

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF PEOPLES RURAL)	CASE NO.
TELEPHONE COOPERATIVE CORPORATION,)	2016-00044
INC. FOR A GENERAL ADJUSTMENT IN RATES)	

ORDER

On March 7, 2016, Peoples Rural Telephone Cooperative Corporation Inc. (“Peoples”) tendered for filing an application for a general adjustment of its rates for basic local exchange service (“Application”). In its Application, Peoples 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, Peoples filed a motion requesting Commission approval to deviate from certain filing requirements. By Order, the Commission granted People’s motion for deviation, and the Application was deemed filed on March 20, 2016.

Peoples 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 Peoples, shall be eligible to receive high-cost support in a study area only if their rates for local

¹ 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”).

² *Id.*, paragraph 238.

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.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 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 Peoples' 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 \$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.

³ *Id.*, paragraph 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 Mar. 20, 2014.

⁵ *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), paragraphs 79–80.

⁶ *Id.*, paragraph 80.

Peoples is a rural incumbent local exchange carrier serving individuals and businesses within all of Owsley and Jackson counties in Kentucky (“service territory”). Peoples was established in 1950 as a corporation to provide local telephone service to business and individual customers within the exchanges of McKee, Annville, Booneville, and Sandgap in Kentucky. Peoples provides service to approximately 5,582 residential lines and 1,061 business lines. Peoples 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, Peoples received \$3,830,157 from the HCLS to support its COLR responsibilities in its service territory and expects to receive \$3.7 million in 2016.

Peoples has not had a general rate increase since 1982; however, Peoples increased its rates in 2014⁷ to meet the rate floor. Peoples states it would not otherwise make this filing if not for the FCC’s ICC/USF Order. Peoples has provided ample notice to its members. Because Peoples’ current rates are below the July 1, 2016 rate floor established by the FCC, Peoples has to 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 \$18.00 rate floor would deprive Peoples of approximately \$132,120 in HCLS to which the company would otherwise be entitled. To meet the \$18.00 residential rate floor established by the FCC, Peoples proposes to increase its residential rates by \$2.00, which will produce an annual increase in revenue of \$132,120.⁸ To mitigate the impact of the rate increase on its subscribers, Peoples will offset the increase in basic rates by

⁷ Peoples increased its rates in 2014 to meet the \$16.00 residential rate floor. See Case No. 2014-00305, *Application of Peoples Rural Telephone Cooperative Corporation, Inc. for a General Adjustment in Rates* (Ky. PSC Nov. 26, 2014).

⁸ Application, Exhibit 1, Attachment C.

expanding the local calling area for all of its subscribers. Subscribers will be able to call the surrounding counties of Rockcastle, Lee, Breathitt, Estill, Madison, Laurel, Perry, and Clay. This will expand the area for local calling from four rate centers to 24 rate centers. By expanding the local calling, Peoples will forgo access fees previously billed to interexchange carriers on these former toll routes and will incur costs to complete the traffic. Peoples estimates the total cost will be \$152,943 per year, therefore providing net loss in revenue of \$20,823 with this filing.⁹

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 and each year thereafter for five years. With this change, Peoples cannot collect more than the maximum intercarrier compensation revenue amount established by the FCC. The cumulative reduction in intercarrier compensation has grown larger each fiscal year,¹⁰ and when this reduction in revenue is combined with the increase in revenue from the proposed rate increase, Peoples' 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 Kentucky General Assembly

⁹ *Id.*

¹⁰ Application, Exhibit 1 at 5.

has enacted significant changes to the authority of the Commission in light of competitive choices and options available to consumers.¹¹ For example, the Commission has jurisdiction only over basic service rates of telecommunication companies, which include only a single business or residential service line.¹² All other retail rates of the telecommunications companies are not subject to the Commission's rate regulation. The Commission also notes that Peoples 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 Peoples and the potential loss of high-cost support, the rate increase should be granted. Peoples has demonstrated that the proposed rate increase, under the circumstances of this case, is reasonable.

IT IS THEREFORE ORDERED that:

1. Peoples' proposed increase in basic residential local service rates and expansion of the local calling area, as set forth in the tariff attached to its Application filed on March 16, 2016, and shown in the Appendix attached to this Order, is approved.

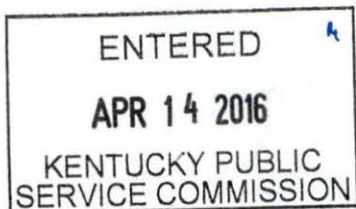
2. Within 20 days of the date of this Order, Peoples shall file, using the Commission's electronic Tariff Filing System, its revised tariff sheets containing the rates approved herein and signed by an officer of the utility authorized to issue tariffs. The tariff sheets shall reflect that they were approved pursuant to this Order and shall contain an effective date of June 1, 2016.

¹¹ See, e.g., KRS 278.541-544 and KRS 278.5435.

¹² KRS 278.541(1).

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. 2016-00044 DATED **APR 14 2016**

The following Basic Service Rates are prescribed for the customers in the area served by Peoples 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. McKee, Annville, Sand Gap, and Booneville

	<u>Residence</u>
Network Access Charge	\$18.00

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