JACKSON KELLY
ATTORNEYS AT LAW PLLC
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RECEIVED
JUN 06 2011
PUBLIC SERVICE COMMISSION

June 6, 2011

Via Hand Delivery

Jeff Derouen
Executive Director
Public Service Commission
211 Sower Blvd.
P. O. Box 615
Frankfort, KY 40602-0615

**Re: In the Matter of: Adjustment of Rates of Highland Telephone Cooperative, Inc.
Case No. 2010-00227**

Dear Mr. Derouen:

Enclosed for filing in the above-referenced case, please find one original and ten (10) copies of Highland Telephone Cooperative, Inc.'s Responses to Commission Staff's Second Request for Information to Highland Telephone Cooperative, Inc. I have also enclosed three copies of the pleading which we request be date stamped and returned to the person delivering this letter.

Thank you and please call if you have any questions.

Sincerely yours,

Jeffrey J. Yost

JJY/pom
Enclosures
c: Highland Telephone Cooperative, Inc. (w/encl)

Charleston, WV • Clarksburg, WV • Martinsburg, WV • Morgantown, WV • Wheeling, WV
Denver, CO • Indianapolis, IN • Lexington, KY • Pittsburgh, PA • Washington, DC

RECEIVED
JUN 06 2011
PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CASE NO. 2010-00227

ADJUSTMENT OF RATES OF HIGHLAND TELEPHONE COOPERATIVE, INC.

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

* * * * * * *

Highland Telephone Cooperative, Inc. ("Highland") hereby files the information requested by the Commission Staff's Second Request for Information to Highland Telephone Cooperative, Inc. dated April 22, 2011 (the "Request"). Each request is restated and followed by the requested information behind the tab corresponding to the number of the request.

Respectfully submitted,

Highland Telephone Cooperative, Inc.

By: ______________________________

Jeffrey J. Yost
JACKSON KELLY PLLC
P. O. Box 2150
175 East Main Street, Suite 500
Lexington, Kentucky 40588-2150
(859) 255-9500
Counsel for Highland Telephone Cooperative, Inc.

CERTIFICATION

F. L. Terry, being duly sworn, hereby deposes and says that he is General Manager of Highland Telephone Cooperative, Inc., that he has supervised the preparation of the attached Responses to Commission Staff's Second Request for Information, and that the responses are true and accurate to the best of his knowledge, information and belief formed after a reasonable inquiry.

F L Terry, GM

F. L. Terry, General Manager

STATE OF TENNESSEE)
COUNTY OF Scott)

The foregoing certification was subscribed, sworn to and acknowledged before me this 3rd day of June, 2011, by F. L. Terry as General Manager of Highland Telephone Cooperative, Inc., a Tennessee corporation, for and on behalf of the corporation.

MY COMMISSION EXPIRES:

5/24/14

Billie J. Hamilton

NOTARY PUBLIC

BILLIE J. HAMILTON
STATE OF TENNESSEE NOTARY PUBLIC
SCOTT COUNTY

1. In question 9 of the Commission Staff's First Request for Information ("first request for information"), Highland was requested to provide the company's rate of return on net investment rate base for the test year and the preceding five calendar years. Highland responded that it was not regulated under this method and rate of return was inapplicable and it does not calculate a rate of return on net investment rate base. The Commission staff recognizes that Highland is not regulated in this manner as a Cooperative but requests again that the Company provide this information for comparative purposes.

In its responses to the first request for information, Highland declined to calculate a rate of return. The reason was not to avoid providing the requested information, but to avoid providing information that Highland believed could be inaccurate.

As Highland stated then and the Staff acknowledges in this request, Highland is not regulated on the basis of the rate of return on its net investment rate base. This is due to the fact that Highland is a cooperative and operates on a cooperative basis. Its bylaws and the Internal Revenue Code both specify that any profits are to be allocated back to the member patrons, who are the ratepayers. The effect of being required to allocate and ultimately refund any margin to its members is that a cooperative operates at cost. Operating in this manner, there is no return on investments.

In response to the renewed request for this information, Highland has calculated a theoretical rate of return by ignoring the required allocations to its members. The net income before it was allocated to the members of the cooperative for the test period and five preceding years was divided by Highland's net investment in its assets to yield the rates of return listed below:

2009 (test period)	(0.214%)
2008	0.436%
2007	0.997%
2006	2.229%
2005	4.638%
2004	3.905%

The witness responsible for responding to questions related to the information provided in this response is Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

2. Refer to question 3 of the first request for information. Provide the calculation of Times Interest Earned Ratio ("TIER") and Debt Coverage Ratio for the year 2010.

The Times Interest Earned Ratio ("TIER") for 2010 is 1.11 and the Debt Service Coverage Ratio for 2010 is 2.29.

The witness responsible for responding to questions related to the information provided in this response is Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

3. Refer to question 4 of the first request for information. Highland calculated a TIER of 3.93 for the adjusted Test Year. According to the RUS Loan requirements provided in response to question 2 of the first request for information, Highland is only required to maintain an average TIER of not less than 1.5 in two of the last three years. Provide justification for the requested 3.93 TIER in the Test Year.

Highland's need for a rate increase was founded on several issues related to the Cooperative's financial viability. The TIER requirement established in the Cooperative's loan documents was just one area of concern. Question 2 of the first request for information asked if Highland had any loans with RUS that had a Times Interest Earned Ratio ("TIER"). This information was provided. Question 4 of the first request asked for the TIER calculation with the proposed rate increase and without. This information was provided. The fact that the TIER calculation in the test period is 3.93 is the result of the overall rate increase. However, the 3.93 TIER calculated from the adjusted test year amounts is unlikely to materialize. As stated in the preceding response, the actual TIER for 2010 was 1.11, and this was with more than two-thirds of Highland's ratepayers (its Tennessee members) paying the increased rates for nine months. Highland is requesting the rate increase not only to insure that it satisfies its loan covenants but also to insure that the Company is sound financially.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

4. Provide all studies, including all applicable work papers, that are the basis of regulated and non-regulated plant allocations and expense account allocations.

Telecommunication companies receive their interstate revenues through a settlement process with the National Exchange Carriers Association (NECA). NECA distributes the revenues to cost companies and average schedule companies. Highland is an average schedule company. NECA does not require average schedule companies to have an annual cost study completed. Since NECA does not require the study, Highland does not have a cost study completed.

Highland does comply with the FCC requirements of Part 32. All costs are allocated in accordance with Part 32 and are based on employee time reporting. The cost allocation between regulated and non-regulated activities start with the employee time reporting. This includes plant allocations as well as expense allocations. We have attached as Exhibit 4 a copy of a closed work order showing the process in which these cost are accumulated.

