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**PUBLIC SERVICE
COMMISSION**

July 5, 2007

VIA FEDERAL EXPRESS

Hon. Beth O'Donnell
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Re: North Central Telephone Cooperative Corporation

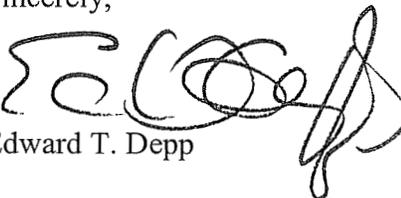
Dear Ms. O'Donnell:

2007-00162

We have enclosed for filing, the original and eleven (11) copies of a letter sent on behalf of North Central Telephone Cooperative Corporation to Amy E. Dougherty, Esq. Please file-stamp and return one copy to us in the enclosed, self-addressed, stamped envelope.

Thank you, and if you have any questions, please call me.

Sincerely,


Edward T. Depp

ETD/lb

Enclosure

cc: Amy E. Dougherty, Esq. (w/ encl.)
John E. Selent, Esq. (w/o encl.)
Holly C. Wallace, Esq. (w/o encl.)

122843v1

John E. Selent
502-540-2315
john.selent@dinslaw.com

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JUL 06 2007

PUBLIC SERVICE
COMMISSION

July 5, 2007

***VIA E-MAIL (aedougherty@ky.gov)
and FEDERAL EXPRESS***

Amy E. Dougherty, Esq.
Kentucky Public Service Commission
P. O. Box 615
211 Sower Boulevard
Frankfort, KY 40602-0615

Re: North Central Telephone Cooperative Corporation

2007-00162

Dear Amy:

The purpose of this letter is to respond to your question regarding whether Kentucky law permits the Public Service Commission of the Commonwealth of Kentucky (the "Commission") to approve the June 28, 2007 tariff filing of North Central Telephone Cooperative Corporation ("North Central") without suspending the revised tariff. For the following reasons, we believe that Kentucky law permits the Commission to do so.

Suspension of tariffs is a permissive right – but not an obligation – of the Commission. KRS 278.190 ("Procedure when new schedule of rates filed – Suspension of new rate schedule – Burden of proof – Refunds") provides that "[w]hensoever any utility files with the commission any schedule stating new rates, the commission may, upon its own motion, or upon complaint as provided in KRS 278.260, and upon reasonable notice, hold a hearing concerning the reasonableness of the new rates." KRS 278.190(1) (emphasis added). "Pending such hearing and the decision thereon, and after notice to the utility, the commission may, at any time before said schedule becomes effective, suspend the operation of said schedule and defer the use of such rate, charge, classification, or service...." KRS 278.190(2) (emphasis added). Accordingly, the Commission is not obligated to suspend North Central's June 28, 2007 tariff filing.

Here, North Central's tariff filing proposes only to modify the existing rates for the existing basic residential and business service provided by the company. It is not a rate application, governed by 807 KAR 5:011 sec. 7. It is not a filing to furnish additional or revised equipment or service to a customer, governed by 807 KAR 5:011 sec. 6(2)(c). It is not a filing

Amy E. Dougherty, Esq.

July 5, 2007

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associated with nonrecurring charges, governed by 807 KAR 5:011 sec. 10. Accordingly, we do not believe the simple change of a rate (provided the change is not sought in a rate application, as here) requires the submission of cost of service studies or other cost support data.

Nevertheless, in support of its June 28th filing, North Central has attached the following cost support data. The attached Exhibit A contains the financial statement of North Central for the year ended December 31, 2006. This exhibit, part of the company's audited financial statements, shows a loss of approximately \$303,000 for that year. The attached Exhibit B contains information regarding North Central's actual rate of return in 2006 and projected rate of return in 2007 (both with and without the requested rate revision). As the exhibit indicates, the company's consolidated rate of return in 2006 was actually negative. Absent the additional revenues sought here, North Central will continue to suffer low returns, and even with the revisions proposed in its filing, the company projects to earn well below a reasonable rate of return, in any event. The attached Exhibit C contains a historical graph clearly illustrating that the company's revenues are stagnant while its expenses continue to grow year-upon-year.

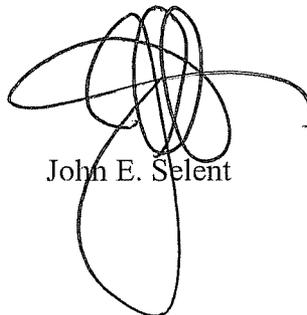
The attached Exhibit D shows a comparison of North Central's proposed rates to the existing rates of other carriers in the region. As noted in its filing, North Central's proposed rates are comparable to, if not less than, rates already charged by similarly situated carriers.

Taken together (and in light of the information contained in North Central's cover letter to the June 28 filing), these exhibits demonstrate that North Central's proposed rate revision is reasonable. It is reasonable in light of the rates of other carriers in the region. (*See* Exhibit D.) It is reasonable in light of North Central's decreasing revenues and increasing expenses. (*See* Exhibits A, B, and C.) Finally, it is reasonable in light of the fact that North Central has not increased its basic residential and business rates in nearly a quarter-century. (To this end, North Central notes that it has not, to date, received any inquiries or complaints from the public or the Attorney General's office regarding the proposed tariff revision.) Accordingly, North Central respectfully requests that the Commission exercise its statutory discretion not to suspend the filed tariff revision.

