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PUBLIC SERVICE
COMMISSION

March 10, 2016

***VIA FEDERAL EXPRESS***

Hon. James W. Gardner
Acting Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
Frankfort KY 40601-8924

***Re:*** ***Tariff Filing of Logan Telephone Cooperative, Inc.*; Case No. 2016-00041**

Dear Acting Executive Director Gardner:

On behalf of Logan Telephone Cooperative, Inc., I have enclosed for filing with the Public Service of the Commonwealth of Kentucky one (1) original and ten (10) copies of the following documents.

1) Application for a General Adjustment in Rates;
2) Motion for Waiver of Certain Rate Application Filing Requirements; and
3) Petition for Confidential Treatment.

Thank you, and if you have any questions with regard to this matter, please call.

Sincerely yours,

DINSMORE & SHOHL LLP

Edward T. Depp

ETD/bmt
Enclosures

10201300v1

**COMMONWEALTH OF KENTUCKY**
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

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

## APPLICATION

Applicant Logan Telephone Cooperative, Inc. ("Logan"), by counsel, pursuant to KRS 278.180, 807 KAR 5:001, Sections 14 and 16, and 807 KAR 5:011, Section 6 and consistent with the Public Service Commission of the Commonwealth of Kentucky's (the "Commission") May 29, 2013 order in Case No. 2013-00190 (the "2013 Rate Floor Order"), files this application (the "Application") for authority to adjust its rates and charges for basic local exchange service and gives notice of its intention to increase the same rates and charges effective June 1, 2016.

## INTRODUCTION

This Application for a rate increase is necessitated by an order from the Federal Communications Commission ("FCC") that fundamentally alters the cost structure of providing telecommunications services in high-cost rural areas, like those Logan serves. *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) ("ICC/USF Order"). For decades prior to the ICC/USF Order, high-cost carriers had received subsidies from the federal government's "Universal Service Fund" ("USF"). Those USF subsidies were intended to fulfill the Federal Communications Act's requirement that "[c]onsumers in all regions of the Nation, including . . . those in rural, insular, and high cost areas, should have access to telecommunications and information services . . . that are available at rates that are reasonably comparable to rates charged for similar services in urban areas." 47 U.S.C. § 254(b)(3). The FCC found, however, that many rural consumers were paying rates that were less than those paid by consumers in urban areas. ICC/USF Order at ¶ 235. As a consequence, the FCC's ICC/USF Order sets a rate floor equal to the national average of local rates, plus state regulated fees. *Id.* at ¶ 238. The ICC/USF Order also "limit[s] high-cost support where local end-user rates plus state regulated fees" do not meet that national rate floor; those carriers' federal subsidies will be reduced "on a dollar-for-dollar basis . . . to the extent that [the] carrier's local rates (plus state regulated fees) do not meet the urban rate floor." *Id.* at ¶ 239.

On June 10, 2014, the FCC altered the schedule for the imposition of rate floor penalties, effectively requiring carriers to ensure that their 2016 rate floor obligations are met no later than June 1, 2016 (the "2014 Rate Floor Order"). *See 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, ¶¶ 79-80.

Logan's proposed rate adjustment is thus necessary to preserve its ability to receive these USF subsidies that are important to its ability to provide telephone and information services in its high-cost rural service territory. Without a minimum rate sufficient to meet the FCC's new rate floor, high-cost carriers like Logan will lose significant federal funding that has historically allowed these carriers to provide service to the most costly, rural customers. That loss of federal funding will threaten the financial existence of these rural carriers like Logan, who have important obligations under federal and state law as carriers of last resort. Moreover, the loss of those subsidies would increase the pressure for Logan to raise its rates even higher than the federal rate floor sought here because any loss of federal funds would lead to a need for Logan to make up that revenue directly from its customer-members.

* * * * * *

In support of its Application, Logan states as follows:

1. Pursuant to 807 KAR 5:001, Section 14(1): (i) the full name of the applicant is Logan Telephone Cooperative, Inc.; (ii) the mailing address of the applicant is 10725 Bowling Green Road, Auburn, KY 42206; and (iii) the electronic mailing address of the applicant is ghale@loganphone.com.

2. Pursuant to 807 KAR 5:001, Section 14(2), Logan states that it is currently in good standing in the Commonwealth of Kentucky, where it is incorporated. A certified copy of Logan's Articles of Incorporation and all amendments thereto is on file with the Commission in Case No. 2016-00081 (Exhibit A to the Application).

3. Pursuant to 807 KAR 5:001, Section 16(1)(b)(1), Logan provides the following statement of the reason the adjustment is requested. Further details are provided in Exhibit 1 of this Application.

a. Logan was incorporated in 1954 as a not-for-profit, member-owned cooperative to provide local telephone service to business and residential members within the exchanges of Adairville, Auburn, Dunmor, Lewisburg, Logansport, and Rochester ("Service Territory"). Logan is a rural incumbent local exchange carrier serving parts of Butler, Muhlenberg, Warren, Logan, Ohio, Simpson, and Todd counties in south central Kentucky. Logan provides 4,687 residential lines and 494 business lines to its members. Logan is an eligible telecommunications carrier ("ETC"), and it is also the carrier of last resort ("COLR") in the Service Territory. In 2015, Logan received $1,131,249 from the High Cost Loop Support ("HCLS") Fund to support its COLR responsibilities in the Service Territory, and Logan anticipates receiving $1.59M in calendar year 2016.

b. This proceeding was motivated by an order of the FCC that implemented "a rule to limit high-cost support where end-user rates do not meet a specified local rate floor." *See* ICC/USF Order at ¶ 235.

c. Under the rule, local exchange carriers such as Logan must meet a specified rate floor in each year in order to be eligible to receive the maximum possible amount of HCLS funding from the FCC. Failure to meet the rate floor by the deadline will result in a reduction in HCLS funding that the carrier could have otherwise received for that year. ICC/USF Order at ¶¶ 133, 238-40. Therefore, Logan requires an adjustment of its rates to comply with the 2014 Rate Floor Order, thereby maintaining eligibility for the fiscal year 2016 maximum amount of HCLS funding.

