COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOGAN TELEPHONE COOPERATIVE, INC. FOR A GENERAL ADJUSTMENT IN RATES	)))	CASE NO. 2016-00041

O R D E R

On March 11, 2016, Logan Telephone Cooperative, Inc. ("Logan") tendered for filing an application for a general adjustment of its rates for basic local exchange service ("Application"). In its Application, Logan 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, Logan filed a motion requesting Commission approval to deviate from certain filing requirements. By Order, the Commission granted Logan's motion for deviation, and the Application was deemed filed on March 20, 2016.

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

[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.

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 issued an order on reconsideration that modified the schedule for imposition of rate floor penalties and allowed for a phase-in of the residential floor.[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 Logan'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 $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.

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[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).

[6] *Id.,* paragraph 80.

Logan is a rural incumbent local exchange carrier serving individuals and businesses within all or parts of Butler, Muhlenberg, Warren, Logan, Ohio, Simpson, and Todd counties in Kentucky ("service territory"). Logan was established in 1954 as a member-owned cooperative to provide local telephone service to business and individual customers within the exchanges of Adairville, Auburn, Dunmor, Lewisburg, Logansport, and Rochester in Kentucky. Logan provides service to approximately 4,687 residential lines and 494 business lines. Logan 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, Logan received approximately $1,131,249 from the HCLS to support its COLR responsibilities in its service territory and anticipates receiving $1,590,000 in 2016.

Logan has not had a general rate increase since 1983.[7] Logan states it would not otherwise make this filing if not for the FCC's ICC/USF Order. Logan has provided ample notice to its members. Because Logan's current rates are below the July 1, 2016 rate floor established by the FCC, Logan proposes 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 $18.00 rate floor would deprive Logan of $85,338 in HCLS to which the company would otherwise be entitled. To meet the $18.00 residential rate floor established by the FCC, Logan proposes to increase its residential services rates by $1.50, which will produce an annual increase in revenue of $85,338.[8] However, Logan is also making rate

[7] Case No. 8781, *Adjustment of Rates of Logan Telephone Cooperative Corporation, Inc.* (Ky. PSC Sept. 30, 1983).

[8] Application, Exhibit 1 at 2. 4,741 x $1.50 x 12 = $85,338.

reductions to other services, which the company expects will offset the rate increase for some residential customers and provide a net reduction to some business customers and, therefore, reduce the overall increase in revenue. Logan will reduce the Caller ID rate by $1.50 to all residential and business subscribers. Caller ID is currently priced at $6.00 and $9.00, respectively. Subscribers of other bundles that include Caller ID will also have a corresponding reduction in the rate of the bundle. As a result of the changes in rates, almost half of Logan's residential customers will see no increase in their bills, while some business customers will see a decrease in their bills. When combined with the increase in local service charge, Logan will experience an annual increase in revenue of $44,166.[9]

Additionally, as part of the FCC's ICC/USF Order, the FCC established that the intercarrier compensation collected in 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, Logan 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

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[9] *Id.*

[10] Application, Exhibit 1 at 4.

proposed rate increase, Logan'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 Kentucky General Assembly 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, with the exceptions enumerated in KRS 278.5435, has jurisdiction only over basic service rates of telecommunication companies, which includes 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 Logan 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 Logan, the rate increase should be granted. Logan 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. Logan's proposed increases in basic local residential exchange service rates, and reduction of the rate for Caller ID, as set forth in the tariffs attached to its Application filed on March 30, 2014, and shown in the Appendix attached to this Order, are approved.

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[11] See, *e.g.*, KRS 278.541–544 and KRS 278.5435.

[12] KRS 278.541(1).

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

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

APR 14 2016

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Aaron D. Greenwell

Acting Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2016-00041 DATED APR 14 2016

The following Basic Service Rates are prescribed for the customers in the area served by Logan Telephone Cooperative, 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.

<u>Basic Exchange Monthly Rates</u>

A. Adairville, Auburn, Dunmor, Lewisburg, Logansport, and Rochester.

	Residence
Network Access Charge	$18.00

B. Feature Rates:

	Residence	Business
Calling Number Delivery	$0.00	$0.00
Calling Name/Number Delivery	$4.50	$7.50
Annoyance Call Bureau Reporting (per report)		$7.50

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