As stated above, Highland does not complete cost studies related to these activities. Each year Highland does have its financial statements audited by a RUS approved accounting firm. As part of their audit, the staff of the accounting firm tests the amounts reported on the employee's time sheets and reviews the internal controls surrounding Highland's time reporting system. In addition to testing the time reporting system, the allocation of overhead items such as payroll taxes, pension and other fringe benefits are tested.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

EXHIBIT 4

COST ALLOCATION WORK ORDER

Construction
NL HWY62 ROADMOVE-REMOTES
MATERIAL/LABOR TEMPORARY

ACCOUNT NO.:

NXX: 346

BUDGET:

START DATE: 5/30/08
ESTIMATED COMPLETION: 0/00/00
COMPLETION DATE: 0/00/00

WORK ORDER NO.	SEQ NO.	ENTRY DATE	ENTRY-DESCRIPTION	REFERENCE	ACCT NO	SUB NO	DESCRIPTION/ INVOICE NO.	VOUCHER NO	AMOUNT
08060705	0001	6/30/08	A/P	APD0050	1220		A/P DISTRIBUTION 934813775 W008060705	000120868	104.22
08060705	0002	6/30/08	A/P	APD0051	6411	4	A/P DISTRIBUTION 2136218-IN 08060705	000121018	1342.72
08060705	0003	6/30/08	A/P	APD0052	6411	4	A/P DISTRIBUTION 2138018-IN 08060705	000121056	2056.23
08060705	0004	7/17/08	M & S	RTE-0002	2421		R12954 7-14-08 CURT ROD GROUND 5/8" X 8'	000000001	6.77
08060705	0005	7/20/08	Direct Labor	PPD-0047	2423		P/R-W/E 07/20/2008		247.44
08060705	0006	7/20/08	Direct Labor	PPD-0048	2423		P/R-W/E 07/20/2008		247.44
08060705	0007	7/20/08	Direct Labor	PPD-0049	2423		P/R-W/E 07/20/2008		301.28
08060705	0008	7/20/08	Direct Labor	PPD-0050	2423		P/R-W/E 07/20/2008		301.28
08060705	0009	7/20/08	Direct Labor	PPD-0051	2423		P/R-W/E 07/20/2008		295.28
08060705	0010	7/20/08	Direct Labor	PPD-0052	2423		P/R-W/E 07/20/2008		295.28
08060705	0011	7/29/08	M & S	RTE-0030	2421		07-21-08 R13078 HANDHOLE UNDERGROUND	000000001	291.72
08060705	0012	7/29/08	M & S	RTE-0032	2421		07-21-08 R13078 CONDUIT PVC 3" COUP.	000000001	2.15
08060705	0013	7/29/08	M & S	RTE-0034	2421		07-21-08 R13078 CONDUIT SPLIT 3" 90D	000000001	4.68
08060705	0014	7/31/08	Payroll Ovrhead	FBC-0003			FRINGE BENEFIT CLEARING		716.27
08060705	0015	7/31/08	Payroll Ovrhead	VST-0075			VEH/SUP/TOOLS CLEARING		246.13
08060705	0016	10/26/08	Direct Labor	PPD-0013	2421		P/R-W/E 10/26/2008		77.54
08060705	0017	10/31/08	Payroll Ovrhead	FBC-0003			FRINGE BENEFIT CLEARING		25.09
08060705	0018	10/31/08	Payroll Ovrhead	VST-0081			VEH/SUP/TOOLS CLEARING		9.91
08060705	0019	4/07/09	M & S	RTE-0002	2232	3	04-07-09 R15259 PATCHPANEL 288 SC/AP	000000001	5506.00
08060705	0020	4/07/09	M & S	RTE-0004	2421		04-07-09 R15259 SEALING COMPOUNT	000000003	6.79
08060705	0021	4/17/09	M & S	RTE-0022	2232	3	04-07-09 R15261 ROAD MOVE SPLITTER MOD. CASS.L	000000006	3786.00
08060705	0022	4/17/09	M & S	RTE-0024	2232	3	04-07-09 R15261 ROAD MOVE CHASSIS OPTICAL 23"	000000001	486.00
08060705	0023	4/17/09	M & S	RTE-0026	2232	3	04-07-09 R15261 ROAD MOVE SPLITTER PLANAR 1X32	000000001	1094.00
08060705	0024	4/30/09	A/P	APD0003	6411	4	A/P DISTRIBUTION 1471 WO#08060705	000128154	233.19
08060705	0025	4/30/09	A/P	APD0004	6411	4	A/P DISTRIBUTION 22635 08060705	000128085	8.49
08060705	0026	4/12/09	Direct Labor	PPD-0001	2232	3	P/R-W/E 04/12/2009		141.60
08060705	0027	4/12/09	Direct Labor	PPD-0002	2232	3	P/R-W/E 04/12/2009		128.68
08060705	0028	4/12/09	Direct Labor	PPD-0003	2232	3	P/R-W/E 04/12/2009		80.88
08060705	0029	4/12/09	Direct Labor	PPD-0004	2232	3	P/R-W/E 04/12/2009		150.64
08060705	0030	4/30/09	Payroll Ovrhead	FBC-0003			FRINGE BENEFIT CLEARING		187.25
08060705	0031	4/30/09	Payroll Ovrhead	VST-0089			VEH/SUP/TOOLS CLEARING		96.97

= 187.25

Construction
NL HWY62 ROADMOVE-REMOTES
MATERIAL/LABOR TEMPORARY

ACCOUNT NO.:

NXX: 346

BUDGET:

START DATE: 5/30/08
ESTIMATED COMPLETION: 0/00/00
COMPLETION DATE: 0/00/00

WORK ORDER NO.	SEQ NO.	ENTRY DATE	ENTRY-DESCRIPTION	REFERENCE	ACCT NO	SUB NO	DESCRIPTION/ INVOICE NO.	VOUCHER NO	AMOUNT
08060705	0032	6/24/09	M & S	RTE-0028	2232	3	06-19-09 R15697 LIBERTY R AFC POWER KIT FOR RE	000000001	504.00
08060705	0033	6/24/09	M & S	RTE-0030	2232	3	06-19-09 R15697 LIBERTY R AFC D-MAXSHELFBPC&FA	000000001	695.00
08060705	0034	6/24/09	M & S	RTE-0032	2421		06-19-09 R15697 LIBERTY R CONNECTOR 25PR FEMAL	000000005	92.06
08060705	0035	6/25/09	M & S	RTE-0086	7990	3	06-19-09 R15697 JACK NETWORK INTERFA	000000005	28.76
08060705	0036	6/25/09	M & S	RTE-0088	7990	3	06-19-09 R15697 JACK STAND OFF BRACK	000000005	3.77
08060705	0037	6/30/09	A/P	APD0002	6121	4	A/P DISTRIBUTION VOC. SCHOOL 08060705	000128792	32.00
08060705	0038	6/30/09	A/P	APD0003	6121	4	A/P DISTRIBUTION 24017 WO#08060705	000129618	95.46
08060705	0039	6/30/09	A/P	APD0004	6411	4	A/P DISTRIBUTION 22135 WO#08060705	000128832	36.12
08060705	0040	6/30/09	A/P	APD0005	6411	4	A/P DISTRIBUTION 23067 WO#08060705	000128833	20.75
08060705	0041	6/07/09	Direct Labor	PPD-0001	2232	3	P/R-W/E 06/07/2009		283.20
08060705	0042	6/07/09	Direct Labor	PPD-0002	2232	3	P/R-W/E 06/07/2009		257.36
08060705	0043	6/07/09	Direct Labor	PPD-0003	2232	3	P/R-W/E 06/07/2009		257.36
08060705	0044	6/07/09	Direct Labor	PPD-0004	2232	3	P/R-W/E 06/07/2009		301.28
08060705	0045	6/07/09	Direct Labor	PPD-0005	2232	3	P/R-W/E 06/07/2009		301.28
08060705	0046	6/07/09	Direct Labor	PPD-0006	2422		P/R-W/E 06/07/2009		64.34
08060705	0047	6/07/09	Direct Labor	PPD-0007	2422		P/R-W/E 06/07/2009		75.32
08060705	0048	6/21/09	Direct Labor	PPD-0008	2232	3	P/R-W/E 06/21/2009		164.76
08060705	0049	6/21/09	Direct Labor	PPD-0009	2421		P/R-W/E 06/21/2009		174.47
08060705	0050	6/21/09	Direct Labor	PPD-0010	2421		P/R-W/E 06/21/2009		116.31
08060705	0051	6/30/09	Payroll Ovrhead	FBC-0003			FRINGE BENEFIT CLEARING		647.65
08060705	0052	6/30/09	Payroll Ovrhead	VST-0081			VEH/SUP/TOOLS CLEARING		369.44
08060705	0053	7/31/09	M & S	RTE-0038	2421		07-23-09 R15943 DROP WIRE 4F	000000282	50.42
08060705	0054	7/31/09	M & S	RTE-0040	2421		07-23-09 R15943 GUARD CABLE 2-3/16"	000000002	38.24
08060705	0055	7/31/09	M & S	RTE-0042	2421		07-23-09 R15943 STRAP FOR 2-3/16" CA	000000003	1.91
08060705	0056	7/31/09	M & S	RTE-0044	2421		07-23-09 R15943 CABLE FIBER 24 SINGL	000000886	202.24
08060705	0057	7/31/09	M & S	RTE-0046	2421		07-23-09 R15943 516' CABLE FIBER 24 SINGL	000000370	84.45-
08060705	0058	7/31/09	M & S	RTE-0048	2421		07-23-09 R15943 CABLE 150-22FF	000000316	809.05
08060705	0059	7/31/09	M & S	RTE-0050	2421		07-23-09 R15943 70' CABLE 150-22FF	000000246	629.83-
08060705	0060	7/31/09	M & S	RTE-0072	2421		07-28-09 R15960	000000317	403.61

Construction
NL HWY62 ROADMOVE-REMOTES
MATERIAL/LABOR TEMPORARY

ACCOUNT NO.:

NXX: 346

BUDGET:

START DATE: 5/30/08
ESTIMATED COMPLETION: 0/00/00
COMPLETION DATE: 0/00/00

WORK ORDER NO.	SEQ NO.	ENTRY DATE	ENTRY-DESCRIPTION	REFERENCE	ACCT NO	SUB NO	DESCRIPTION/ INVOICE NO.	VOUCHER NO	AMOUNT
08060705	0061	7/31/09	M & S	RTE-0074	2421		CABLE 150-24FF 07-28-09 R15960 60'	000000257	327.22-
08060705	0062	7/31/09	M & S	RTE-0076	2232	3	CABLE 150-24FF 07-28-09 R15960	000000001	133.00
08060705	0063	7/31/09	M & S	RTE-0078	2232	3	PIGTAIL STUB CABLE F 07-28-09 R15960	000000001	133.00
08060705	0064	7/31/09	M & S	RTE-0080	2421		PIGTAIL STUB CABLE F 07-28-09 R15960	000000002	38.24
08060705	0065	7/31/09	M & S	RTE-0082	2421		GUARD CABLE 2-3/16" 07-28-09 R15960	000000003	1.91
08060705	0066	7/31/09	M & S	RTE-0084	2421		STRAP FOR 2-3/16" CA 07-28-09 R15960	000000001	12.01
08060705	0067	7/31/09	M & S	RTE-0086	2421		STRAND LINK 5/16" EH 07-28-09 R15960	000000003	33.68
08060705	0068	7/31/09	M & S	RTE-0088	2421		VISE STRAND 5/16" EH 07-28-09 R15960	000000030	7.13
08060705	0069	7/31/09	M & S	RTE-0090	2411		STRAND 6M 5/16" EHS 07-28-09 R15960	000000001	1.87
08060705	0070	7/31/09	A/P	APD0003	6121	4	NUT 5/8" THIMBLEYE A/P DISTRIBUTION	000129984	17.38
08060705	0071	7/31/09	A/P	APD0004	6421	4	PETTY CASH SUNBRIGHT A/P DISTRIBUTION	000129690	77.79
08060705	0072	7/05/09	Direct Labor	PPD-0002	2421		050709 WO08060705 P/R-W/E 07/05/2009		232.62
08060705	0073	7/31/09	Payroll Ovrhead	FBC-0003			FRINGE BENEFIT CLEARING		102.48
08060705	0074	7/31/09	Payroll Ovrhead	VST-0082			VEH/SUP/TOOLS CLEARING		23.67
08060705	0075	8/02/09	Direct Labor	PPD-0001	2421		P/R-W/E 08/02/2009		290.78
08060705	0076	8/02/09	Direct Labor	PPD-0002	2422		P/R-W/E 08/02/2009		110.73
08060705	0077	8/02/09	Direct Labor	PPD-0003	2422		P/R-W/E 08/02/2009		111.33
08060705	0078	8/02/09	Direct Labor	PPD-0004	2422		P/R-W/E 08/02/2009		110.73
08060705	0079	8/02/09	Direct Labor	PPD-0005	6531	1	P/R-W/E 08/02/2009		221.46
08060705	0080	8/31/09	Payroll Ovrhead	FBC-0003			FRINGE BENEFIT CLEARING		268.27
08060705	0081	8/31/09	Payroll Ovrhead	VST-0095			VEH/SUP/TOOLS CLEARING		53.74
08060705	0082	9/30/09	Direct Labor	PPD-0001	6423	1	P/R-W/E 10-12-2008		77.54
08060705	0083	9/30/09	Direct Labor	PPD-0002	6423	1	P/R-W/E 10/12/2008		116.31
08060705	0084	9/30/09	Direct Labor	PPD-0003	6421	1	P/R-W/E 10/26/2008		155.08
08060705	0085	9/30/09	Payroll Ovrhead	FBC-0003	6421	1	FRINGE BENEFIT CLEARING		112.91
08060705	0086	9/30/09	Payroll Ovrhead	VST-0081	6421	1	VEH/SUP/TOOLS CLEARING		44.61
08060705	0087	9/30/09	M & S	RTE-0026	2232	3	06-13-08 R13135		3180.00
08060705	0088	9/30/09	M & S	RTE-0028	2232	3	05-13-08 R13135		2798.00
08060705	0089	9/30/09	M & S	RTE-0030	2232	3	05-13-08 R13135		6677.00

