

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

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

Highland Telephone Cooperative, Inc. ("Highland"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before May 15, 2011. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Highland shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

Highland fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

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.

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

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.

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

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.

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.

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 expensed, and the account numbers in which the capitalized or expensed costs were recorded.

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.

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.

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

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.

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.

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.

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.

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.

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

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.

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

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?

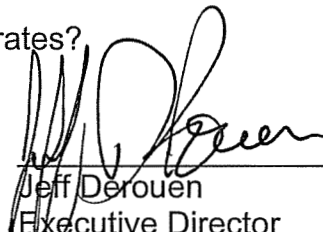
19. What is the nature of the disposal of obsolete inventory adjustment? Is this regulated equipment or non-regulated plant or inventory?

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

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

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

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



Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED APR 22 2011

cc: Parties of Record

Jeffrey J Yost
Jackson Kelly PLLC
175 East Main Street
Suite 500, P. O. Box 2150
Lexington, KENTUCKY 40595-0000