4. The requirements of 807 KAR 5:001, Section 16(1)(b)(2), are inapplicable because Logan does not operate under an assumed name pursuant to KRS 365.015.

5. Pursuant to 807 KAR 5:001, Section 16(1)(b)(3), Logan has attached its proposed tariff, in such form as is required by 807 KAR 5:011, as part of Exhibit 2. The proposed effective date of the proposed tariff is June 1, 2016, at least 30 days from the date the Application is filed.

6. Pursuant to 807 KAR 5:001, Section 16(1)(b)(4), Logan has attached as part of Exhibit 2 its present tariff using italicizing, underscoring, and strikethroughs to show proposed revisions.

7. Pursuant to 807 KAR 5:001, Section 16(1)(b)(5), Logan states that notice has been given in compliance with 807 KAR 5:001, Section 17, as described below:

a. Pursuant 807 KAR 5:001, Section 17(1), Logan has posted at its place of business a copy of the Public Notice and will, within five days of the filing of the Application, post on its website a copy of the Public Notice and a hyperlink to the location on the Commission's website where the case documents are available. A copy of the Public Notice is attached hereto as part of Exhibit 3.

b. Pursuant to 807 KAR 5:001, Section 17(2), Logan, which has more than twenty (20) customers and is not a sewage utility, has provided notice to its customers by including the notice with customer bills mailed no later than the date the Application is submitted to the Commission. A copy of the notice sent to customers is attached hereto as part of Exhibit 3.

c. Pursuant to 807 KAR 5:001, Section 17(3), an affidavit verifying Logan's provision of the required notice to its customers is attached hereto as part of Exhibit 3.

d. Pursuant to 807 KAR 5:001, Section 17(4), Logan states that the Public Notice attached to this Application as Exhibit 3 complies with all "Notice Content" requirements prescribed by regulation because it contains all of the following elements:

i. The proposed effective date and the date the proposed rates are expected to be filed with the Commission;

ii. The present rates and proposed rates for each customer classification to which the proposed rates will apply;

iii. The amount of the change requested in both dollar amounts and percentage change for each customer classification to which the proposed rates will apply;

iv. The effect upon the average bill for each customer classification for the proposed rate change in basic local service;

v. A statement that a person may examine this Application at Logan's offices;

vi. A statement that a person may examine this Application at the Commission's offices located at 211 Sower Boulevard, Frankfort, Kentucky, Monday through Friday, 8:00 a.m. to 4:30 p.m., or through the Commission's Web site at http://psc.ky.gov;

vii. A statement that comments regarding the Application may be submitted to the Commission through its Web site or by mail to Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602;

viii. A statement that the rates contained in this notice are the rates proposed by Logan but that the Commission may order rates to be charged that differ from the proposed rates contained in the notice;

ix. A statement that a person may submit a timely written request for intervention to the Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602, establishing the grounds for the request including the status and interest of the party; and

x. A statement that if the Commission does not receive a written request for intervention within thirty (30) days of initial publication or mailing of the notice, the Commission may take final action on the Application.

8. The requirements of 807 KAR 5:001, Section 16(1)(b)(6), are inapplicable because Logan is not a water district.

9. Pursuant to 807 KAR 5:001, Section 16(2), Logan states that it notified the Commission in writing of its intent to file the Application on January 12, 2016, at least thirty (30) days but not more than sixty (60) days prior to filing the Application. A copy of the notice of intent is included in Exhibit 4 of this Application. Pursuant to 807 KAR 5:001, Section 16(2)(a), the notice of intent stated that the Application will be supported by a historical test period. Pursuant to 807 KAR 5:001, Section 16(2)(c), Logan sent by electronic mail a .pdf copy of the notice of intent to the Attorney General's Office of Rate Intervention (rateintervention@ag.ky.gov) upon filing it with the Commission. A copy of that email, including the attached notice of intent, is included as part of Exhibit 4 of this Application.

10. The provisions of 807 KAR 5:001, Section 16(3), are inapplicable because Logan is not an electric utility.

11. Pursuant to 807 KAR 5:001, Section 16(4)(a), a narrative summary of the particular circumstances that justify and support Logan's Application, including a statement of the reason the adjustment is required, is attached hereto as Exhibit 1 and is incorporated herein by reference. Exhibit 1 is filed subject to a Petition for Confidential Treatment pursuant to 807 KAR 5:001, Section 13, filed contemporaneously with this Application.

12. As more fully explained in Logan's Motion for Waiver of Certain Rate Application Requirements ("Motion for Waiver") filed contemporaneously with this Application, Logan seeks waiver of 807 KAR 5:001, Section 16(4)(b), requiring the applicant's witnesses' prepared testimony.

13. The requirements of 807 KAR 5:001, Section 16(4)(c) are inapplicable because Logan has gross annual revenues in excess of $5,000,000.00.

14. Pursuant to 807 KAR 5:001, Section 16(4)(d), Logan estimates that the total amount of revenue increase resulting from the proposed rate adjustment will be $44K.

15. The requirements of 807 KAR 5:001, Section 16(4)(e), are inapplicable because Logan is not an electric, gas, sewage, or water utility.

16. Pursuant to 807 KAR 5:001, Section 16(4)(f), Logan states that the proposed rate adjustment will increase the average affected residential customer bill by $0.82. Business customers who choose to purchase Caller ID will do so at a rate reduced by $1.50. Additional details regarding the anticipated impact on affected customers are set forth in Exhibit 1.

