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David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Charles R. Borders
Commissioner

June 24, 2011

PARTIES OF RECORD

Re: Case No. 2010-00227

Attached is a copy of the memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the informal conference memorandum, please do so within five days of receipt of this letter. If you have any questions, please contact Jeb Pinney at 502/564-3940, Extension 427.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Derouen".


Jeff Derouen
Executive Director

JP/kar

Attachment

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File 2010-00227

FROM: J.E.B. Pinney, Staff Attorney 

DATE: June 22, 2011

SUBJECT: Application of Highland Telephone Cooperative, Inc. For An Adjustment of Rates

On June 10, 2010, representatives from Commission Staff met with representatives from Highland Telephone Cooperative, Inc. ("Highland") to discuss Highland's application to raise its residential and business local telephone rates. Commission Staff began the meeting by expressing concerns that the Commission had regarding the sufficiency of the record to support the reasonableness of the requested rate increase.

Highland stated that in 2009 it suffered its first net financial loss in its history and this triggered the rate case application. Highland stated that it sought the rate increase in its base rates in order to return to a sound financial basis. Highland explained that it sought to obtain a TIER in excess of the minimum TIER of 1.5 that the Rural Utility Services ("RUS") required in its loan covenant.

Highland stated that although in its application it appeared that the proposed rate increase would provide a 3.93 TIER, it was only earning a TIER of 1.11 with the rate increase in effect for its Tennessee customers. Highland also stated that it calculated the proposed rate increase by looking at the rates for other rural telephone cooperatives in the vicinity and by calculating a number that would put it on sound financial footing.

Highland asserted that this was its first rate increase since 1984 and wanted the increase to be sufficient to avoid seeking further rate increases in the near future.

Commission Staff opined that there may not be enough evidence in the record to support the reasonableness of the requested rate increase only for the regulated services that Highland offers and not for the unregulated portions that provide DSL and video services. Commission Staff inquired as to why Highland did not seek to raise revenues by raising the rates on its video and DSL services.

Highland stated that it provides video services to a small portion of its customer base and these rates are subject to competition. Highland also stated that the rates for its DSL services are also subject to competition.

Highland stated that it had raised rates on other services such as inside wire maintenance because it was below the market rate and to offset the loss of revenue from other services.

Highland discussed the consequences of not receiving the rate increase stating that, but for the increase in local exchange rates in its Tennessee service area, it would not have been able to stay operating and also would not have qualified for the RUS loans and grants. Highland further stated that if the rate increase was not granted in Kentucky, it would likely result in Highland defaulting on its RUS loan covenant.

Highland discussed the effects of competition on its revenues, stating that between 2005 and 2010, its originating traffic minutes of use decreased 46%. Highland stated that this was due in part to competition from other local exchange carriers but mostly from Highland's customers switching to wireless service. Highland expected further decreases in access lines and originating traffic. Highland also stated that Tennessee recently enacted legislation that would gradually lower intrastate access rates to align with its interstate access rates eventually leading to a \$1.5 million annual loss in revenue. Highland stated that it sought to offer DSL and video services as a way to slow or stop line and revenue loss from the regulated portions of the company.

Commission Staff discussed the procedure for the upcoming formal hearing. Commission Staff also suggested that Highland could move the Commission for an additional witness to appear without having pre-filed testimony.

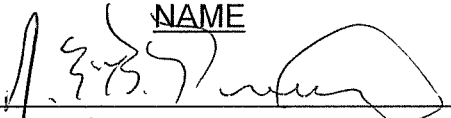

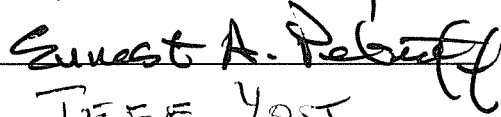
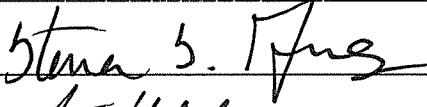

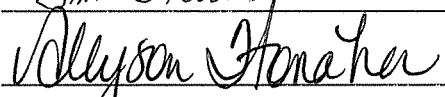
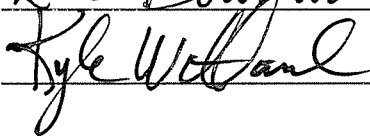
Thereafter the informal conference adjourned.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

SIGN IN SHEET FOR JUNE 9, 2011 INFORMAL CONFERENCE

<u>NAME</u>	<u>PARTY</u>
	PSC
	PSC
F.L. Terry	Highland Tel
	HTC
JEFF YOST	HTC
	HTC
	HTC / Toll-free Numbers & other
Jim Stevens	PSC
	PSC
John Rogness	PSC - F.A.
Eric Bowmar	PSC
	PSC - Engineering