

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WEST KENTUCKY RURAL) CASE NO.
TELEPHONE COOPERATIVE CORPORATION,) 2014-00329
INC. FOR A GENERAL ADJUSTMENT IN RATES)

ORDER

West Kentucky Rural Telephone Cooperative Corporation, Inc. (“West Kentucky”) filed an application with the Commission for a general adjustment of its rates for basic local exchange service that was deemed filed on October 31, 2014. West Kentucky informed the Commission of its intent to place its proposed rates into effect on November 30, 2014, in order to meet the rate floor mandated in 47 C.F.R. § 54.318.

West Kentucky 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.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 West Kentucky, shall 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 high

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.

cost support that the carrier would have otherwise received for that year.³ 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.⁴ 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.⁵ The revised schedule allowed for a four-year period to meet the rate floor of \$20.46.⁶ The modified schedule required that the residential rates of companies must be no lower than \$16.00 beginning December 1, 2014.

The Commission is cognizant that West Kentucky's 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.

West Kentucky is a rural incumbent local exchange carrier serving individuals and businesses within all or parts of Carlisle, Graves, Marshall, Hickman, and Calloway counties ("Service Territory"). West Kentucky was established in 1953 as a corporation to provide local telephone service to business and individual customers within the

³ *Id.* para. 239.

⁴ *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.

⁵ 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").

⁶ *Id.* para. 80.

exchanges of Cunningham, Lowes, Folsomdale, West Plains, Fair Dealing, Harding, Kirksy, New Concord, Hazel, Lynn Grove, Farmington, Lynnville, Sedalia, Wingo, and Fancy Farm, in addition to several Tennessee exchanges. West Kentucky provides service to approximately 5,748 residential lines and 1,028 business lines in Kentucky and 5,642 residential lines and 95 business lines in Tennessee. West Kentucky 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, West Kentucky expects to receive approximately \$2,683,926 from the HCLS to support its COLR responsibilities in its service territory and anticipates receiving \$2,300,000 in 2014.

West Kentucky has not had a rate increase since 1981 and states it would not otherwise make this filing if not for the FCC's ICC/USF Order. West Kentucky has provided ample notice to its members. Because West Kentucky's current rates are below the December 1, 2014 rate floor established by the FCC, West Kentucky must increase its rate in order to avoid a loss of eligibility of HCLS. Based on its current access line count, failure to meet the FCC's \$16.00 rate floor would deprive West Kentucky of approximately \$196,819 company-wide in HCLS to which the company would otherwise be entitled. To meet the \$16.00 residential rate floor established by the FCC, West Kentucky proposes to increase its residential service rate by \$1.44, or 10 percent, which will produce an annual increase in revenue of approximately \$196,819 company-wide. West Kentucky anticipates the average residential subscriber will experience a 1.1 percent increase in his or her monthly charge. West Kentucky is

proposing changes to its residential rates on a company-wide basis, for both Kentucky and Tennessee customers.⁷

Additionally, as part of the FCC's ICC/USF Order, the FCC established that the intercarrier compensation collected in 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, West Kentucky cannot collect more than the maximum intercarrier compensation revenue amount. The reduction in intercarrier compensation has grown larger each fiscal year,⁸ and when this reduction in revenue is combined with the increase in revenue from the proposed rate increase, West Kentucky'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 Legislature has made major changes to the authority of the Commission in light of competitive choices and options available to consumers.⁹ For example, the Commission only has jurisdiction over basic service rates of telecommunication companies. Basic service only includes a single

⁷ As a Cooperative organization in Tennessee, West Kentucky is not subject to regulation by the state of Tennessee, and thus, does not have to seek approval of changes to its rates and charges in Tennessee.

⁸ Application of West Kentucky Rural Telephone Cooperative Corp., Inc., Confidential Exhibit 1, filed October 31, 2014.

⁹ KRS 278.541 – 544.

business or residential service line.¹⁰ All other retail rates of the telecommunications companies are not subject to the Commission's rate regulation. The Commission also notes that in the case of West Kentucky, it 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 West Kentucky, the rate increase should be granted. West Kentucky has demonstrated that the proposed rate increase is necessitated by the FCC's ICC/USF Order and is reasonable.

IT IS THEREFORE ORDERED that:

1. West Kentucky's proposed increases in basic local residential exchange service rates, as set forth in the tariffs attached to its application deemed filed on October 31, 2014, are approved.

2. Within 20 days of the date of this Order, West Kentucky 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.


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.

¹⁰ KRS 278.541 (1).

By the Commission

ENTERED
NOV 26 2014
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2014-00329

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