17. Pursuant to 807 KAR 5:001, Section 16(4)(g), Logan states that its proposed rate increase will affect its residential customer class, as well as business customers that subscribe to Caller ID. Logan's analysis of customers' bills and the corresponding revenue impact are provided in Logan's responses to the requirements of Section 16(4)(d) and 16(4)(f) in paragraphs 14 and 16 above.

18. Pursuant to 807 KAR 5:001, Section 16(4)(h), Logan states that the Operating Report for Privately Held Rate of Return Carriers of its July 2015 FCC Form 481 (Line 3005a) containing its TIER calculation, which assesses Logan's actual revenue position compared to its required operating revenues, is attached as Exhibit 5. To the extent the Commission believes this section imposes additional requirements relevant to this Application, Logan respectfully seeks waiver of those requirements for the reasons set forth in its accompanying Motion for Waiver. Furthermore, Exhibit 5 is filed subject to a Petition for Confidential Treatment pursuant to 807 KAR 5:001, Section 13, filed contemporaneously with this Application

19. As more fully explained in Logan's Motion for Waiver, Logan seeks waiver of 807 KAR 5:001, Section 16(4)(i), requiring a reconciliation of the rate base and capital used to determine revenue requirements.

20. Pursuant to 807 KAR 5:001, Section 16(4)(j), Logan states that it follows the Uniform System of Accounts.

21. Pursuant to 807 KAR 5:001, Section 16(4)(k), Logan has attached its independent auditor's annual opinion report hereto as Exhibit 6. The other requirements of this section are inapplicable because Logan's independent auditor has not indicated "the existence of a material weakness in [Logan]'s internal controls."

22. The requirements in 807 KAR 5:001, Section 16(4)(l), are inapplicable because Logan has not been audited by the FCC.

23. Pursuant to 807 KAR 5:001, Section 16(4)(m), Logan states that its most recent PSC Form T is on file with the Commission.

24. Pursuant to 807 KAR 5:001, Section 16(4)(n), Logan states that a schedule identifying current depreciation rates used by major plant accounts is included as Exhibit 7. To the extent the Commission believes this section requires more information than Logan has provided , Logan seeks waiver of 807 KAR 5:001, Section 16(4)(n), requiring a summary of the latest depreciation study, as more fully explained in Logan's Motion for Waiver.

25. Pursuant to 807 KAR 5:001, Section 16(4)(o), requiring a schedule of detailed information regarding all software, programs, and models used to prepare the Application, Logan states that it utilized no specialized software, program, or models, and relied on Microsoft Word and Microsoft Excel to prepare the Application and supporting exhibits.

26. The requirements of 807 KAR 5:001, Section 16(4)(p), are inapplicable because Logan has never made a stock or bond offering.

27. As more fully explained in Logan's Motion for Waiver, Logan seeks waiver of 807 KAR 5:001, Section 16(4)(q), requiring the annual report to shareholders or members with statistical supplements. Logan does not prepare such documents and instead presents its financial results to its members at its annual meeting.

28. As more fully explained in Logan's Motion for Waiver, Logan seeks waiver of 807 KAR 5:001, Section 16(4)(r), requiring monthly managerial reports.

29. The requirements of 807 KAR 5:001, Section 16(4)(s), are inapplicable because Logan is not required to file the U.S. Securities and Exchange Commission's Form 10-K, Form 8-K, or Form 10-Q.

30. The requirements of 807 KAR 5:001, Section 16(4)(t), are inapplicable because Logan has not had any amounts charged or allocated to it by an affiliate or general or home office, and has not paid any monies to an affiliate or a general or home office during the test period or during the previous three (3) calendar years.

31. The requirements of 807 KAR 5:001, Section 16(4)(u), are inapplicable because Logan is not an electric, gas, sewage, or water utility.

32. The requirements of 807 KAR 5:001, Section 16(4)(v), are inapplicable because Logan has fewer than 50,000 access lines.

33. The requirements of 807 KAR 5:001, Section 16(5), are inapplicable because Logan's Application does not include any pro forma adjustments. To the extent the Commission believes the requirements of this section apply to this Application, Logan respectfully seeks waiver of those requirements for the reasons set forth in its accompanying Motion for Waiver.

34. The requirements of 807 KAR 5:001, Section 16(6), are inapplicable because Logan is not requesting a general adjustment in rates supported by a fully forecasted test period.

35. The requirements of 807 KAR 5:001, Section 16(7), are inapplicable because Logan is not requesting a general adjustment in rates supported by a fully forecasted test period.

36. The requirements of 807 KAR 5:001, Section 16(8), are inapplicable because Logan is not requesting a general adjustment in rates supported by a fully forecasted test period.

37. Pursuant to ¶ 3.a of the 2013 Rate Floor Order, Logan has provided an estimate of the annual revenue to be received in 2016 from HCLS in Exhibit 1, Attachment A.

38. Pursuant to ¶ 3.b of the 2013 Rate Floor Order, Logan has provided an estimate of the annual revenue to be lost due to adjustment of terminating access rates in the "Financial Support for Filing" section of Exhibit 1.

39. Pursuant to ¶ 3.c of the 2013 Rate Floor Order, Logan has provided an estimate of the annual revenue to be generated by the tariff changes in Exhibit 1 and in response to the requirements of 807 KAR 5:001, Section 16(4)(d), in paragraph 14 above.

40. Pursuant to ¶ 3.d of the 2013 Rate Floor Order, Logan has provided an estimate of historical line counts in Exhibit 1, Attachment B. As more fully explained in Logan's Motion for Waiver, Logan seeks partial waiver of ¶ 3.d of the 2013 Rate Floor Order, insofar as it requests projected line losses beyond those provided in Exhibit 1.

