

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF Foothills Rural)
Telephone Cooperative Corporation, Inc.) CASE NO.
FOR A CERTIFICATE OF PUBLIC CONVENIENCE) 2010-00335
AND NECESSITY TO CONSTRUCT NEW FACILITIES)

O R D E R

On September 10, 2010, Foothills Rural Telephone Cooperative Corporation, Inc. ("Foothills RTCC") filed an application with the Commission seeking a Certificate of Public Convenience and Necessity ("CPCN") to construct and upgrade facilities within its service territory in Kentucky. Foothills RTCC is a non-profit membership cooperative corporation with its principal business office in Staffordsville, Kentucky. Foothills RTCC, as an incumbent local exchange carrier, provides local telephone service to all or portions of Magoffin, Johnson, Lawrence and Breathitt counties of Kentucky. According to the application, Foothills RTCC served approximately 14,287 access lines in Kentucky as of June 30, 2010.

Foothills RTCC asserts that the construction project proposed herein is a result of its acceptance of an offer for funding pursuant to the American Recovery and Reinvestment Act ("ARRA") Broadband Initiatives Program. The ARRA funding will provide a total of \$20,972,482 for the construction described herein. The ARRA funds will be provided through a combination of a grant in the amount of \$14,680,738 and a cost-of-money low interest loan for 23 years in the amount of \$6,291,744. Foothills

RTCC will provide an additional \$846,030 from existing independent funding for the project, resulting in a total construction cost of \$21,818,512.

The funding for the proposed construction will be administered by the Rural Utilities Service ("RUS"), an agency of the federal government, to ensure compliance with ARRA requirements and RUS guidelines. Pursuant to KRS 278.300(10), any evidences of indebtedness that are subject to the supervisory authority of a federal agency are exempt from Commission approval.

DESCRIPTION OF PROPOSED CONSTRUCTION

Foothills RTCC intends to upgrade its system and expand deployment of an advanced fiber-optic network, referred to as Fiber-to-the-Home or Fiber-to-the-Premise ("FTTP"), to customer locations in Magoffin and Lawrence counties of Kentucky. The deployment of the fiber-optic infrastructure will encompass an additional 390 route miles of fiber facilities in Kentucky and pass approximately 3,035 customer premises. The FTTP construction will permit Foothills RTCC to provide advanced services including high-definition video and high-speed internet access, as well as state-of-the-art telecommunications services. Implementation of a Gigabit Passive Optical Network ("GPON") utilizing the new fiber-optics will require upgrades, additions and replacements of electronic equipment in the serving central offices.

The proposed construction will be deployed over a three-year period with an estimated total cost of \$21,818,512. Foothills RTCC states that it does not anticipate requiring any local rate adjustments as a result of the proposed construction.

DISCUSSION AND FINDINGS

The proposed construction will result in a significant expansion of the services available to subscribers and enhance Foothills RTCC's ability to maintain its facilities and provision customers. However, the planned construction is extensive, with substantial costs, and is designed primarily for Foothills RTCC to support services that may be beyond the jurisdiction of the Commission.¹ The Commission recognizes that the General Assembly has found that the provision of broadband and other state-of-the-art telecommunications technologies is an "essential element to the Commonwealth's initiative to improve the lives of Kentucky citizens" ² Nevertheless, the Commission remains obligated to ensure that Foothills RTCC's ability to offer safe, adequate and reasonable basic local exchange service is not adversely affected.³ Foothills RTCC should carefully account for the costs associated with the construction of these facilities and properly allocate those costs to jurisdictional and non-jurisdictional services, respectively.⁴

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that Foothills RTCC should be authorized to proceed with the proposed construction as described herein.

¹ KRS 278.5462.

² KRS 278.546(1).

³ KRS 278.542(1)(n).

⁴ The Commission retains the authority to review the reasonableness of such accounting procedures when considering adjustments of rates for basic local exchange service.

IT IS THEREFORE ORDERED that:

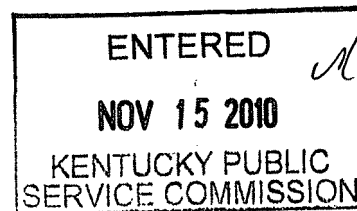
1. Foothills RTCC is granted a Certificate of Public Convenience and Necessity to construct new facilities throughout its service territory in Kentucky as set forth in its application and as described in this Order.

2. Should the costs of the construction authorized herein exceed the estimated costs supplied with the application by more than 10 percent, Foothills RTCC shall immediately notify the Commission in writing of the adjustment, including an explanation of the additional cost for the Commission's approval.

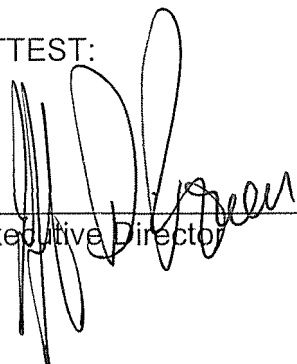
3. As provided for in this Order, Foothills RTCC shall maintain records that clearly and sufficiently document the proper allocation of costs for jurisdictional and non-jurisdictional services provided as a result of this construction project.

4. Any documents filed in the future pursuant to ordering paragraph 2 herein shall reference this case number and shall be retained in the utility's general correspondence file.

By the Commission



ATTEST:



Executive Director

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