

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

TARIFF FILING OF DUO COUNTY TELEPHONE ) CASE NO.  
COOPERATIVE CORPORATION, INC. ) 2013-00184

ORDER

On April 5, 2013, Duo County Telephone Cooperative Corporation, Inc. ("Duo County") filed with the Commission revised tariff sheets that contained a general adjustment of its rates for basic local exchange service. Duo County informed the Commission of its intent to place its proposed rates into effect on and after May 10, 2013, in order to meet the rate floor mandated in 47 C.F.R. § 54.318. On May 9, 2013, the Commission found that further proceedings were necessary to determine the reasonableness of the proposed rates and that such proceedings could not be completed prior to the proposed effective date. The Commission suspended the proposed rate from May 10, 2013, until June 1, 2013, when it was allowed to go into effect subject to refund.

On June 28, 2013, the Commission issued an Order in this proceeding that required Duo County to comply with certain filing requirements related to a general rate increase in accordance with the Commission's administrative regulations. The Order also requested certain information related to the proposed rate increase. Duo County filed all the information with the Commission on July 9, 2013. In that filing, Duo County also requested that the Commission grant it deviation from the following administrative regulations found in 807 KAR 5:001, Section 16(1)(b)(4); Section 16(2); Section 16(9)(b);

Section 16(9)(g); Section 16(9)(i); Section 16(9)(j); Section 16(9)(k); Section 16(9)(n); Section 16(9)(q); Section 16(9)(r); Section 16(1)(b)(4); Section 16(1)(b)(6); Section 16(9)(f); and Section 16(9)(h).<sup>1</sup> Duo County states that it does not have the data requested by the Commission in the June 28, 2013 Order, and requests that the Commission allow it to deviate from the filing requirements in ordering paragraphs 2.a. and 2.b. of the June 28, 2013 Order.

Duo County filed its proposed increased rates to comply with the directive of the Federal Communications Commission (“FCC”) in its Order that, inter alia, comprehensively reformed intercarrier compensation.<sup>2</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>3</sup> The FCC also ordered that Local Exchange Carriers such as Duo County will be eligible to receive high-cost support in a study area 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 carrier would have otherwise received for that year.<sup>4</sup>

The Commission recognizes that Duo County’s ability to receive high-cost loop support is jeopardized if its rates for basic local exchange service are not at or above the \$14.00 rate floor mandated in the FCC’s ICC/USF Order. The loss of federal

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<sup>1</sup> The administrative regulations from which Duo County seeks deviation have been recodified and renumbered since the filing of Duo County’s motion for deviation.

<sup>2</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>3</sup> *Id.*, Para. 238.

<sup>4</sup> *Id.*, Para. 239.

funding will threaten the financial integrity of the company and likely necessitate even a larger rate increase in the future to offset the loss of federal funding.

Duo County is a rural incumbent local exchange carrier serving individuals and businesses within all or parts of Adair County, Casey County, Cumberland County, and Russell County (the "Service Territory"). Duo County was established in 1954 as a member-owned cooperative to provide local telephone service to businesses and individual customers within the exchanges of Burkesville Rural, Fairplay, Jamestown, and Russell Springs. Duo County provides service to approximately 8,722 residential lines and 1,852 business lines. Duo County is an eligible telecommunications carrier in the communities it serves and is also the carrier of last resort ("COLR") in its service territory. In 2012, Duo County received approximately \$2,028,444 from the High Cost Loop Support ("HCLS") to support its COLR responsibilities in its service territory.

Duo County has not had a rate increase since November 1, 1977, and states it would not otherwise make this filing were it not for the FCC's ICC/USF Order. Duo County has provided ample notice to its members and is optimistic that the modest increase will have a negligible impact on its members. Because Duo County's current rates are below the June 1, 2013, rate floor established by the FCC, Duo County must increase its rate in order to avoid a loss of HCLS. Based on its current access line count, failure to meet the FCC's \$14.00 rate floor would deprive Duo County of approximately \$66,000 in HCLS to which the company would otherwise be entitled. To meet the \$14.00 residential rate floor established by the FCC, Duo County proposes to increase its residential services rates by \$0.63, less than 5 percent, which will produce an annual increase in revenue of approximately \$66,000.

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 4.75 percent for the 2013 fiscal year. With this change, Duo County cannot collect more than the maximum intercarrier compensation revenue amount. This reduction was approximately [confidential number] for Duo County's 2012 fiscal year and the cumulative reduction at the end of Duo County's 2013 fiscal year will be approximately [confidential number]. Therefore even with the increase in revenue from the proposed rate increase, Duo County's revenue will be lower than it was prior to the FCC's ICC/USF Order. For 2012 Duo County reported a TIER of 3.99.

The Commission also notes that the telecommunications market has gone through and continues to go through major changes. The Kentucky General Assembly has made major changes to the authority of the Commission in light of competitive choices and options available to consumers.<sup>5</sup> For example, the Commission has jurisdiction only over basic service rates of telecommunication companies. Basic service includes only a single business or residential service line.<sup>6</sup> All other retail rates of the telecommunication companies are not subject to the Commission's rate regulation. The Commission also notes that in the case of Duo County, it is a

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<sup>5</sup> KRS 278.541-544.

<sup>6</sup> KRS 278.541(1).

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 Duo County, the rate increase should be granted on a permanent basis. Duo County has demonstrated that the proposed rate increase is reasonable and, in light of other affecting circumstances, is necessary for the continued operation of the company. The Commission also finds that Duo County should be granted deviation from the filing requirements for the following portions of 807 KAR 5:001, Section 16<sup>7</sup> (1)(b)(4); (2); (4)(i); (4)(j); (4)(k); (4)(n); (4)(q); (4)(r); (1)(b)(3); (1)(b)(5); (4)(f); (4)(h). The Commission also finds that Duo County should not be required to file the information requested in ordering paragraphs 2.a. and 2.b. of the June 28, 2013 Order.

IT IS THEREFORE ORDERED that:

1. Duo County is granted deviation from following portions of 807 KAR 5:001, Section 16 (1)(b)(4); (2); (4)(i); (4)(j); (4)(k); (4)(n); (4)(q); (4)(r); (1)(b)(3); (1)(b)(5); (4)(f); and, (4)(h).
2. Duo County is granted deviation from the filing requirements in ordering paragraphs 2.a. and 2.b. of the Commission's June 28, 2013 Order.
3. Duo County's request to increase its basic local exchange service rates is granted.

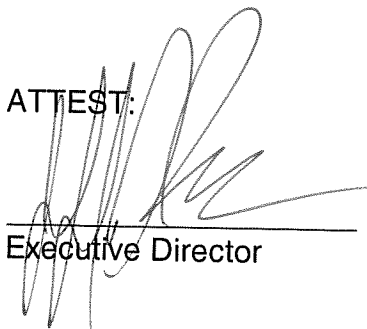
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<sup>7</sup> As noted, *supra*, the regulations from which Duo County seeks deviation have been renumbered; accordingly, the regulations listed here correspond to the regulations as currently numbered and promulgated.

By the Commission

ENTERED <sup>08</sup>  
**FEB 03 2014**  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2013-00184

Daryl Hammond  
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