

**Dinsmore & Shohl** LLP  
ATTORNEYS

Holly C. Wallace  
502-540-2309  
holly.wallae@dinslaw.com

RECEIVED

APR 04 2008

PUBLIC SERVICE  
COMMISSION

April 4, 2008

**VIA HAND DELIVERY**

Hon. Stephanie Stumbo  
Executive Director  
Public Service Commission  
211 Sower Blvd.  
Frankfort, KY 40601

---

**Re:     *In the Matter of: Application of North Central Telephone Cooperative Corporation to Adjust Rates and Charges for Basic Local Exchange Service, Case No. 2007-00162***

Dear Ms. Stumbo:

Enclosed for filing in the above-referenced case, please find one original and ten (10) copies of North Central Telephone Cooperative Corporation's post-hearing brief.

Thank you, and if you have any questions, please call me.

Very truly yours,

DINSMORE & SHOHL LLP



Holly C. Wallace

HCW/rk  
Enclosures  
cc:     All Parties of Record

129008v2  
21542-11

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

APR 04 2008

PUBLIC SERVICE  
COMMISSION

*In the Matter of:*

APPLICATION OF NORTH CENTRAL )  
TELEPHONE COOPERATIVE )  
CORPORATION, INC. TO ADJUST )  
RATES AND CHARGES FOR BASIC )  
LOCAL EXCHANGE SERVICE )

Case No. 2007-00162

**NORTH CENTRAL'S  
POST-HEARING BRIEF**

North Central Telephone Cooperative Corporation ("North Central"), by counsel, and pursuant to the briefing schedule established by the Public Service Commission of the Commonwealth of Kentucky (the "Commission") by order dated December 20, 2007, hereby submits its post-hearing brief.

On October 11, 2007, North Central applied to adjust its rates and charges for basic residential and business local exchange service. Specifically, North Central applied to increase its residential service rates by \$3.00 from \$11.90 to \$14.90, and its business service rates by \$5.00 from \$18.03 to \$23.03. North Central has not increased its basic local exchange service rates since 1984.

A public hearing was held on March 11, 2008 during which North Central's witnesses testified to the financial necessity of a rate increase as evidenced by the company's operating revenues and expenses, rate of return, regulated TIER, and additional revenue required to achieve the target TIER of 1.42. The evidence supporting North Central's application for a rate increase is depicted visually in graphs attached hereto as Exhibits A, B, C, and D.

**A. NORTH CENTRAL'S OPERATING REVENUES AND EXPENSES.**

Attached hereto as Exhibit A is a graph depicting North Central's operating revenues and expenses from 2003 through 2007. The test period for North Central's rate application is the

calendar year 2006. As the graph depicts, North Central's revenues have failed to keep pace with the steady growth in expenses. During the 2006 test year, North Central's operating expenses exceeded its operating revenues. Although the company proactively improved its operating income in 2007 by raising rates for non-basic services, even with this change, its operating revenue barely exceeded its operating expenses. Moreover, as the graph demonstrates, the economic trend is that the growth in expenses is outpacing the growth in revenue.

**B. RATE OF RETURN.**

Another indicator of a utility's financial health is rate of return. Although North Central, as a co-op, does not typically calculate rate of return, it did so at the request of Commission staff. As Mr. Gentry Underhill testified during the public hearing, and as depicted in the graph attached as Exhibit B, North Central's rate of return for the 2006 test year was a -2.186%. Although the rate of return improved slightly in 2007 due to the increase in rates of non-basic services, North Central continued to have a negative rate of return in 2007. Thus, North Central does not have sufficient operating revenue to cover its operating and interest expenses. Therefore, North Central's rate of return supports its application for an increase in basic rates.

**C. REGULATED TIER**

Yet another indicator of financial health more typically utilized by co-ops such as North Central is TIER (Times Interest Earned Ratio). TIER, like rate of return, demonstrates whether a utility has sufficient revenue to cover its expenses inclusive of interest expense. North Central's witnesses testified that a reasonable regulated TIER would be 1.42. In the 2006 test year, however, North Central's regulated TIER was -.35 (negative .35). As a point of reference, a TIER of 1.0 indicates that the utility has just enough revenue to cover its expenses inclusive of interest. In other words, with a 1.0 TIER, a utility's expenses equal its revenue. A TIER below 1.0 indicates that the

utility's revenue is insufficient to cover the company's operating and interest expenses. North Central not only had a TIER below 1.0 in the 2006 test year, it actually had a negative TIER of -.35. As with the other financial indicators already discussed, North Central's TIER improved slightly in 2007; however, the 2007 TIER remained significantly below 1.0 indicating that North Central's regulated expenses inclusive of interest continued to exceed North Central's regulated revenue.