38605.85- Over Budget 38605.85

***** GRAND TOTAL ***** 38605.85

✓ - Traced to M&S W/o transaction (attached)

5. Provide the date, time, and a general description of the activities at the most recent annual members' meeting. Indicate the number of new board members elected. For the most recent meeting and the five previous annual members' meetings, provide the number of members in attendance, the number of members voting for new board members, and the total cost of the annual meeting.

The most recent annual member's meeting was held at 10:00 a.m. on November 6, 2010, at Scott County High School in Huntsville, Tennessee pursuant to Article III, Section 1 of the Cooperative's bylaws, which requires the annual meeting of members to be held on the first Saturday in November. There were 16 members present at the meeting and they heard reports from the President, Secretary/Treasurer, Manager and Legal Counsel.

New board members are not elected at the annual meeting of the members. An election is held each year on the second Saturday of November for either 3 or 4 board members pursuant to the Cooperative bylaws.

Members in attendance for the Annual Meeting:

2006/16 members were present
2007/16 members were present
2008/14 members were present
2009/14 members were present

The average cost of each annual meeting is limited to a meeting fee ($350 each) for each of the eleven directors who attend, mileage for each director to the site and approximately one hour of legal representation at $225. No meals or refreshments are provided at the annual meeting.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Ernest A. Petroff, III, of Stansberry, Petroff, Marcum & Blakley, P.C.

6. Provide a detailed explanation of the methodology or basis used to allocate the requested increase in revenue to the residential and business customer classes.

Highland initiated several steps in determining the basis for increasing revenue. First, since there had been no increase in monthly service rates since 1983, the effect of inflation was considered. If rates were adjusted for the change that occurred in the consumer price index from 1983 to 2010, they would be $21.30 for residences and $34.99 for businesses. (U.S. Bureau of Labor Statistics CPI-U). Highland reviewed its future revenue requirements to make certain that the increase both was necessary and would be sufficient to avoid another rate increase in the near future.

Secondly, Highland reviewed the rates charged by others and found that its basic rates were among the lowest charges for services provided by cooperatives in Kentucky and Tennessee service areas. Highland then arrived at the proposed increase to bring its charges into line with charges imposed by other cooperatives. The $5.00 increase in local residential rates instituted by Highland would result in the rate being raised from $9.73 to $14.73, and the increase of $8.00 in the business rate would raise it from $15.98 to $23.98. Both of these rates are within the range of rates already being charged to customers of other telephone cooperatives in Kentucky, as illustrated by the following table:

Cooperative	Residential Rate	Business Rate
Highland (after increase)	14.73	23.98
North Central Telephone Cooperative, Inc.	14.90	23.03
South Central Telephone Cooperative, Inc.	15.15	24.35
West Kentucky Rural Telephone Cooperative Corporation, Inc.	14.56	21.06

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Ernest A. Petroff, III of Stansberry, Petroff, Marcum & Blakley, P.C.

7. Provide a schedule of all employee benefits available to Highland's employees. Include the number of employees at test-year-end covered under each benefit, the test-year-end actual cost of each benefit, the amount of the cost capitalized, the amount of the cost expended, and the account numbers in which the capitalized or expensed costs were recorded.

The employee benefits provided by Highland and other requested information for the 2009 test year were:

Type of Benefit	Number of Employees Covered	Cost of Coverage
Health Insurance	83	$1,379,365
Life Insurance	77	$17,097
Dental Insurance	85	$82,524
Retirement Plan	75	$613,154

Employee benefits such as health insurance and retirement are allocated between the various accounts in accordance with Part 32. Each employee prepares a time report that is approved by the department supervisors. This time is used to charge the payroll to the proper accounts. Maintaining the telecommunications plant is charged to account numbers between 6100 and 6500. The employees in the commercial portion of the company charge their time to the 6600 account numbers. Corporate operations are charged to the 6700 account numbers. If an employee records his or her time working on a plant work order, this time is charged to the construction in progress account number 2003 and upon completion of the work order is reclassified to the correct plant account, which are the 2000's. Time recorded on non-regulated activities is charged to the 7900 account numbers. Employee benefits are allocated based upon the direct labor hours charged to each category. Because of the allocation process, the only portion of employee benefits that is capitalized is the portion that relates to the actual labor hours charged to the plant accounts. The balance is charged to expense.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC, and Ernest A. Petroff, III of Stansberry, Petroff, Marcum & Blakley, P.C.

8. Provide a schedule reflecting the salaries and other compensation of each executive officer for the test year and two preceding calendar years. Include the percentage annual increase and the effective date of each increase, the job title, duty and responsibility of each officer, the number of employees who report to each executive officer, and to whom each executive officer reports. Also, for employees elected to executive officer status during the test year, provide the salaries, for the test year, for those persons whom they replaced.

This information is provided in the schedule attached as Exhibit 8. As shown on the schedule, none of the officers received salary increases during those three years, and when John Nelson, the Chief Financial Officer, left in 2009, his duties were assigned to Steven Armes, then the Accounting Manager, and no additional employee was hired.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