41. Pursuant to ¶ 3.e of the 2013 Rate Floor Order, Logan has provided historical and projected universal service support information in the narrative response of Exhibit 1 and in Attachment A thereto. As is certified annually to the Commission, these funds are used by Logan to provide voice and advanced data services to its customers, thereby providing its communities with access to critical communications and broadband services.

42. Pursuant to ¶ 3.f of the 2013 Rate Floor Order, Logan states that narrative support for the proposed rate adjustment is contained in this Application and in Exhibit 1.

WHEREFORE, Logan Telephone Cooperative, Inc., respectfully requests that the Public Service Commission of the Commonwealth of Kentucky enter a final order approving Logan's proposed revisions to the applicable tariffs and grant all other relief to which it is entitled.

Respectfully submitted,

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Daniel D. Briscoe Jr.
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*Counsel to Logan Telephone Cooperative, Inc.*

**CERTIFICATE OF SERVICE**

I certify that, on the date this Application was filed with the Kentucky Public Service Commission, a true and accurate copy of the foregoing was served by Federal Express or by hand delivery upon the persons listed below.

Kentucky Attorney General
Office of Rate Intervention
700 Capitol Avenue, Suite 118
Frankfort, Kentucky 40601-3449

On this the 10th day of March, 2016.

*Counsel to Logan Telephone Cooperative, Inc.*

10207646v1

**Logan Telephone Cooperative, Inc.** **Exhibit 1**
**Case 2016-00041**

**Description and Reason for Filing**

With this filing, Logan Telephone Cooperative, Inc. ("Logan") proposes to increase its basic residential local service rates by $1.50, to $18.00 per month. This filing is made in response to the November 18, 2011 order by the Federal Communications Commission that mandates minimum local residential service rate levels as a condition of continued receipt of certain federal universal service supports. In that Order[1] (the so-called "Transformation Order") the FCC required that local exchange rates be set at or above a rate floor of $10, as of June 1, 2012; $14 as of June 1, 2013; and at an "urban rate" – at that time undefined – on or before June 1, 2014 ("2014 rate floor"). The Transformation Order mandated that companies with rate levels below the applicable rate floor be penalized with a dollar for dollar reduction in federal high cost loop support ("HCLS").

On March 20, 2014 the FCC released the results of its controversial urban rate floor survey[2] that established the 2014 rate floor of $20.46; if implemented, this floor would have become the basis on which HCLS recipients below the floor would be subject to the loss of funding as required by the FCC's Transformation Order. On June 20, 2014 the FCC issued an Order on Reconsideration[3] that modified the proposed 2014 urban rate floor to allow for a phase-in of the residential rate floor. Under its revised implementation schedule, companies were given the option to implement the rates over a 4-year period:

> Therefore, we waive the application of section 54.318(b) for lines reported July 1, 2014, with a rate of $14 or above. Commencing January 2, 2015 (reflecting rates as of December 1, 2014), and thereafter, through June 30, 2016, we waive section 54.318(b) to the extent reported lines are greater than or equal to $16. For the

[1] *In the Matter of Connect America Fund et al.*, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (Nov 18, 2011)
[2] *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 14-384, Released March 20, 2014
[3] 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)

> period between July 1, 2016, and June 30, 2017, we waive section 54.318(b) to the extent reported rates are greater than or equal to $18, or the 2016 rate floor, whichever is lower. For the period between July 1, 2017, and June 30, 2018, we waive section 54.318(b) to the extent reported rates are greater than or equal to $20, or the 2017 rate floor, whichever is lower.[4]

**Proposed Revisions and Customer Impact**

With this filing, Logan's basic residential rates are proposed to rise to $18.00. Logan does not propose any change to its basic business rates, which are not subject to the Transformation Order and which are already above the $18.00 residential rate floor. To partially offset the increase, Logan proposes to reduce its Caller ID rate for both residential and business subscribers by $1.50.[5] Accordingly, residential subscribers who purchase Caller ID service, either a la carte or as part of a bundle, will have no rate impact, and business subscribers to Caller ID will enjoy a rate reduction.

As shown below, the expected impact overall will be approximately $44K per year.

| | | Jan. 2016 Demand | Current Rate | Revised Rate | Net Change |
|---|---|---|---|---|---|
| Residential | Access Lines | 4,741 | $ 16.50 | $ 18.00 | $ 7,112 |
| | Caller ID | 2,140 | $ 6.00 | $ 4.50 | $ (3,210) |
| Business | Access Lines | 499 | n/a | n/a | $ 0 |
| | Caller ID | 147 | $ 9.00 | $ 7.50 | $ (221) |
| Total | | | | | $ 3,681 |
| Annualized | | | | | $ 44,166 |
| Average Residential change | | | $ 0.82 | | |
| Average Business change | | | $ (0.42) | | |

**Company Information**

The full name and address of the company is Logan Telephone Cooperative, Inc., 10725 Bowling Green Road, Auburn, KY 42206. Logan was incorporated in 1954 as a not-for-profit,

[4] *Ibid.*, para. 80
[5] "Caller ID" refers to Caller Name *and* Number delivery. Logan has no customers on Calling Number delivery without Name, and it is therefore proposing to delete that product from its tariff with this filing.

member-owned cooperative to provide local telephone service to business and residential members within the exchanges of Adairville, Auburn, Dunmor, Lewisburg, Logansport, and Rochester ("Service Territory"). Logan is a rural incumbent local exchange carrier serving parts of Butler, Muhlenberg, Warren, Logan, Ohio, Simpson, and Todd counties in south central Kentucky. Pursuant to its 2014 PSC Report, Logan provided 4,687 residential lines and 494 business lines to its members.

Logan is an eligible telecommunications carrier ("ETC") in the communities it serves and is also the carrier of last resort ("COLR") in its Service Territory. In 2015, Logan received $1,131,249 from the High Cost Loop Support ("HCLS") Fund to support its COLR responsibilities in its Service Territory and anticipates receiving $1.59M in calendar year 2016. As a high cost company, all HCLS revenues are crucial for Logan to continue to meet its COLR responsibilities and to bring advanced services to the communities it serves.

