COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MOUNTAIN RURAL TELEPHONE COOPERATIVE CORPORATION, INC. FOR A GENERAL ADJUSTMENT IN RATES	)))	CASE NO. 2014-00309

ORDER

Mountain Rural Telephone Cooperative Corporation, Inc. ("Mountain") submitted to the Commission revised tariff sheets that contained a general adjustment of its rates for basic local exchange service that was deemed filed on October 24, 2014. Mountain informed the Commission of its intent to place its proposed rates into effect on and after November 30, 2014, in order to meet the rate floor mandated in 47 C.F.R. § 54.318.

Mountain filed its proposed increased rates to comply with the 2011 directive of the Federal Communications Commission ("FCC") 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 Mountain, 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-cost support that the

[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.

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 altered the schedule for imposition of rate floor penalties, effectively requiring carriers to ensure that their 2014 rate floor obligations are met no later than December 1, 2014.[5] The revised schedule allowed for a four-year period to meet the rate floor of $20.46.[6] 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 Commission is cognizant that Mountain'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 funding would necessitate even larger rate increases in the future to offset loss of federal funding.

Mountain is a rural incumbent local exchange carrier serving individuals and businesses within all or parts of Menifee, Morgan, Elliot, Wolfe, and Bath counties in Kentucky ("Service Territory"). Mountain was established in 1950 as a member-owned cooperative to provide local telephone service to business and individual customers within the exchanges of Jeptha, Hazel Green, Campton, Ezel, Sandy Hook, West

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[3] *Id.* para. 239.

[4] *Id.* para. 239.

[5] *See, In the Matter of Connect America Fund et. al., Report and Order, Declaritory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration and Further Notice of Proposed Rulemaking*, FCC 14-54 (June 10, 2014) at ¶ 79-80.

[6] *Id.* Para. 80.

Liberty, and Frenchburg, Kentucky. Mountain provides service to approximately 11,535 residential lines and 3,004 business lines. Mountain 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, Mountain received approximately $3,151,500 from HCLS to support its COLR responsibilities in its Service Territory.

Mountain increased its rates in 2013 to meet the Federal Rate Floor benchmark of $14.00 and states it would not otherwise make this filing if not for the FCC's ICC/USF Order. Mountain has provided ample notice to its members. Because Mountain's current rates are below the December 1, 2014 rate floor established by the FCC, Mountain has 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 $16.00 rate floor would deprive Mountain of approximately $276,840 in HCLS to which the company would otherwise be entitled. To meet the $16.00 residential rate floor established by the FCC, Mountain proposes to increase its residential services rates by $2.00, or 14 percent, which will produce an annual increase in revenue of approximately $276,840. To mitigate the impact of the rate increase on its subscribers, Mountain will offset the increase in basic rates by providing all residential subscribers with Caller Number service. Mountain further proposes to decrease the rate charged for Caller Name delivery by $3.00. Mountain states the majority of its customers purchase Caller Number and/or Caller Name and Number service with Caller Name and Number being the most popular feature. Currently, the prices for these services are $3.50 and $4.50 respectively. Mountain has demonstrated through confidential schedules that the implementation of the rate changes will result in a decrease of $0.50 to the average customer.

Additionally, as part of the FCC's ICC/USF Order, the FCC established that the intercarrier compensation collected in the 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, Mountain cannot collect more than the maximum intercarrier compensation revenue amount established by the FCC. The reduction in intercarrier compensation has grown larger each fiscal year[7] and, when this reduction in revenue is combined with the increase in revenue from the proposed rate increase, Mountain'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 General Assembly has enacted significant changes to the authority of the Commission in light of competitive choices and options available to consumers.[8] For example, the Commission has jurisdiction only over basic service rates of telecommunication companies, which include only a single business or residential service line.[9] All other retail rates of the telecommunication companies are not subject to the Commission's rate regulation. The

[7] Application of Mountain Rural Telephone Cooperative Corp., Confidential Exhibit 1, filed October 24, 2014.

[8] KRS 278.541–544.

[9] KRS 278.541(1).

Commission also notes that Mountain 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 Mountain and the potential loss of high-cost support, the rate increase should be granted on a permanent basis. Mountain 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. Mountain's proposed increase in basic local residential exchange service rate, elimination of rate for Caller ID, and reduction in rate for Caller Name feature, as set forth in the tariffs attached to its application filed October 24, 2014, are approved.

2. Within 20 days of the date of this Order, Mountain 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.

By the Commission

ENTERED

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KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Executive Director

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