Thank you.

Sincerely,

DINSMORE & SHOHL LLP

A handwritten signature in black ink, appearing to read "John E. Selent". The signature is stylized with several overlapping loops and a long horizontal stroke extending to the right.

John E. Selent

JES/mbt

cc: Holly C. Wallace, Esq. (w/ encl.)
Edward T. Depp, Esq. (w/ encl.)

122809v1

EXHIBIT "A"

CONSOLIDATING

NORTH CENTRAL TELEPHONE

December 31,

<u>North Central Telephone Cooperative, Corp.</u>	
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash - general	\$ 4,052,332
Cash - construction funds	1,205,493
Temporary cash investments	2,370,000
Telecommunications accounts receivable	1,031,351
Notes receivable - current	0
Other accounts receivable	106,392
Advance to related company	0
Materials and supplies	267,897
Other current assets	<u>113,719</u>
TOTAL CURRENT ASSETS	\$ 9,147,124
<u>NONCURRENT ASSETS</u>	
Investment in subsidiary	\$ 20,821,391
Investments	565,376
Nonregulated investments	1,531,258
Notes receivable	0
Goodwill - net	<u>0</u>
TOTAL NONCURRENT ASSETS	\$ 22,918,025
<u>PROPERTY, PLANT AND EQUIPMENT</u>	
Telecommunications plant in service	\$ 79,856,576
Telecommunications plant under construction	<u>13,372,093</u>
	\$ 93,228,669
Less accumulated depreciation	<u>46,660,812</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ <u>46,567,857</u>
	<u>\$ 78,633,006</u>

BALANCE SHEETS

COOPERATIVE CORPORATION AND SUBSIDIARY

2006

North Central
Telephone
Cooperative, Corp.

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 1,828,903
Advance billings and payments	120,242
Advance to related company	1,256,958
Customer deposits	447,803
Current maturities on long-term debt	2,814,472
Accrued taxes	473,620
Accrued interest	104,540
Accrued rent	465,127
Accrued salaries and wages	206,577
Accrued vacation and sick leave benefits	2,028,305
Other current liabilities	338,366

TOTAL CURRENT LIABILITIES \$ 10,084,913

LONG-TERM DEBT

Rural Utilities Service	26,673,460
Other long-term debt	0

OTHER LIABILITIES

Postretirement benefits other than pension	1,217,242
Deferred taxes - net	0

TOTAL LIABILITIES \$ 37,975,615

MEMBERS' EQUITY

Capital stock	\$ 0
Patronage capital	40,657,391
Retained earnings	0

TOTAL MEMBERS' EQUITY \$ 40,657,391

\$ 78,633,006

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2006

	North Central Telephone Cooperative, Corp.
Operating revenues:	
Local network services revenue	\$ 4,346,782
Network access service revenue	6,165,199
Long distance network services revenue	3,550,205
Miscellaneous revenue	2,299,130
Less: Uncollectible revenue	<u>(110,567)</u>
TOTAL OPERATING REVENUES	\$ 16,250,749
Operating expenses:	
Plant specific operations expense	\$ 3,592,504
Plant nonspecific operations expense	2,236,698
Provision for depreciation	5,339,421
Customer operations expense	2,263,832
Corporate operations expense	2,718,772
Operating taxes	<u>402,808</u>
TOTAL OPERATING EXPENSES	\$ 16,554,035
OPERATING INCOME (LOSS)	\$ (303,286)

EXHIBIT "B"

North Central Telephone Cooperative (consolidated)

Exhibit B

Rate of Return Calculation

	<u>2007 Projected</u>	<u>2006 Actual</u>	<u>2007 Projected Notes</u>
Telephone Plant in Service	\$ 82,576,435	\$ 79,856,576	May results
Plant Under Construction	\$ 11,857,986	\$ 13,372,093	May results
All Other Investment	\$ 2,038,706	\$ 2,038,706	2006 Results
	\$ 96,473,127	\$ 95,267,375	
<i>less</i>			
Accumulated Amortization	\$ -	\$ -	
Accumulated Depreciation	\$ 47,817,055	\$ 46,660,812	May results
Accumulated Deferred Inc. Tax	\$ -	\$ -	
	\$ 47,817,055	\$ 46,660,812	
 Net Investment (rate base)	 \$ 48,656,071	 \$ 48,606,563	
 <i>Capital Structure</i>			
Equity	53.30%	49.96%	May results
Debt	46.70%	50.04%	May results
Cost of debt	4.90%	4.90%	Estimate
Cost of equity	12.50%	12.50%	Historic
Calculated ROR	8.95%	8.70%	
 Return (ROR applied to rate base)	 \$ 4,355,016	 \$ 4,227,173	
 Operating expenses <i>net oper taxes</i>	 \$ 15,101,558	 \$ 16,151,227	 May results, annualized
Operating taxes	\$ 514,103	\$ 402,808	May results, annualized
Less Other income	\$ 171,075	\$ 6,763	May results, annualized
Additional Allowed Revenues	\$ 15,444,585	\$ 16,547,272	
 Total Allowed Revenues	 \$ 19,799,601	 \$ 20,774,445	
 Actual / Projected Revenues	 \$ 16,800,000	 \$ 16,250,749	 Reflects non-basic rate increase in January
Shortfall	\$ 2,999,601	\$ 4,523,696	
 Calculated ROR	 2.79%	 -0.61%	
 Additional Revenue Requested	 \$ 857,000		
 Projected Revenues	 \$ 17,657,000	 \$ 16,250,749	
 Net Rate of Return	 4.55%	 -0.61%	