A schedule of Logan's quarterly high cost support is provided in Attachment A of this Exhibit. Historic access line counts as reported to the National Exchange Carrier Association are provided in Attachment B.

**Financial Support for Filing**

While Logan anticipates that some of its increase in local service revenues will be offset by reductions in its Caller ID rates, the need for an increase in rates is driven by two factors: first, the reduction in HCLS support as required by the FCC's Transformation Order; and second, the FCC-mandated reduction in access charges that have capped and reduced the access compensation available to Logan, separately adding pressure to raise local service rates.

Companies that fail to meet the 2016 rate floor will experience a dollar for dollar reduction in HCLS beginning in July, 2016. As shown below, Logan is seeking to increase its local exchange rates by $1.50, but by doing so Logan will retain approximately 5.4% of its total HCLS support, or $85K per year.

**Rate Floor Impact**

| | Subscribers | Current Rate | FCC Floor | At Risk |
|---|---|---|---|---|
| Residential Year-end 2015 | 4,741 | $ 16.50 | $ 18.00 | $ 85,338 |
| 2016 Annual HCLS (See Attachment A of this Exhibit) | | | | $ 1,590,420 |
| Support at risk absent a rate increase | | | | 5.4% |

Included in the FCC's Transformation Order is a requirement that carriers cap and reduce not only their reciprocal, state, and interstate inter-carrier compensation rates, but also the overall revenues Logan is allowed to collect. Under the formula specified in the Transformation Order, the FCC capped allowed terminating access revenues from intercarrier compensation at the levels collected in the FCC's 2011 initial base period[6] collected levels and established a phase-down of those allowed amounts over the subsequent 5 years. With this change, Logan cannot collect more than its current capped revenue amount net 5% *each year*. As shown in the step-down of Eligible Access Recovery (as depicted in the following table), the cumulative FCC-mandated reduction in Logan's access revenue recovery is [redacted] through the fiscal period ending June, 2016.

| | Access Cap | Reduction |
|---|---|---|
| FY2011 10/1-9/30 | [redacted] | |
| 2012-2013 Fiscal Period | | |
| 2013-2014 Fiscal Period | | |
| 2014-2015 Fiscal Period | | |
| 2015-2016 Fiscal Period | | |
| **Cumulative Reduction** | | |

[6] October 1, 2010 through September 30, 2011.

This is the first residential rate increase filed by Logan to meet the FCC residential rate floor. Logan proposes to partially offset its FCC-mandated rate increase with rate reductions in its Caller ID services. Accordingly, Logan's proposed rate changes result in a modest increase in local service revenues that are far below the reduction in recoverable revenues imposed by the FCC's Transformation Order.

**Summary**

The FCC's Transformation Order continues to dramatically change the revenue sources that have been historically available to rural telephone companies like Logan and which have been used to meet their COLR obligations and to expand the availability of advanced broadband services to their customers. Unfortunately, for many of these affected companies, doing so requires upward pressure on local service rates. As shown in this documentation, Logan has no other realistic options available to it, and it respectfully requests that its tariff revisions be approved.

Attachments to this Exhibit:

Attachment A: Logan's quarterly high cost support 2015-2016

Attachment B: National Exchange Carrier Association Report of Access Lines

**Logan Telephone Cooperative**
**Case 2016-00041**

**Exhibit 1, Attachment A**

| Report Cycle | State | SAC | Study Area Name | Connect America Fund ICC Monthly Support | HCL Monthly Support | ICLS Monthly Support | SNA Monthly Support | Total High Cost Monthly | HCL Quarterly Support |
|---|---|---|---|---|---|---|---|---|---|
| 1Q15 | KY | 260413 | LOGAN TEL. COOP. INC | $ 59,318 | $ 92,259 | $ 132,318 | $ - | $ 283,895 | $ 276,777 |
| 2Q15 | KY | 260413 | LOGAN TEL. COOP. INC | $ 59,318 | $ 89,716 | $ 132,318 | $ - | $ 281,352 | $ 269,148 |
| 3Q15 | KY | 260413 | LOGAN TEL. COOP. INC | $ 59,318 | $ 97,557 | $ 125,367 | $ - | $ 282,242 | $ 292,671 |
| 4Q15 | KY | 260413 | LOGAN TEL. COOP. INC | $ 59,318 | $ 97,551 | $ 125,367 | $ - | $ 282,236 | $ 292,653 |
| 2015 Total High Cost Loop Support | | | | | | | | | $ 1,131,249 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1Q16 | KY | 260413 | LOGAN TEL. COOP. INC | $ 54,489 | $ 127,610 | $ 125,367 | $ - | $ 307,466 | $ 382,830 |
| 2Q16 | KY | 260413 | LOGAN TEL. COOP. INC | $ 54,489 | $ 137,460 | $ 125,367 | $ - | $ 317,316 | $ 412,380 |
| 2016 Annualized Total High Cost Loop Support | | | | | | | | | $ 1,590,420 |

The Exhibit 1(B) attachment has been omitted from the public filing. It has been provided under a petition for confidential treatment

**Logan Telephone Cooperative, Incorporated** **Exhibit 2**
**Case 2016-00041**

- Proposed Tariff Pages (Proposed)
- Proposed Tariff Pages (Proposed with Black Line)

**Logan Telephone Cooperative, Incorporated** **Exhibit 2**
**Case 2016-00041**

Proposed Tariff Pages (To be Filed)

C.1 Local Exchange Service Rates

C.1.1 Definitions

A. Network Access Charge

The recurring monthly charge for residential or business service that accounts for network services through the network interface device ("protector") at the premises. This covers the Company's cost for bringing the entire national network to the local premise. All residential and business exchange access lines are provisioned with Touchtone (aka pulse dialing) capability.

