

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DUO COUNTY TELEPHONE ) CASE NO.  
COOPERATIVE CORPORATION, INC. FOR A ) 2014-00315  
GENERAL ADJUSTMENT IN RATES )

ORDER

Duo County Telephone Cooperative Corporation, Inc. (“Duo County”) submitted an Application with the Commission for a general adjustment of its rate for basic local exchange service that was deemed filed on October 30, 2014. Duo County informed the Commission of its intent to place its proposed rates into effect on and after November 30, 2014, in order to meet the rates floor mandated in 47 C.F.R. § 54.318.

Duo County filed its proposed increased rates to comply with the directive of the Federal Communications Commission (“FCC”) in its Order that, *inter alia*, comprehensively reformed intercarrier compensation.<sup>1</sup> 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.<sup>2</sup> The FCC also ordered that Local Exchange Carriers, such as Duo County will be eligible to receive high-cost support in a study area only if the 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

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

<sup>2</sup> *Id.* para. 238.

high-cost support that the carrier would have otherwise received for that year.<sup>3</sup> On March 20, 2014, the FCC released the results of its urban rate floor survey that established the 2014 rate floor of \$20.46 and also sought comment on a petition to extend the deadline for compliance with the 2014 rate floor.<sup>4</sup> On June 10, 2014, the FCC issued an order on reconsideration that modified the schedule for imposition of rate floor penalties and allowed for a phase-in of the residential floor.<sup>5</sup> The revised schedule allowed for a four-year period to meet the rate floor of \$20.46.<sup>6</sup> The first phase of the modified schedule required that the residential rates of companies must be no lower than \$16.00 beginning December 1, 2014.

The Commission recognizes that Duo County's ability to receive High Cost Loop Support ("HCLS") is jeopardized if its rate for basic local exchange service is not at or above the \$16.00 rate floor mandated in the FCC's Modified Rate Floor Order. The loss of HCLS would threaten the financial integrity of the company and likely necessitate an even larger rate increase in the future to offset loss of federal funding.

Duo County is a rural incumbent local exchange carrier serving individuals and businesses within all or parts of Adair County, Casey County, Cumberland County, and Russell County, Kentucky ("Service Territory"). Duo County was established in 1954 as

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<sup>3</sup> *Id.* para. 239.

<sup>4</sup> *Wireline Competition Bureau Announces Results of Urban Rate Survey for Voice Services; Seeks Comment on Petition for Extension of Time to Comply with New Rate Floor*, Public Notice, DA 14-84, Released March 20, 2014.

<sup>5</sup> 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) ("FCC's Modified Rate Floor Order")

<sup>6</sup> *Id.* para. 80.

a member-owned cooperative to provide local telephone service to businesses and individual customers within the exchanges of Burkesville Rural, Fairplay, Jamestown, and Russell Springs. Duo County provides service to approximately 8,478 residential lines and 1,867 business lines. Duo County is an eligible telecommunications carrier in the communities it serves and is also the carrier of last resort (“COLR”) in its service territory. In 2013, Duo County received approximately \$1,894,770 from HCLS to support its COLR responsibilities in its service territory and anticipates receiving \$1,900,000 in 2014.

Duo County has not had a general rate increase since November 1, 1977, and states it would not otherwise make this filing if not for the FCC’s ICC/USF Order.<sup>7</sup> Duo County has provided ample notice to its members and is optimistic that the modest increase will have a negligible impact on its members. Because Duo County’s current rate is below the June 1, 2013 rate floor established by the FCC, Duo County must increase its rate in order to avoid a loss of HCLS. Based on its current access line count, failure to meet the FCC’s \$16.00 rate floor would deprive Duo County of approximately \$188,726 in HCLS to which the company would otherwise be entitled. To meet the \$16.00 residential rate floor established by the FCC, Duo County proposes to increase its residential services rate by \$2.00, or 14 percent, which will produce an annual increase in revenue of approximately \$188,726. Duo County proposes to expand extended area service (“EAS”) to allow subscribers a larger toll-free calling area. Duo

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<sup>7</sup> Duo County increased its rates in 2013 to meet the \$14.00 residential rate floor. Case No. 2013-00184, In the Matter of Tariff Filing of Duo County Telephone Cooperative Corporation, Inc. (Ky. PSC February 3, 2014)

County is not able to quantify the costs and revenue reduction associated with this change at this time, but anticipates it will incur additional costs and forego switched access revenue. Duo County anticipates that the expanded calling will provide benefits to its subscribers and mitigate much of the local rate increase for many subscribers.

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, Duo County cannot collect more than the maximum intercarrier compensation revenue amount. The reduction in intercarrier compensation has grown larger each fiscal year,<sup>8</sup> and when this reduction in revenue is combined with the increase in revenue from the proposed rate increase, Duo County's 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 Kentucky General Assembly has made major changes to the authority of the Commission in light of competitive choices and options available to consumers.<sup>9</sup> For example, the Commission has

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<sup>8</sup> Application of Duo County Telephone Cooperative Corp., Inc., Confidential Exhibit 1, filed October 30, 2014.

<sup>9</sup> KRS 278.541–544.

jurisdiction only over basic service rates of telecommunication companies. Basic service includes only a single business or residential service line.<sup>10</sup> All other retail rates of the telecommunication companies are not subject to the Commission's rate regulation. The Commission also notes that Duo County 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 Duo County, the rate increase should be granted on a permanent basis. Duo County has demonstrated that the proposed rate increase is reasonable and, in light of other affecting circumstances, is necessary for the continued operation of the company.

IT IS THEREFORE ORDERED that:

1. Duo County's proposed increase in basic local residential exchange service rate and expansion of its toll-free calling area, as set forth in the tariffs attached to its application deemed filed on October 30, 2014, are approved.

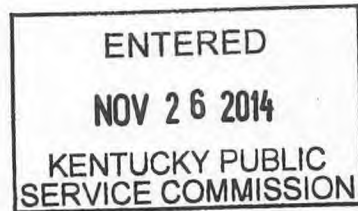
2. Within 20 days of the date of this Order, Duo County shall file, using the Commission's electronic Tariff Filing System, its revised tariff sheets containing the rates approved herein and signed by an officer of the utility authorized to issue tariffs. The tariff sheets shall reflect that they were approved pursuant to this Order, and shall contain an effective date of November 30, 2014.

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<sup>10</sup> KRS 278.541(1).

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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Executive Director

Case No. 2014-00315

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