EXHIBIT "C"

North Central Telephone Cooperative

Comparison of Revenues vs Expenses

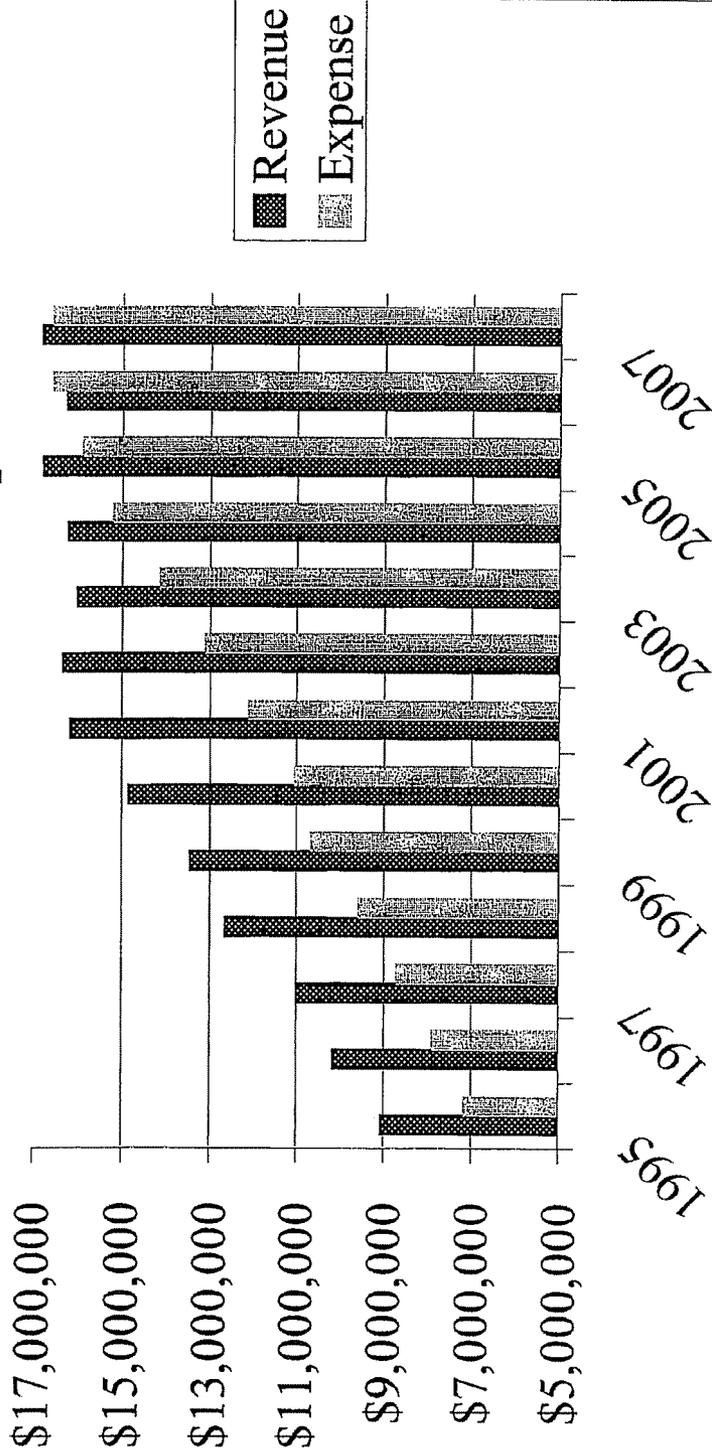


EXHIBIT "D"

**North Central Telephone Cooperative
Comparison of Area Local Service Rates**

Exhibit D

	NCTC Proposed	BellSouth (Group 3)									
		SCRTC	Logan	W. KY	Windstream Scottsville	Duo Cty	Highland	Ballard	BBTel		
Kentucky Local 1R	5,200	\$ 14.90	\$ 16.65	\$ 14.56	\$ 13.20	\$ 13.37	\$ 9.73	\$ 7.40	\$ 5.60		
Local 1B	325	\$ 23.03	\$ 26.35	\$ 21.06	\$ 32.00	\$ 20.87	\$ 15.98	\$ 9.80	\$ 8.40		
Average		\$ 84,965	\$ 95,144	\$ 82,557	\$ 79,040	\$ 76,307	\$ 55,790	\$ 41,665	\$ 31,850		