**D. REVENUE REQUIRED TO ACHIEVE TARGET TIER.**

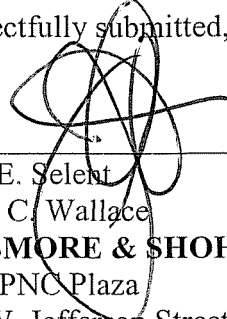
The graph attached as Exhibit D depicts the additional revenue requested by North Central in its rate application as compared to the additional revenue required to achieve the target 1.42 TIER. As the graph depicts, North Central has not requested more revenue than necessary to achieve the target TIER. On the contrary, the additional revenue required to achieve the target TIER of 1.42 exceeds the revenue requested by North Central in its rate application. Nonetheless, as North Central's witnesses testified during the public hearing, North Central believes that it would not be economically prudent to seek more than the \$3.00 increase in basic residential rates and the \$5.00 increase in basic business rates from its members. (Transcript of Evidence ("TR"), pp. 30-31.) Therefore, the Commission should grant the increase in basic rates as requested by North Central.

**E. CONCLUSION.**

As indicated above, North Central's financial records more than justify the rate increase sought by North Central. The company's operating revenue and expenses, rate of return, and regulated TIER all support the requested increase in basic rates. North Central's request is reasonable and does not exceed what is required to restore the financial health of the company. For these reasons, the Commission should approve North Central's application for an increase in basic

residential and business rates and approve a residential rate of \$14.90 and a business rate of \$23.03.

Respectfully submitted,



---

John E. Selent  
Holly C. Wallace  
**DINSMORE & SHOHL LLP**  
1400 PNC Plaza  
500 W. Jefferson Street  
Louisville, Kentucky 40202  
(502) 540-2300  
(502) 585-2207 (fax)  
**Counsel to North Central Telephone  
Cooperative Corporation**

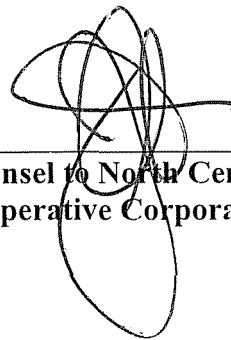
---

**CERTIFICATE OF SERVICE**

I hereby certify that a true and accurate copy of the foregoing was served on the following via U.S. first-class mail, postage pre-paid this 4th day of April, 2008.

C. Kent Hatfield  
Douglas Brent  
Stoll Keenon Ogden PLLC  
500 W. Jefferson Street  
2000 PNC Plaza  
Louisville, KY 40202

Dulaney L. O’Roark, III  
VP and General Counsel-Southeast Region  
Verizon  
PO Box 110, MC FLT 0007  
Tampa, FL 33601