C.1.2 Rates

A. Monthly Exchange rates for:
Adairville
Auburn
Dunmor
Lewisburg
Logansport
Rochester

| | Residence | Business |
|---|---|---|
| Network Access Charge | $18.00 **(I)** | $24.80 |

B. The rates specified herein entitle subscribers to an unlimited number of messages to all parties as identified in the Toll Free Calling Areas identified below:

| EXCHANGE | TOLL FREE CALLING AREAS |
|---|---|
| Adairville | Auburn<br>Dunmor<br>Lewisburg<br>Russellville * |
| Auburn | Adairville<br>Dunmor<br>Lewisburg |

* Indicates an Exchange Area that is not served by Logan Telephone Cooperative, Incorporated.

S.9 Rates

A. Available Features

| | | Monthly Rates Residence | Business |
|---|---|---|---|
| 1. | Anonymous Call Rejection | $2.50 | $3.75 |
| 2. | Automatic Callback | $2.50 | $3.75 |
| 3. | Automatic Recall | $2.50 | $3.75 |
| 4. | Automatic Recall-Block to Private | $0.00 | $0.00 |
| 5. | Calling Number Delivery | *See (7) below* **(T)** | *See (7) below* **(T)** |
| 6. | Calling Number Delivery Blocking **(T)** per Call / Calling Number Delivery Blocking per Line | $0.00 | $0.00 |
| 7. | Calling Name/Number Delivery | $4.50 **(R)** | $7.50 **(R)** |
| 8. | Calling Name Delivery Blocking per Call / Calling Name Delivery Blocking per Line | $0.00 | $0.00 |
| 9. | Calling Identity Delivery and Suppression | $2.00 | $2.00 |
| 10. | Customer Originated Trace | $2.50 | $3.75 |
| | Annoyance Call Bureau Reporting (per report) **(T)** | $7.50 | $7.50 **(T)** |
| 11. | Distinctive Ringing Call Waiting | $3.00 | $4.50 |
| 12. | Local Data Base Service | | |
| | 900 Restriction | $2.50 | $3.75 |
| | One-Plus per Call Restriction. | $2.50 | $3.75 |
| 13. | Selective Call Forwarding | $2.50 | $3.75 |
| 14. | Selective Call Rejection | $2.50 | $3.75 |
| 15. | Selective Call Acceptance | $2.50 | $3.75 |
| 16. | Reserved **(T)** | | |
| 17. | Call Waiting Deluxe | $3.00 | $4.50 |

B. Feature Packages

A discount of $0.50 on each service after the first feature will apply when two or more service features are ordered in a package.

C. Service and Installation Charges

1. Service Connection charges apply as set forth in section D on initial or subsequent installations.

2. Installation charges are not applicable when Advanced Custom Calling Services are provided at the same time as the business or residence individual service is established.

**Logan Telephone Cooperative, Incorporated** **Exhibit 2**
**Case 2016-00041**

Proposed Tariff Pages (with Black Line)

C.1 Local Exchange Service Rates

C.1.1 Definitions

~~(C)~~

A. Network Access Charge
The recurring monthly charge for residential or business service that accounts for network services through the network interface device ("protector") at the premises. This covers the Company's cost for bringing the entire national network to the local premise. All residential and business exchange access lines are provisioned with Touchtone (aka pulse dialing) capability.

~~(C)~~

C.1.2 Rates

A. Monthly Exchange rates for:
Adairville
Auburn
Dunmor
Lewisburg
Logansport
Rochester

~~(D)~~

| | Residence | Business |
|---|---|---|
| Network Access Charge ~~(T)~~ | ~~$16.50~~18.00 (I) | $24.80 |

B. The rates specified herein entitle subscribers to an unlimited number of messages to all parties as identified in the Toll Free Calling Areas identified below:

| EXCHANGE | TOLL FREE CALLING AREAS |
|---|---|
| Adairville | Auburn<br>Dunmor<br>Lewisburg<br>Russellville * ~~(T)~~ |
| Auburn | Adairville<br>Dunmor<br>Lewisburg |

* Indicates an Exchange Area that is not served by Logan Telephone Cooperative, Incorporated. ~~(N)~~

Issue Date: ~~September 5, 2014~~
Effective Date: ~~December 1, 2014~~June 1, 2016

Issued by: /s/ Greg Hale
Greg Hale, General Manager
By Authority of Order of the Public Service Commission in
Case No. 2016-00041 dated

S.9 Rates

A. Available Features

| | | Monthly Rates Residence | Business |
|---|---|---|---|
| 1. | Anonymous Call Rejection | $2.50 | $3.75 |
| 2. | Automatic Callback | $2.50 | $3.75 |
| 3. | Automatic Recall | $2.50 | $3.75 |
| 4. | Automatic Recall-Block to Private | $0.00 | $0.00 |
| 5. | Calling Number Delivery- | ~~$5.00~~*See (7) below* **(T)** | *See (7) below* ~~$7.50~~**(T)** |
| 6. | Calling Number Delivery Blocking **(T)** per Call / Calling Number Delivery Blocking per Line | $0.00 | $0.00 |
| 7. | Calling Name/Number Delivery | ~~$6.00~~4.50 **(R)** | ~~$9.00~~7.50 **(R)** |
| 8. | Calling Name Delivery Blocking per Call / Calling Name Delivery Blocking per Line | $0.00 | $0.00 |
| 9. | Calling Identity Delivery and Suppression | $2.00 | $2.00 |
| 10. | Customer Originated Trace | $2.50 | $3.75 |
| | ~~A.~~ Annoyance Call Bureau Reporting (per report) **(T)** | $7.50 ~~per report~~ | $7.50 **(T)** |
| 11. | Distinctive Ringing Call Waiting | $3.00 | $4.50 |
| 12. | Local Data Base Service | | |
| | 900 Restriction | $2.50 | $3.75 |
| | One-Plus Per Call Restriction. | $2.50 | $3.75 |
| 13. | Selective Call Forwarding | $2.50 | $3.75 |
| 14. | Selective Call Rejection | $2.50 | $3.75 |
| 15. | Selective Call Acceptance | $2.50 | $3.75 |
| 16. | ~~Voice Mail (Deleted Item)~~Reserved **(T)** | | |
| 17. | Call Waiting Deluxe | $3.00 | $4.50 |

B. Feature Packages

A discount of $0.50 on each service after the first feature will apply when two or more service features are ordered in a package.