EXHIBIT 8

EXECUTIVE OFFICER COMPENSATION

Employee Name	Employee Job Title	Employee Job Duties	# of Employees Supervised	Employee Reports to	2009 Salary	2009 Other Compensation	2008 Salary	2008 Other Compensation	2007 Salary	2007 Other Compensation	Annual Increase
Fred Terry	General Manager	*Manages all activities of telephone cooperative *Interprets and implements board policies *Plans, directs, coordinates and controls all lines of business *Determines objectives and establishes operating procedures *Ensures success of the cooperative within guidelines established by the board *Ensures all operations comply with applicable federal, state and local regulations *Represents cooperative to regulatory agencies, legislative bodies and industry associations *Evaluates new business opportunities and recommends new services to board	9	Board of Directors	$ 162,499.92	$ 1,014.80	$ 162,499.92	$ 1,355.91	$ 157,916.72	$ 12,494.28	*NOTE 1 and 2
Roger Galloway	Plant Manager	*Directs all cooperative plant operations, including managing the construction, replacement, removal and maintenance of aerial and buried cable, transmission euipment and switching facilities *Ensures that cooperative personnel understand RUS specifications, safety procedures and preventitive maintenance operations *Develops and maintains records to allow reference, analysis and monitoring of all plant components and equipment *Recommends major improvements to plant and equipment *Initiates or recommends purchases of equipment, tools and supplies	7	Fred Terry	106,781.04	$ 1,154.60	106,781.04	$ 1,554.51	104,803.62	$ 9,578.59	*NOTE 1 and 2
John Nelson	Chief Financial Officer Resigned effective June 1, 2009.	*Oversees the budget process, audit functions and all long-term investements *Prepares financial forecasts, acquisition analysis or merger planning *Develops financial policies and processes *Analyzes the cooperative's financials and presents them to the General Manager *Contributes to the strategic planning of the organization as the expert in financial management	5	Fred Terry	58,320.00	$ 226.50	139,968.00	$ 5,213.48	137,376.00	$ 17,956.95	*NOTE 1 and 2
Steven Armes	Chief Financial Officer Accounting Manager	*Assumed Chief Financial Officer duties on June 1, 2009 *Maintains all of the cooperative's accounts and accounting records *Maintains general and subsidiary ledgers and prepares operating and financial statements *Examines a variety of financial statements and transactions for internal accuracy, completeness and conformity with established accounting classifications	5 -	Fred Terry John Nelson	68,751.84	$ 232.40	68,751.84	$ 626.31	67,552.68	$ 7,129.60	*NOTE 1 and 2
James Hamby	Information Systems Manager	*Plans, develops and maintains all network operations, including all routers, firewalls, switches/hubs, access and servers *Gives advice and support to local staff, correcting problems with local PC's	-	Fred Terry	112,773.12	$ 945.80	112,773.12	$ 1,327.71	111,177.30	$ 7,858.47	*NOTE 1 and 2
Rhonda Davis	Customer Services Manager	*Directs the activities of the commercial or traffic department *Promotes and oversees sales of CPE and other equipment *Establishes and implements the cooperative's public relations policy *Ensures that sales staff is informed of proper service and equipment charges *Forecasts system and subscriber growth *Advises plant and engineering departments on service area needs *May establish and administer credit policies for new subscribers *May ensure the accuracy of billing data and the security of customer accounts *May establish collection procedures and direct collection activities	18	Fred Terry	64,907.76	$ 984.80	64,907.76	$ 1,363.71	64,061.76	$ 4,578.27	*NOTE 1 and 2
Diann Stephens	Human Resources Manager	*Directs all human resources/personnel activities *Recruits professional, technical and support staff *Develops and monitors personnel policies and procedures *Ensures compliance with relevant federal, state and local laws affecting employment *Develops salary ranges and compensation administration programs *Develops and coordinates performance appraisal programs *Administers employee benefits *Maintains personnel records	-	Fred Terry	56,174.40	$ 282.80	56,174.40	$ 676.71	55,442.28	$ 3,421.57	*NOTE 1 and 2

***NOTE 1 > Salaried employees received their last wage increase April 2007. Since 2007, all salaried wages have been frozen through calendar year 2011.**

***NOTE 2 > Listed salary amounts are net of payments for unused vaction and sick days.**

9. Provide a detailed analysis of advertising expenditures during the test year. Include a breakdown of Account No. 6613, Advertising Expenses, and show any advertising expenditures included in other expense accounts. Specify the purpose and expected benefit of each expenditure.

Highland's advertising expenses for the 2009 test year, grouped by media type, are listed on the schedule attached as Exhibit 9. Footnotes on the schedule provide more description of each media type.

Some of the newspaper advertising was for legal notices of the annual meeting of members, the election of directors, and special meetings of the Board of Directors. Most of the expenditures, though, were incurred to promote services available from Highland. For example, commercials aired on the radio and television stations feature specific services or current promotions. The product and miscellaneous items were primarily to attract attendees of Radio Station WECO's Outdoor Show to Highland's booth there, which was staffed by employees promoting available services. The expected benefits of these promotional expenditures are to attract new customers to Highland's telecommunication services and to cause existing customers to add features to their service.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

EXHIBIT 9

ADVERTISING EXPENDITURES

Highland Telephone Coopertive
Schedule of Advertising Expenses
Calendar Year 2009

Type of Advertisement	Amount	
Radio	$ 45,323.75	①
Newspaper	12,048.65	②
Television	22,780.25	③
Other	2,082.78	④
Product Ads	11,754.25	⑤
Miscellaneous	13,824.11	⑥
	$ 107,813.79	

①WHAY: "98 News Update" and Sponsorship; WECO: Sports Package (Spot, Fast Talk, High School & College Football & Basketball, Nascar Races); WBNT: Radio Spots

②Notice of Annual Meeting, Membership, Voting Precint and Election of Director; Free Installation on Special Phone Features; Lifeline and Link-Up Assistance Programs ; Class of 2009 Scholarship Recipients; Breast Cancer Awareness Ad; Christmas Greeting; Sponsorship of Church Page; Special Meeting of the Board of Directors

③Advertisement of Services Offered; Support of Community Line, Middle School Athletics, Scott County Basketball Tournaments; Senior Congratulations

④Employee Hats and Shirts; Badges and Banners (WECO Outdoor Show)

⑤Decals; Calendars

⑥Decals, Spray Hand Sanitizer, Pens, Handle Bags, Eye Glass Kits, Frisbees, Key Tags, Pencils, Balloons, Kids Construction Hats (WECO Outdoor Show)

10. Pursuant to 807 KAR 5:016, Advertising, does Highland propose to remove any Advertising expense from the Test Year?

As explained in the preceding response, most of Highland's advertising expenses were incurred to promote the telecommunication services it provides. Highland has capacity to add new customers and new features to the services provided to existing customers without constructing new plant facilities or adding personnel. Generating more revenues from both of these sources would offset some of the revenue losses being suffered, as explained in the response to request 20. These expenses promote "services which would have the effect of holding down the cost of providing basic service" and explain the "availability of . . . utility services where energy consumption would . . . not [be] materially increased." 807 KAR 5:016, Section 3(2)(b) and (e) respectively. Therefore, Highland believes that its advertising expenses produced a material benefit for its ratepayers and that under the regulation those expenses should be included in Highland's cost of service for rate-making purposes.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

11. Provide Highland's policies specifying the compensation of directors and a schedule of standard directors' fees, per diems, and other compensation in effect during the test year. If changes occurred during the test year, indicate the effective date and the reason for the changes.