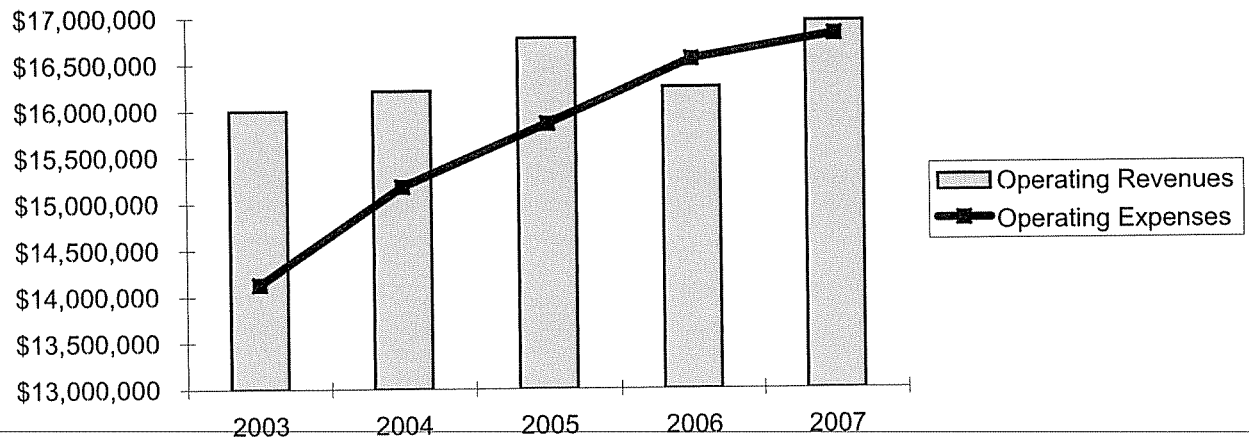
---

**Counsel to North Central Telephone  
Cooperative Corporation**

131482v1  
21542-1



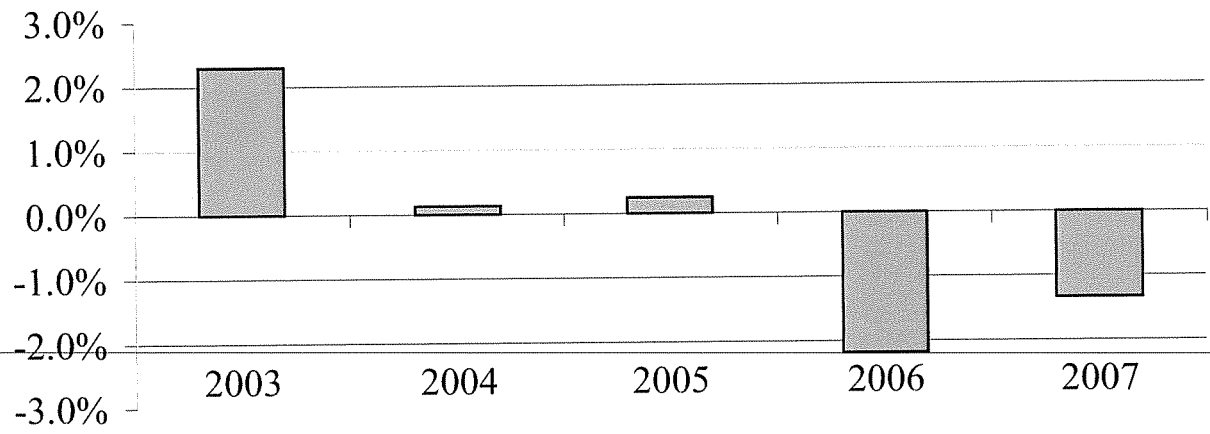
### North Central Telephone Cooperative Corp. Operating Revenues and Expenses





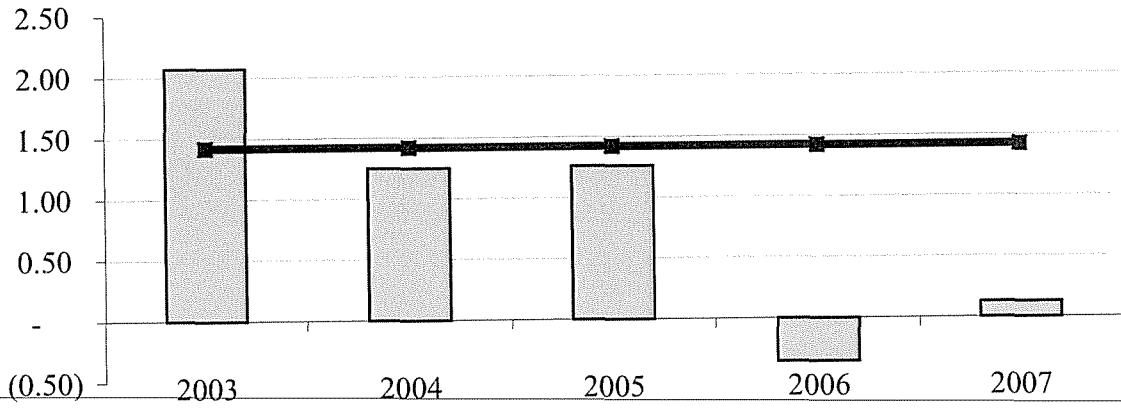


North Central Telephone Cooperative Corp.  
Rate of Return





# North Central Telephone Cooperative Corp. Regulated TIER



Regulated TIER Target TIER



### North Central Telephone Cooperative Additional Revenue Required to Achieve 1.42 TIER

