that she has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of her knowledge and belief.

Rosella L. Schad
ROSELLA L. SCHAD

Subscribed and sworn to before me this 24th day of October, 2007.



D. Suzie Mankin
Notary Public

Missouri Public Service Commission**Data Request**

Data Request No.	0001
Company Name	Oregon Farmers Mutual Telephone Company-ILEC(Telephone)
Case/Tracking No.	TO-2008-0070
Date Requested	10/17/2007
Issue	Expense - Operations - Depreciation
Requested From	Brian T. McCartney
Requested By	Rosella Schad
Brief Description	Authority to Establish Minimum Depreciation Rate for Account No. 2212 and to Record Depreciation Exp

Description	1. What is the anticipated year and month that the Company plans to retire the current digital switch and associated software upgrades? 2. When was the last software upgrade made and booked to this account? 3. Please describe the improved customer service noted as the reason behind the switch upgrade, including, but not limited to, whether the services reflect regulated or unregulated activities. 4. Please describe the technological obsolescence of the current switch and when that condition begins to effect operations, both regulated and unregulated. 5. Please indicate if the Company has a desired date for the accelerated depreciation rate of 10.34% for Account No. 2212, Digital Switching Equipment, to terminate or if it is the intention of the Company to continue the accelerated rate on a going-forward basis. 6. Please indicate whether or not the Company plans to submit the additional expense generated by a higher depreciation rate for purposes of federal USF consideration.
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Due Date	10/19/2007
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The attached information provided to Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. TO-2008-0070 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the Oregon Farmers Mutual Telephone Company-ILEC (Telephone) office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to Oregon Farmers Mutual Telephone Company-ILEC(Telephone) and its employees, contractors, agents or others employed by or acting in its behalf.

Security	Public
Rationale	NA

With Proprietary and Highly Confidential Data Requests a Protective Order must be on file.

Attachment 1-1

Missouri Public Service Commission

Data Request

Data Request No.	0001
Company Name	Oregon Farmers Mutual Telephone Company-ILEC(Telephone)
Case/Tracking No.	TO-2008-0070
Date Requested	10/17/2007
Issue	Expense - Operations - Depreciation
Requested From	Brian T. McCartney
Requested By	Rosella Schad
Brief Description	Authority to Establish Minimum Depreciation Rate for Account No. 2212 and to Record Depreciation Exp
Description	<p>1. What is the anticipated year and month that the Company plans to retire the current digital switch and associated software upgrades?</p> <p>September 30, 2010</p> <p>2. When was the last software upgrade made and booked to this account?</p> <p>In December, 2006, an upgrade to generic 602 (software patches and annual maintenance plan) was purchased from Northern Telecom for \$16,957.73 and was booked to the Digital Switching Account that same month.</p> <p>3. Please describe the improved customer service noted as the reason behind the switch upgrade, including, but not limited to, whether the services reflect regulated or unregulated activities.</p> <p>Reliability is OFM's main concern. The current switch is a Northern Telecom DMS-10 switch which was installed approximately seventeen (17) years ago. OFM continues to invest in software to update the switch and make it capable of providing services that its customers want and regulators require, but the existing switch is near the end of its useful life. OFM is looking at replacing its circuit switched technology with packet switched technology which will allow OFM to provide additional services and features that</p>

customers are likely to demand in the future as well as additional services and features that regulators will require OFM to provide in the future. Since OFM does not know what those future services will be, it cannot say whether they will be regulated or unregulated, but OFM would expect that they will be a mix of both regulated and unregulated services.

4. Please describe the technological obsolescence of the current switch and when that condition begins to effect operations, both regulated and unregulated.

As indicated in response to Data Request No. 3 above, the current switch is nearly seventeen (17) years old and will be 20-21 years old when it is anticipated to be retired from service (at the end of the third quarter of 2010). While the current switch, with software updates, continues to provide services and features required by customers and regulators, it is based on circuit switched technology and the industry appears to be moving toward packet switched technology. So, while the current switch may not be obsolete at this point in time, OFM anticipates that obsolescence will be an issue over the next two to three years. OFM is also concerned with reliability as indicated in response to Data Request No. 3 above and the cost of maintaining a twenty year old switch vs. the cost of a new switch using new technology.

5. Please indicate if the Company has a desired date for the accelerated depreciation rate of 10.34% for Account No. 2212, Digital Switching Equipment, to terminate or if it is the intention of the Company to continue the accelerated rate on a going-forward basis.

The accelerated depreciation of 10.34% will terminate with the 3-year period on September 30, 2010.

6. Please indicate whether or not the Company plans to submit the additional expense generated by a higher depreciation rate for purposes of federal USF consideration.

OFM intends to expense the additional depreciation in the digital switching account 6212. The increased accumulated depreciation will be offset by a reduction to Interstate rate base and an increase in operating expense. The digital switching account is not part of the High Cost Loop calculation, therefore, there will be no High Cost Loop Support impact as a result of this change. The increased amount of Interstate revenue requirement will be from Local Switching Support and NECA Interstate settlements.

Due Date

10/19/2007

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If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the Oregon Farmers Mutual Telephone Company-ILEC(Telephone) office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to Oregon Farmers Mutual Telephone Company-ILEC(Telephone) and its employees, contractors, agents or others employed by or acting in its behalf.

Security	Public
Rationale	NA

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Janet M. Bathurst
General Manager
Oregon Farmers Mutual Telephone Co., Inc.