Directors do not receive salaries for their services, and they do not receive any employee benefits. Instead, they are compensated in accordance with Article IV, Section 8 of Highland's bylaws, which states as follows:

> Directors shall not receive any salary for their services as directors, and except in emergencies, shall not be employed by the Co-op in any capacity involving compensation, but the directors shall receive a fixed fee and expenses of attendance, if any, for attendance at each meeting of the Board of Directors, or any committee thereof.

Directors receive a meeting fee of $350.00 and reimbursement for mileage for their attendance at monthly board meetings held pursuant to the bylaws for the Cooperative. In addition, the directors may attend regional or national meetings, workshops and seminars sponsored by the National Telephone Cooperative Association. For these meetings of the NTCA and meetings of the Kentucky and Tennessee Telephone Associations, the directors also receive a per diem meal and reimbursement for either mileage or air fare depending on the location of the meeting. A director may not attend more than four meetings of the NTCA or state telephone associations per year. The reimbursement for mileage equals the federal mileage rate (currently 51 cents per mile). The meal allowance may not exceed $48.00 per day. There were no changes during the test year to the meeting fee or reimbursement rates paid with the exception of changes of the federal mileage rate by the IRS, if any.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Ernest A. Petroff, III of Stansberry, Petroff, Marcum & Blakley, P.C.

12. Provide a detailed analysis of the total compensation paid to each member of the board of directors during the test year including all fees, fringe benefits, and expenses, with a description of the type of meetings, seminars, etc. attended by each member. Do any of the listed expenses in this analysis include the costs for a director's spouse? If yes, list expenses for the directors' spouses separately.

The following is a detailed analysis of the payments to each member of the Board of Directors for the 2009 test year:

Director	Meeting Fees	Meals Per Diem and Mileage Reimbursement	Total Paid to Directors
Director 1	$22,050	$4,716	$26,766
Director 2	22,750	5,010	27,760
Director 3	22,750	3,689	26,439
Director 4	17,500	2,585	20,085
Director 5	17,500	4,160	21,660
Director 6	6,000	4,669	10,669
Director 7	21,350	3,006	24,356
Director 8	20,650	3,944	24,594
Director 9	17,850	5,040	22,890
Director 10	21,700	3,302	25,002
Director 11	17,500	3,453	20,953
Director 12	1,050	-0-	1,050
Total Paid	$208,650	$43,574	$252,224
Conference Expenses (includes lodging, registration, air fare)			71,878
Total Directors Expense			$324,102

As explained in the response to the preceding request, the only compensation paid to the directors is a fee for attending board meetings. They are reimbursed for their mileage travelled to the board meetings and their expenses in attending certain meetings. The type of meetings that directors attend is described in the preceding response. None of the listed expenses include costs for the directors' spouses as Highland does not reimburse for any expense incurred by spouses including travel expenses.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Ernest A. Petroff, III of Stansberry, Petroff, Marcum & Blakley, P.C.

13. Provide Highland's written policies on the compensation of its attorneys, auditors, and all other professional service providers. Include a schedule of fees, per diems, and other compensation in effect during the test year. Include all agreements, contracts, memoranda of understanding, and any other documentation that explains the nature and type of reimbursement paid for professional services. Indicate if any changes occurred during the test year, the effective date of these changes, and the reason for these changes.

There is no written policy on the compensation of attorneys, auditors or other professionals. The Board of Directors approved in February 2002, the employment of the law firm of Stansberry, Petroff, Marcum & Blakley PC and the firm submits its billing on a monthly basis for management and board review. This process was in place for the test year and has not subsequently changed. The Highland audit was prepared by the firm of Totherow, Haile & Welch, PLLC. This firm submits an annual proposal for the audit and upon acceptance by the Board conducts the Independent Auditor's Report for Highland. Other professionals are retained as required in the operation of its business.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Ernest A. Petroff, III of Stansberry, Petroff, Marcum & Blakley, P.C.

14. Provide the following information concerning the costs for the preparation of this case:

a. A detailed schedule of costs incurred to date. Include the date of the transaction, check number or other document reference, the vendor, amount, a description of the services performed, and the account number in which the expenditure was recorded. Indicate any costs incurred for this case during the test year. Include copies of invoices received from the vendors.

Highland retained Totherow, Haile & Welch, PLLC to provide the accounting services and Jackson Kelly PLLC to provide the legal services required in connection with this case. No costs were incurred for this case during the test year. Their fees to date are listed in the following schedule:

Invoice Date	Date of Payment	Check Number	Vendor	Amount	Services Performed	Account Number
08/06/10	08/19/10	109841	Totherow, Haile & Welch, PLLC	$3,515	Accounting Services	4120.5
12/31/10	01/13/11	111580	Totherow, Haile & Welch, PLLC	5,265	Accounting Services	4120.5
Estimated	Unbilled		Totherow, Haile & Welch, PLLC	4,000	Accounting Services	
09/08/10	09/16/10	110077	Jackson Kelly PLLC	12,474	Legal Services	6725
10/06/10	11/18/10	110973	Jackson Kelly PLLC	3,276	Legal Services	6725
11/05/10	11/18/10	110973	Jackson Kelly PLLC	126	Legal Services	6725
02/08/11	02/24/11	112059	Jackson Kelly PLLC	3,024	Legal Services	6725
06/06/11	Current Payable		Jackson Kelly PLLC	1,983	Legal Services	
Estimated	Unbilled		Jackson Kelly PLLC	7,000	Legal Services	

b. An itemized estimate of the total cost to be incurred, detailed explanation of how the estimate was determined, and all supporting work papers and calculations.

Highland is unable to estimate the total cost to be incurred. That amount will depend on whether the Commission conducts a hearing, requires briefs, etc.

The witness responsible for responding to questions related to the information provided in this response is Steven Armes, Accounting Manager of Highland.

15. For each charitable and political contribution (in cash or services), provide the amount, recipient, and specific account charged.

Highland did not contribute cash or services to any political campaign or action committee. Highland did provide charitable contributions in the test year totaling $3,000 for the American Cancer Society Relay for Life campaigns in McCreary County, Kentucky and Scott and Morgan Counties, Tennessee. Further, Highland funded a total of eleven scholarships for graduating high school seniors to assist with continuing education in the amount of $1,000 each. Of the $11,000 total awarded for scholarships, $1,795 of the scholarship funds were unclaimed. Total charitable contributions were $13,705 for the test year. The specific information for these contributions is provided in the schedule attached as Exhibit 15.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Ernest A. Petroff, III of Stansberry, Petroff, Marcum & Blakley, P.C.