C. Service and Installation Charges

1. Service Connection charges apply as set forth in section D on initial or subsequent installations.

2. Installation charges are not applicable when Advanced Custom Calling Services are provided at the same time as the business or residence individual service is established.

By Authority of Order of the Public Service Commission in
Case No. 2016-00041 dated

~~Issue Date: September 5, 2014~~ ~~Effective Date: December 1, 2014~~

~~By:~~ ______________________, ~~Greg Hale, General Manager~~

## CUSTOMER NOTICE AFFIDAVIT

## AFFIDAVIT

I, Greg Hale, am a representative of Logan Telephone Cooperative, Inc. and am authorized to make this statement on its behalf.

I attest that the customer notice accompanying this affidavit was sent to all customers as a bill insert on March 7, 2016, in accordance with Section 17(2) of 807 KAR 5:001. I declare under penalty of perjury that the foregoing is true and correct.

Signature: Gregory A. Hale

Subscribed and sworn to me before this 7th day of March, 2016.

Jennifer Duncan
Notary Republic

My commission expires: 9/21/16

On or around March 7th, Logan Telephone Cooperative, Inc. has or will file with the KY Public Service Commission an increase in basic local service rates charged to all residential subscribers due to a Federal Communication Commission mandate. With this change, residential access line rates are proposed to increase from $16.50 to $18. To offset part of this increase, Caller ID rates for subscribers will be reduced by $1.50. If approved by the PSC, the effective date of this rate change will be June 1, 2016. While we anticipate the rate increase will be 2.3% of an average residential bill, there will be no change in rates for customers subscribing to Caller ID. Customers purchasing a bundle will also be unaffected by this revision. Business access rates are not proposed to change but those subscribing to Caller ID will see that rate reduced by $1.50.

This increase is mandated by recent changes enacted by the Federal Communications Commission which set minimal local service rate levels as a condition of continued receipt of federal high cost support that allows us to deploy fiber optic facilities and support advanced voice and broadband services. Because this support is vital to the economic health of our community, we had no choice but to request this rate increase.

You may examine this application at the offices of Logan Telephone Cooperative, Inc. located at 10725 Bowling Green Road, Auburn, KY 42206 during regular business hours or at the offices of the Kentucky Public Service Commission located at 211 Sower Boulevard, Frankfort, Kentucky, Monday through Friday, 8:00 a.m. to 4:30 p.m., or through the commission's Web site at http://psc.ky.gov.

Comments regarding the application may be submitted to the Public Service Commission through its Web site or by mail to Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602. Rates contained in this notice are the rates proposed by the Company but the Public Service Commission may order rates to be charged that differ from the proposed rates contained in this notice.

You may submit a timely written request for intervention to the Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602, establishing the grounds for the request including the status and interest of the party. If the Commission does not receive a written request for intervention within thirty (30) days of initial publication or mailing of this notice, the Commission may take final action on the application.

Exhibit 4

LOGAN
TELEPHONE COOPERATIVE

Office: 270.542.4121
Fax: 270.542.4800
10725 Bowling Green Road, P.O. Box 97
Auburn, KY 42206

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard, P.O. Box 615
Frankfort, KY 40602-0615

January 12, 2016

Dear Mr. Derouen:

Logan Telephone Cooperative, Inc. ("Logan") gives this notice pursuant to 807 KAR 5:001 Section 16(2) of its intent to file no sooner than thirty (30) days from today, but not more than sixty (60) days from today, an application for a general adjustment in its rates. The general adjustment in rates will be supported by a twelve (12) month historical test period that may include adjustments for known and measurable changes.

The anticipated rate application is intended to meet the rate floor mandated in 47 CFR § 54.318, compliance with which is required to ensure that Logan continues to receive high cost support that is essential to its operations. (See In the matter of Connect America Fund, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (Nov. 18, 2011).)

The FCC's June 10, 2014 Order (See Report and Order, Declaratory Ruling, Order, Memorandum Opinion And Order, Seventh Order On Reconsideration, and Further Notice of Proposed Rulemaking, FCC 14-54) requires Logan to have reported line rates greater than or equal to $18, commencing July 1, 2016 (reflecting rates in effect as of June 1, 2016)[1].

A copy of this notice is being emailed to the Attorney General's Office of Rate Intervention by electronic mail at rateintervention@ag.ky.gov.

Please refer any questions to me at 270-542-4121 or email to ghale@loganphone.com .

Sincerely,

Gregory A. Hale

Greg Hale, General Manager

Cc via email: Jim Stevens, KY PSC
Eileen Bodamer, Bodamer Consulting

[1] Paragraph 80.

