

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF PEOPLES RURAL)	CASE NO.
TELEPHONE COOPERATIVE CORPORATION,)	2014-00305
INC. FOR A GENERAL ADJUSTMENT IN RATES)	

ORDER

On August 28, 2014, Peoples Rural Telephone Cooperative Corporation, Inc. (“Peoples”) notified the Commission in writing of its intent to file an application for a general adjustment of its rates for basic local exchange service. Peoples submitted its application, which was deemed filed on October 16, 2014, informing the Commission of Peoples’ intent to place its proposed rates into effect on and after December 1, 2014, in order to meet the rate floor mandated in 47 C.F.R. § 54.318.

Peoples filed its proposed increased rates to comply with the 2011 directive of the Federal Communications Commission (“FCC”) that, *inter alia*, comprehensively reformed intercarrier compensation.¹ In addition to establishing a glide path to reduce access charges to zero, the FCC’s ICC/USF Order also established a rate floor for local exchange rates.² The FCC required that local exchange carriers, such as Peoples, shall be eligible to receive high-cost support in a study area only if their rates for local exchange service are at or above the rate floor on June 1 of every subsequent year. Failure to meet the rate floor will result in forfeiture of the high-cost support that the

¹ See, *In the Matter of Connect America Fund et. al., Report and Order and Further Notice of Proposed Rulemaking*, FCC 11-161 (November 18, 2011) (“FCC’s ICC/USF Order”).

² *Id.* para. 238.

carrier would have otherwise received for that year.³ On June 10, 2014, the FCC altered the schedule for imposition of rate floor penalties, effectively requiring carriers to ensure that their 2014 rate floor obligations are met no later than December 1, 2014.⁴ The revised schedule allowed for a four-year period to meet the rate floor of \$20.46.⁵ The first phase of the modified schedule required that the residential rates of companies be no lower than \$16.00 beginning December 1, 2014.

The Commission is cognizant that Peoples ability to receive High Cost Loop support (“HCLS”) will be jeopardized if its rates for basic local exchange service are not at or above the \$16.00 rate floor mandated in the FCC’s ICC/USF Order. The loss of HCLS would necessitate even larger rate increases in the future to offset loss of federal funding.

Peoples is a rural incumbent local exchange carrier serving individuals and businesses within all of Owsley and Jackson counties (“Service Territory”). Peoples was established in 1950 as a corporation to provide local telephone service to business and individual customers within the exchanges of McKee, Annville, Booneville, and Sandgap, Kentucky. Peoples provides service to approximately 5,748 residential lines and 1,028 business lines. Peoples is an eligible telecommunications carrier in the communities it serves and is also the carrier of last resort (“COLR”) in its Service

³ *Id.* para. 239.

⁴ *See*, In the Matter of Connect America Fund et. al., Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration and Further Notice of Proposed Rulemaking, FCC 14-54 (June 10, 2014) at para. 79-80.

⁵ *Id.* Para. 80.

Territory. In 2013, Peoples received \$2,518,050 from the HCLS to support its COLR responsibilities in its service territory and it expects to receive \$2.9 million in 2014.

Peoples has not had a general rate increase since 1982 and states it would not otherwise make this filing if not for the FCC's ICC/USF Order. Peoples has provided ample notice to its members. Because Peoples' current rates are below the December 1, 2014 rate floor established by the FCC, Peoples has to increase its rate in order to avoid a loss of eligibility of HCLS. To meet the \$16.00 residential rate floor established by the FCC, Peoples proposes to increase its residential rates from \$14.00 to \$16.00, which will produce an annual increase in revenue of approximately \$137,952. To mitigate the impact of the rate increase on its subscribers, Peoples will offset the increase in basic rates by decreasing the rate charged for caller name delivery by \$2.00. Peoples states that the majority of its customers purchase Caller Number and or Caller Name and Number service, with Caller Name and Number being the most popular feature. Currently, the prices for these services are \$4.00 and \$6.00 respectively. Peoples proposes to eliminate Caller Number service and upgrade those customers to Caller Name and Number. Caller Name and Number service will be reduced by \$2.00 to \$4.00. Peoples has demonstrated, through confidential schedules, that the implementation of the rate changes will result in an increase of \$1.18 to the average customer.

Additionally, as part of the FCC's ICC/USF Order, the FCC established that the intercarrier compensation collected in the 2011 fiscal year, from October 1, 2010, to September 30, 2011, was the maximum amount of allowed revenues from intercarrier compensation. In addition, the FCC's ICC/USF Order established a phase-down

schedule of those maximum amounts allowed, requiring that the maximum intercarrier compensation amount be reduced by 5 percent for the 2012 fiscal year, 4.75 percent for the 2013 fiscal year, and 4.5 percent for the 2014 fiscal year. With this change, Peoples cannot collect more than the maximum intercarrier compensation revenue amount established by the FCC. The reduction in intercarrier compensation has grown larger each fiscal year,⁶ and when this reduction in revenue is combined with the increase in revenue from the proposed rate increase, Peoples' revenue will be lower than its level prior to the FCC's ICC/USF Order.

The Commission also notes that the telecommunications market has gone through and continues to go through major changes. The General Assembly has enacted significant changes to the authority of the Commission in light of competitive choices and options available to consumers.⁷ For example, the Commission has jurisdiction only over basic service rates of telecommunication companies, which include only a single business or residential service line.⁸ All other retail rates of the telecommunication's companies are not subject to the Commission's rate regulation. The Commission also notes that Peoples is a cooperative organization subject to the board of directors of the cooperative and its member owners.

The Commission finds that, based on the foregoing information submitted by Peoples and the potential loss of high-cost support, the rate increase should be granted.

⁶ Application of Peoples Rural Telephone Cooperative Corp., Inc., Confidential Exhibit 1, filed October 16, 2014.

⁷ KRS 278.541-544.

⁸ KRS 278.541(1).

Peoples has demonstrated that the proposed rate increase, under the circumstances of this case, is reasonable.

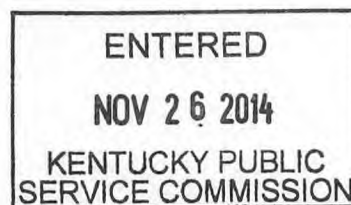
IT IS THEREFORE ORDERED that:

1. Peoples' proposed increase in basic residential local service rates and reduction in Caller ID rates, as set forth in the tariff attached to its application deemed filed on October 16, 2014, is approved.

2. Within 20 days of the date of this Order, Peoples shall file, using the Commission's electronic Tariff Filing System, its revised tariff sheets containing the rates approved herein and signed by an officer of the utility authorized to issue tariffs. The tariff sheets shall reflect that they were approved pursuant to this Order, and shall contain an effective date of December 1, 2014.

3. Any future increases to basic local exchange rates necessitated by the FCC's ICC/USF Order shall be filed as an application in compliance with Commission regulations.

By the Commission



ATTEST



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