EXHIBIT 15

CHARITABLE CONTRIBUTIONS

Highland Telephone Coopertive
Schedule of Charitable Contributions
Calendar Year 2009

Name of Recipient	Amount Received	Account # Charged	Account Name
Clarissa Sumner	$ 435.45	6722-5	Scholarship/Actual
Amelia Comer	667.35	6722-5	Scholarship/Actual
Jilliane Sexton	490.00	6722-5	Scholarship/Actual
Jordan Pryor	242.02	6722-5	Scholarship/Actual
Madison Branstetter	667.33	6722-5	Scholarship/Actual
Merita Pierce	441.75	6722-5	Scholarship/Actual
Anna Freels	1,000.00	6722-5	Scholarship/Actual
Shawn Langley	1,000.00	6722-5	Scholarship/Actual
Ashton Owens	1,000.00	6722-5	Scholarship/Actual
Donja Robbins	337.67	6722-5	Scholarship/Actual
Justin Stephens	1,000.00	6722-5	Scholarship/Actual
Christian Bingham	239.40	6722-5	Scholarship/Actual
Shawn Frazee	586.31	6722-5	Scholarship/Actual
Chelsea Terry	97.82	6722-5	Scholarship/Actual
Jacob Griffith	1,000.00	6722-5	Scholarship/Actual
Oakdale High School	500.00	6722-51	Scholarship/Judging
Oneida High School	500.00	6722-51	Scholarship/Judging
McCreary Central High School	500.00	6722-51	Scholarship/Judging
American Cancer Society Relay for Life - Morgan County	1,000.00	6722-6	Charitable Contributions
American Cancer Society Relay for Life - Scott County	1,000.00	6722-6	Charitable Contributions
American Cancer Society Relay for Life - McCreary County	1,000.00	6722-6	Charitable Contributions
	$ 13,705.10		

16. Describe Highland's lobbying activities and provide a schedule showing the name and salary of each lobbyist; all company-paid or reimbursed expenses or allowances; and the account charged for all personnel for whom a principal function is lobbying, on the local, state, or national level; and indicate whether the lobbyist is an employee or an independent contractor. If any amounts are allocated, show a calculation of the factor used to allocate each amount.

Highland did not fund any lobbying activity for the test year or any subsequent year.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Ernest A. Petroff, III of Stansberry, Petroff, Marcum & Blakley, P.C.

17. Identify all cost-cutting measures and budget reductions as mentioned in Steven Armes Testimony, question 20. Discuss and quantify.

Highland has instituted a number of cost-cutting measures and budget restrictions before and after the test year to off-set the decrease in revenue. In 2008, Highland renegotiated its collective bargaining agreement with the Communications Workers of America, achieving a three year wage freeze for current employees, an extended wage scale for any new employees, and no increase in any employee benefits. Highland also implemented a total wage freeze on all management staff, which wage freeze has continued to date. Highland cut its advertising budget by 50% in 2010 and, through further evaluation of its insurance coverage, obtained reductions of insurance premiums for medical coverage and workers compensation insurance. Reductions in staff have continued and Highland has reduced its work force by 13 employees since 2008.

Highland has instituted budget cuts in director activities including a limitation on trips and expenses. Other budget items including legal fees and advertising expenses have been reduced with continuing review and evaluation occurring annually. In October 2008, Highland for the first time since 1991 suspended the payment of capital credits to its members to further conserve and budget for the expected loss of revenue. From 1991 through October 2008, Highland paid to its members over 12 million dollars in capital credit payments.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Ernest A. Petroff, III of Stansberry, Petroff, Marcum & Blakley, P.C.

18. Highland only proposed to adjust the Test Year for the increased revenue based on the proposed rate increase and the removal of the obsolete inventory adjustment. Why were there only two adjustments made to the Test Year?

In preparing the initial application, Highland selected 2009 as the test year, and it was then required to describe all proposed adjustments to test year amounts. 807 KAR 5:001, § 10(6)(a). The two areas where Highland made adjustments were to the local network services revenue and the write off of obsolete inventory. Highland expects that the rate increase will generate more revenue, and one adjustment was made to show the effect of the rate increase on the amount of test year revenues. Since the write off of obsolete inventory is not an annually recurring deduction, the other adjustment was to eliminate that amount from test year expenses to show a more accurate picture of Highland's financial position after the rate increase. No other adjustments were made because Highland did not expect other changes to its revenues or expenses to occur as a result of the rate increase.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

19. What is the nature of the disposal of obsolete inventory adjustment? Is this regulated equipment or non-regulated plant or inventory?

The inventory that was written off was inventory needed to provide both regulated and non-regulated activities. The inventory was to provide faster and clearer voice and broadband services. Highland purchased the inventory with this in mind. With changing technologies and vendor companies being both acquired and sold, Highland was caught with inventory that no longer was the best fit for Highland. It was determined that it was no longer feasible to install and maintain the equipment with which the inventory was to be utilized. Highland made every attempt to utilize the inventory and when this process was exhausted, Highland tried to sell the inventory. The technological change that led Highland to its decision also prohibited Highland from selling the inventory.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

20. Refer to Testimony of Steven Armes, question 18. Identify the number of customers lost and the amount of the revenues lost. Provide an analysis for the past five years.

This information is provided on the schedule attached as Exhibit 20. However, explanation of two items may be helpful in understanding the data reported.

The Projected Annual Revenue Loss for Year 2011 is the combined effect of losses over the five years. For example, the 102 lines lost in 2006 were gone for the remaining years too. A total of 1,192 lines were lost during 2006 through 2010, so the combined effect is that basic service revenue for 2011 will be $150,953 less than it was in 2005, ignoring any additional lines lost during 2011.

The 5 Year Cumulative Impact as of 2010 shows the total revenue lost from the respective income source for the five year period. Using basic service again to illustrate, the basic service rate revenues for the 102 lines lost in 2005 were $13,110, and that amount was also lost for every year thereafter. Thus, the 5 Year Cumulative Impact is the total of (5 x $13,110) + (4 x $22,817) + (3 x $33,082) + (2 x $39,037) + (1 x $42,907).

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

EXHIBIT 20

LOST CUSTOMERS AND REVENUES

KENTUCKY PSC CASE 2010-00227
Question 20: Line & Access Decrease — Loss Evaluation 1

ACCESS LINES

Year	Access Lines	Total Line Loss		Total Revenue Loss	Residence	Line Loss	Res Rate $9.73 Revenue Loss	yrs	Business	Line Loss	Bus Rate $15.98 Revenue Loss	yrs
2005	7,281				6,095				1,186			
2006	7,179	(102)	-1.40%	($13,109.52)	6,009	(86)	($10,041.36)	5	1,170	(16)	($3,068.16)	5
2007	6,999	(180)	-2.51%	($22,816.80)	5,853	(156)	($18,214.56)	4	1,146	(24)	($4,602.24)	4
2008	6,742	(257)	-3.67%	($33,082.32)	5,637	(216)	($25,220.16)	3	1,105	(41)	($7,862.16)	3
2009	6,434	(308)	-4.57%	($39,037.08)	5,370	(267)	($31,174.92)	2	1,064	(41)	($7,862.16)	2
2010	6,089	(345)	-5.36%	($42,907.20)	5,060	(310)	($36,195.60)	1	1,029	(35)	($6,711.60)	1
		(1,192)				(1,035)				(157)		
Projected Annual Revenue Loss for Year 2011 as Compared to 2005 Acc. Lines.				($150,952.92)			($120,846.60)				($30,106.32)	
5 Year Cumulative Impact as of 2010				($377,043.12)			($297,270.96)				($79,772.16)	

