

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF HIGHLAND TELEPHONE)
COOPERATIVE, INC. FOR AN ADJUSTMENT) CASE NO. 2010-00227
OF RATES)

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
TO HIGHLAND TELEPHONE COOPERATIVE, INC.

Highland Telephone Cooperative, Inc. ("Highland"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before December 8, 2010. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Highland shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Highland fails or refuses to furnish all or part of the requested information, Highland

shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. On page 2 of the application Highland states that the Rural Utilities Services (“RUS”) has advised Highland that unless revenues are replaced, it will not be eligible to apply for stimulus funds or loans being made available for the continued upgrading and expansion of its telecommunications services. Highland has notified the Commission in Case No. 2010-00341 that, on August 13, 2010, RUS approved Highland’s application and that on August 16, 2010 Highland accepted the offer. The filing further stated that Highland had applied for a loan of \$16.6 million and a grant of \$49.9 million.

a. When RUS said that revenues needed to be replaced, how was this notification made? If the notification was made by letter, provide a copy of the letter. State whether there was a specific amount of revenue that needed to be replaced.

b. Since August 16, 2010, did RUS change its stance that Highland was not eligible to apply for grants or loans?

c. Did RUS make the grant and loan contingent upon approval of this rate application?

d. Explain any further circumstances that relate to RUS approving the grant and loan application.

2. Does Highland have any loans with RUS that have a requirement that Highland must achieve a certain Times Interest Earned Ratio ("TIER")? Provide documentation.

3. Provide Highland's TIER and debt service coverage ratio, as calculated by RUS, for the test year and the five preceding calendar years. Include the data used to calculate each ratio.

4. Provide a TIER calculation for the test period with the proposed rate increase and a TIER calculation for the test period without the proposed rate increase.

5. Has Highland increased rates for non-basic services, including custom-calling and directory listing services?

a. State, in detail, all increases employed by Highland for non-basic services from 2005 through the date of this request for information.

b. For each non-basic service, state the previous charge for the service and the new, increased charge.

6. Provide Highland's equity management plan.

a. Indicate when the current plan was adopted and identify any changes made in the plan since the year utilized as the test year in Highland's last rate case.

b. Provide a five-year analysis of the amount of capital credits refunded to members under the plan and indicate the amounts related to general retirements and special retirements (i.e., estates of deceased patrons).

7. Identify the company's Annual Universal Fund support during the test period. Identify the account wherein this fund support is booked.

8. Provide, in comparative form, a detailed income statement, a statement of cash flows, and a balance sheet for the test year and the 12-month period immediately preceding the test year.

9. Provide Highland's rate of return on net investment rate base for the test year and five preceding calendar years. Include the data used to calculate each return.

10. Provide a list of depreciation expenses. List each account, the balance at the end of the test year, the depreciation rate, and the annual depreciation.

11. Are the depreciation rates reflected in this filing identical to those most recently approved by the Commission?

a. If yes, identify the case in which they were approved.

b. If no, provide the depreciation study that supports the rates reflected in this filing.

12. Provide separate schedules for the test year and the year preceding the test year, including the following information regarding Highland's investments in subsidiaries and joint ventures:

a. Name of subsidiary or joint venture;

b. Date of initial investment;

c. Amount and type of investment;

d. Balance sheet and income statement. Where only internal statements are prepared, furnish copies of these; and

e. Names of officers of each of the subsidiaries or joint ventures, each officer's annual compensation, and the portion of the compensation charged to the subsidiary or joint venture. Indicate the position that each officer holds with Highland and the compensation received from Highland.

13. Provide separate schedules showing all dividends or any type of income received by Highland from its subsidiaries or joint ventures for the test year and the three years preceding the test year. Indicate how this income is reflected in the reports filed with the Commission and in any reports to Highland's member-customers.

14. Concerning non-regulated activities:

a. Is Highland engaged in any non-regulated activities? If yes, provide a detailed description of each non-regulated activity.

b. Is Highland engaged in any non-regulated activities through an affiliate? If yes, provide the name of each affiliate and the non-regulated activity in which it is engaged.

c. Identify each service agreement with each affiliate and indicate whether the service agreement is on file with the Commission. Provide a copy of each service agreement not already on file with the Commission.

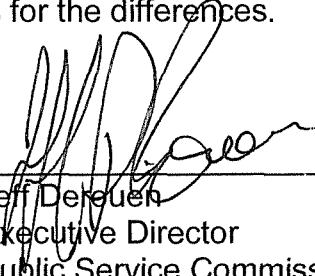
d. Has Highland loaned any money or property to any affiliate? If yes, describe in detail what was loaned, the terms of the loan, and the name of the affiliate.

15. Refer to the testimony of Steve Armes as included in the rate application. In answer 13, Mr. Armes states that Highland implemented residential and commercial rate increases for Tennessee customers in May 2010.

a. Explain the rationale for implementing rate increases at different times within the Kentucky and Tennessee territories.

b. Explain whether or not the projected revenue increase incorporates the time differences between Kentucky and Tennessee territories for the implementation of the new rates.

c. In answer 16, Mr. Armes states that the last time Highland increased its basic rate was on June 26, 1983. State whether the rate increase was implemented for both Kentucky and Tennessee on that date. If the rate increases were implemented on different dates, explain the basis for the differences.



Jeff Dejeu
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED: NOV 18 2010

cc: Parties of Record

Jeffrey J Yost
Jackson Kelly PLLC
175 East Main Street
Suite 500, P. O. Box 2150
Lexington, KY 40595-0000