

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SOUTH CENTRAL RURAL	)	CASE NO.
TELEPHONE COOPERATIVE CORPORATION, INC.	)	2016-00045
FOR A GENERAL ADJUSTMENT IN RATES	)	

ORDER

On March 8, 2016, South Central Rural Telephone Cooperative Corporation, Inc. (“South Central”) tendered for filing an application for an general adjustment of its rates for basic local exchange service (Application”). In its Application, South Central informed the Commission of its intent to place its proposed rates into effect on and after June 1, 2016, in order to meet the rate floor mandated in 47 C.F.R. § 54.318. With its Application, South Central filed a motion requesting Commission approval to deviate from certain filing requirements. By Order, the Commission granted South Central’s motion for deviation, and the Application was deemed filed on March 16, 2016.

South Central filed its proposed increased rates to comply with the 2011 directive of the Federal Communications Commission (“FCC”) 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 required that Local Exchange Carriers, such as South Central, be eligible to receive high-cost support in a study area only if their rates for

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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.*, paragraph 238.

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 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 be no lower than \$16.00 beginning December 1, 2014. The second phase of the modified schedule required that the residential rates of companies be no lower than \$18.00 beginning July 1, 2016.

The Commission is cognizant that South Central's ability to receive High Cost Loop Support ("HCLS") will be jeopardized if its rate for basic local exchange service is not at or above the \$18.00 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.

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<sup>3</sup> *Id.*, paragraph 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 Mar. 20, 2014.

<sup>5</sup> *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).

<sup>6</sup> *Id.*, paragraph 80.

South Central is a rural incumbent local exchange carrier serving individuals and businesses within part of Larue, Hart, Green, Nelson, Barren, Allen, Adair, and Monroe counties in Kentucky (“service territory”). South Central was established in 1950 as a member-owned cooperative to provide local telephone service to business and individual customers within the exchanges of Bonnieville, Buffalo, Canmer, Cave City, Center, Edmonton, Fountain Run, Gamaliel, Glasgow (rural), Hiseville, Horse Cave, Lucas, Magnolia, Munfordville, Summer Shade, and Temple Hill. South Central provides service to approximately 20,634 residential lines and 3,723 business lines in Kentucky. South Central is an eligible telecommunications carrier in the communities it serves and is also the carrier of last resort (“COLR”) in its service territory. In 2015, South Central received approximately \$1,873,113 from HCLS to support its COLR responsibilities in its service territory and anticipates receiving \$1.75 million in 2016.

South Central has not had a general rate increase since 1982.<sup>7</sup> South Central made a minor adjustment to rates in 2014 to meet the rate floor for a small fraction of its customers.<sup>8</sup> South Central states it would not otherwise make this filing if not for the FCC’s ICC/USF Order. South Central has provided ample notice to its members. Because South Central’s current rate is below the July 1, 2016 rate floor established by the FCC, South Central proposes to increase its rate in order to avoid a loss of HCLS. Based on its current access line count, failure to meet the FCC’s \$18.00 rate floor would deprive South Central of \$140,999 in HCLS to which the company would otherwise be

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<sup>7</sup> Case No. 8433, *Notice of Adjustment of Rates and Charges of South Central Rural Telephone Cooperative Corporation, Inc. to be Effective February 1, 1982 and Application of SCRTC, Inc. for Order Permitting Adjustment of Rates* (Ky. PSC July 1, 1982).

<sup>8</sup> South Central increased its non-touchtone basic rates in 2014 to meet the \$16.00 residential rate floor. See TFS 2014-00580 (Ky. PSC Dec. 1, 2014).

entitled. To meet the \$18.00 residential rate floor established by the FCC, South Central proposes to eliminate rate blocks and increase all its residential service rates to \$18.00. Additionally, South Central will create a class of service that combines its systemwide calling feature with its basic service rate that includes the access line. To offset the revenue increase from the increase in residential lines South Central proposes to reduce some business rates. With the reduction in business rates, the filing will be largely revenue neutral, with an annual increase in revenue of \$5,904.<sup>9</sup>

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 and each year thereafter for five years. With this change, South Central cannot collect more than the maximum intercarrier compensation revenue amount established by the FCC. The cumulative reduction in intercarrier compensation revenue has grown larger each fiscal year,<sup>10</sup> and when this reduction in revenue is combined with the increase in revenue from the proposed rate increase, South Central's revenue will be lower than its level prior to the FCC 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

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<sup>9</sup> Application, Exhibit 1, Attachment C.  $\$492 \times 12 = \$5,904$ .

<sup>10</sup> Application, Exhibit 1 at 6.

has enacted significant changes to the authority of the Commission in light of competitive choices and options available to consumers.<sup>11</sup> For example, the Commission, with the exceptions enumerated in KRS 278.5435, has jurisdiction only over basic service rates of telecommunication companies, which includes only a single business or residential service line.<sup>12</sup> 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 South Central, 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 South Central, the rate increase should be granted. South Central 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. South Central's proposed increases in basic local exchange residential service rates and business rates, as set forth in the tariffs attached to its Application filed on March 16, 2016, and shown in the Appendix attached to this Order, are approved.

2. Within 20 days of the date of this Order, South Central shall file, using the Commission's electronic Tariff Filing System, its revised tariff sheets containing the

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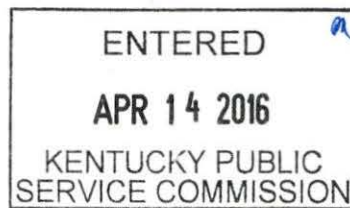
<sup>11</sup> See, e.g., KRS 278.541–544 and KRS 278.5435.

<sup>12</sup> KRS 278.541(1).

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 June 1, 2016.

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:

Acting Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2016-00045 DATED **APR 14 2016**

The following Basic Service Rates are prescribed for the customers in the area served by South Central Rural Telephone Cooperative Corporation, Inc. for service rendered on and after June 1, 2016. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Basic Exchange Monthly Rates

A.	All Exchanges		
		<u>Residence</u>	<u>Business</u>
	Network Access Charge	\$18.00	\$26.35
B.	Basic Exchange Trunk Service		
		<u>KEY</u>	<u>PBX</u>
	All Exchanges	\$26.35	\$26.35
C.	System Wide Plan Rates		
			<u>Business</u>
	Network Access Charge		\$28.35

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