ORIGINATING INTRASTATE ACCESS MINUTES

Year	MOU	Change	% Change	Rate	Loss	yrs
2005	4,803,183					
2006	4,982,363	179,180	3.73%	0.03474	$6,224.78	5
2007	4,836,570	(145,793)	-2.93%	0.03474	($5,064.90)	4
2008	3,922,697	(913,873)	-18.90%	0.03474	($31,748.28)	3
2009	3,454,150	(468,547)	-11.94%	0.03474	($16,277.49)	2
2010	2,590,941	(863,209)	-24.99%	0.03474	($29,988.19)	1
Over 5 years		(2,212,242)	-46.06%	0.03474	($76,854.08)	
Projected Annual Revenue Loss for Year 2011 as Compared to 2005 MOU Levels.				*0.03474*	($76,854.08)	*@ 2011 rate*
5 Year Cumulative Impact as of 2010					($146,923.72)	

TERMINATING INTRASTATE ACCESS MINUTES

Year	MOU	Change	% Change	Rate	Loss	yrs
2005	9,203,026					
2006	9,223,569	20,543	0.22%	0.124664	$2,560.97	5
2007	9,429,560	205,991	2.23%	0.115555	$23,803.29	4
2008	11,044,647	1,615,087	17.13%	0.113928	$184,003.63	3
2009	8,423,239	(2,621,408)	-23.73%	0.103317	($270,836.01)	2
2010	6,449,431	(1,973,808)	-23.43%	0.124521	($245,780.55)	1
Over 5 years		(2,753,595)	-29.92%			
Projected Annual Revenue Loss for Year 2011 as Compared to 2005 MOU Levels.				*0.152192*	($419,075.13)	*@ 2011 rate*
5 Year Cumulative Impact as of 2010					($127,423.65)	

TOTAL INTERSTATE ACCESS MINUTES

Year	MOU	Change	% Change
2005	19,192,896		
2006	20,366,061	1,173,165	6.11%
2007	22,314,012	1,947,951	9.56%
2008	20,831,899	(1,482,113)	-6.64%
2009	19,574,447	(1,257,452)	-6.04%
2010	15,575,402	(3,999,045)	-20.43%
Over 5 years		(3,617,494)	-18.85%

21. In the Kentucky Only Annual Report, explain how the amounts are determined for the report, i.e., allocations or direct assignment.

This explanation is set forth in the schedule attached as Exhibit 21.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

EXHIBIT 21

KENTUCKY ONLY ANNUAL REPORT ALLOCATIONS

Highland Telephone Cooperative
Kentucky Operations Only Annual Report

Description of Amount Reported	How Amount was Determined
Amount of Principal Payment During Calendar Year	Allocation: (# of KY Access Lines/Total # of Access Lines) * (Total Prinicpal Payment for the Calendar Year)
Balance Sheet Accounts - Schedule III Page 1	Allocation: (Kentucky Plant in Service/Total Plant in Service) * (Each Balance Sheet Account Listed on Page)
Balance Sheet Accounts - Schedule III Pages 2-4	Actual Ketucky Plant in Service Balances for Each Balance Sheet Account Listed on Pages
Balance Sheet Accounts - Schedule III Page 5a	Actual Kentucky Plant in Service Balances for Each Balance Sheet Account Listed on Page
Balance Sheet Accounts - Schedule III Pages 5-6	Allocation: (Kentucky Plant in Service/Total Plant in Service) * (Each Balance Sheet Account Listed on Page)
Balance Sheet Accounts - Retained Earnings Schedule III	Allocation: (Kentucky Plant in Service/Total Plant in Service) * (Each Balance Sheet Account Listed on Page)
Income Statement Accounts - Schedule VI page 1	Allocation: (Kentucky Plant in Service/Total Plant in Service) * (Each Income Statement Account Listed on Page)
Income Statement - Operating Expenses - Plant Specific - Schedule VI page 2	Allocation: (Kentucky Plant in Service/Total Plant in Service) * (Each Income Statement Account Listed on Page)
Income Statement - Operating Expenses - Plant NonSpecific - Schedule VI page 3	Allocation: (Kentucky Plant in Service/Total Plant in Service) * (Each Income Statement Account Listed on Page)
Income Statement - Opearting Expenses - Schedule VI page 4	Allocation: (Kentucky Plant in Service/Total Plant in Service) * (Each Income Statement Account Listed on Page)
Total Number of Employees at End of Year	Actual # of Employees Working in Kentucky
Total Compensation for the Year	Actual Compensation Paid to Employees for the Year
Access Lines in Service by Technology Schedule VII	Actual # of Access Lines By Type of Technology
Access Lines in Service by Customer Schedule VIII	Actual # of Access Lines By Type of Customer
Telephone Calls Schedule IX	Detail Figures Based on Actual Except for Local, Which is An Allocation

22. Refer to questions 5 of the first request for information. How much revenue did the increase in inside wire produce on an annual basis?

In July 2008, Highland made the decision to increase the rate charged for inside wiring from $.52 to $3.00. The resulting increase raised the average monthly revenue from inside wiring from $10,333 to $56,442 for a net revenue increase of $554,304 for 2009.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Ernest A. Petroff, III of Stansberry, Petroff, Marcum & Blakley, P.C.

23. Why were other revenue sources not considered for rate increases, i.e., custom calling features, DSL rates, Cable TV rates?

Highland considered all of its revenue sources as potential candidates for rate increases, but concluded the only two it could increase were its inside wiring rate discussed in the preceding response and its basic service rate, which is the subject of this case. Rates for other telephone services, such as custom calling features, are restricted by competitive providers. Likewise, DSL rates for internet service, which is provided through a subsidiary, Highland Communications, Inc., are limited by competing providers. While a subsidiary, Highland Media, Inc., provides cable TV service to limited portions of Highland's service area in Tennessee, the absence of fiber-to-the-home in McCreary County precludes offering adequate service there. However, Highland is now able to construct fiber-to-the-home throughout its entire territory with the stimulus grant/loan recently approved by Rural Utilities Services, and it expects this will enable its subsidiary to provide cable TV service in McCreary County.

The witnesses responsible for responding to questions related to the information provided in this response are Steven Armes, Accounting Manager of Highland, and Ernest A. Petroff, III of Stansberry, Petroff, Marcum & Blakley, P.C.