The Exhibit 5 attachment has been omitted from the public filing. It has been provided under a petition for confidential treatment

Report of Independent Auditors and
Consolidated Financial Statements
with Supplementary Information for

# Logan Telephone Cooperative, Inc.

December 31, 2014 and 2013

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

## CONTENTS

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MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

# REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Logan Telephone Cooperative, Inc.

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Logan Telephone Cooperative, Inc. and its subsidiary, which comprise the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Kentucky RSA 3 Cellular General Partnership, Cumberland Cellular Partnership, Bluegrass Telecom, LLC and Bluegrass Networks, LLC (the partnerships and limited liability companies). The investments in the partnerships and limited liability companies were $32,050,469 and $31,701,654 as of December 31, 2014 and 2013, respectively, and the equity in their net income was $4,478,261 and $6,063,289, respectively, for the years then ended. The financial statements of the partnerships and limited liability companies were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the partnerships and limited liability companies, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

## REPORT OF INDEPENDENT AUDITORS (continued)

***Auditor's Responsibility (continued)***

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Logan Telephone Cooperative, Inc. and its subsidiary as of December 31, 2014, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

The financial statements of Logan Telephone Cooperative, Inc. for the year ended December 31, 2013, were audited by another auditor, whose report dated March 24, 2014, expressed an unmodified opinion on those statements.

Moss Adams LLP

Overland Park, Kansas
March 19, 2015

 

# LOGAN TELEPHONE COOPERATIVE, INC.
## CONSOLIDATED BALANCE SHEETS

### ASSETS

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 8,971,453 | $ 10,509,244 |
| Investments | 1,271,672 | 2,267,873 |
| Accounts receivable | | |
| Customers | 64,010 | 56,945 |
| Interexchange carriers and NECA | 416,060 | 661,029 |
| Related party | 155 | 2,011 |
| Material and supplies | 339,400 | 247,212 |
| Prepaid income taxes | 505,068 | 507,000 |
| Other current assets | 135,781 | 177,609 |
| Total current assets | 11,703,599 | 14,428,923 |
| NONCURRENT ASSETS | | |
| Investments in affiliates | 32,050,469 | 31,701,654 |
| Other noncurrent investments | 3,068,826 | 2,289,051 |
| Prepaid postretirement benefit obligation | 293,733 | - |
| Total noncurrent assets | 35,413,028 | 33,990,705 |
| PROPERTY, PLANT, AND EQUIPMENT | | |
| Regulated telecommunications plant in service | 50,624,630 | 47,284,934 |
| Regulated telecommunications plant under construction | 5,718,218 | 2,961,943 |
| Nonregulated telecommunications plant in service | 267,581 | 315,761 |
| | 56,610,429 | 50,562,638 |
| Less accumulated depreciation | 34,360,185 | 32,657,776 |
| Net property, plant, and equipment | 22,250,244 | 17,904,862 |
| Total assets | $ 69,366,871 | $ 66,324,490 |

# LOGAN TELEPHONE COOPERATIVE, INC.
## CONSOLIDATED BALANCE SHEETS

### LIABILITIES AND MEMBERS' EQUITY

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable | $ 1,105,140 | $ 530,548 |
| Advance billing and customer deposits | 106,914 | 40,250 |
| Other accrued taxes | 24,700 | 373,235 |
| Other current liabilities | 291,947 | 142,106 |
| Total current liabilities | 1,528,701 | 1,086,139 |
| NONCURRENT LIABILITIES | | |
| Deferred income taxes | 3,260,033 | 3,941,200 |
| Postretirement benefit obligation | - | 189,296 |
| Total noncurrent liabilities | 3,260,033 | 4,130,496 |
| MEMBERS' EQUITY | | |
| Memberships issued | 4,936 | 5,079 |
| Patronage capital | 18,232,845 | 16,807,493 |
| Retained margins | 46,517,968 | 45,096,131 |
| Accumulated other comprehensive loss | (177,612) | (800,848) |
| Total members' equity | 64,578,137 | 61,107,855 |
| Total liabilities and members' equity | $ 69,366,871 | $ 66,324,490 |

See accompanying notes.

# LOGAN TELEPHONE COOPERATIVE, INC.
## CONSOLIDATED STATEMENTS OF INCOME

| | Years Ended December 31, 2014 | 2013 |
|---|---|---|
| OPERATING REVENUES | | |
| Wireline | $ 6,729,566 | $ 7,352,962 |
| Internet | 1,810,472 | 1,796,851 |
| Miscellaneous | 310,408 | 349,387 |
| Net operating revenues | 8,850,446 | 9,499,200 |
| OPERATING EXPENSES | | |
| Plant specific operations | 1,646,555 | 1,174,345 |
| Plant nonspecific operations | 612,474 | 465,255 |
| Depreciation and amortization | 2,494,430 | 2,735,836 |
| Customer operations | 563,973 | 525,456 |
| Corporate operations | 1,165,681 | 1,085,089 |
| Other operating taxes | 457,194 | 434,121 |
| Nonregulated | 1,937,967 | 1,908,558 |
| Total operating expenses | 8,878,274 | 8,328,660 |
| Net operating margins | (27,828) | 1,170,540 |
| NONOPERATING INCOME (EXPENSE) | | |
| Income from affiliates | 4,478,261 | 6,063,289 |
| Other nonoperating expenses | (666) | (11,915) |
| Interest and dividend income | 96,243 | 59,922 |
| Nonoperating income | 4,573,838 | 6,111,296 |
| NET MARGINS BEFORE INCOME TAXES | 4,546,010 | 7,281,836 |
| Income tax expense | 1,668,262 | 1,904,614 |
| NET MARGINS | $ 2,877,748 | $ 5,377,222 |



See accompanying notes.

# LOGAN TELEPHONE COOPERATIVE, INC.
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31, 2014 | 2013 |
|---|---|---|
| Net margins | $ 2,877,748 | $ 5,377,222 |
| Other comprehensive income (loss) | | |
| Postretirement healthcare benefits | | |
| Net gain (loss) arising during the period | 602,825 | (390,193) |
| Amortization of prior service obligation and net loss | 20,411 | 42,879 |
| Other comprehensive income (loss) | 623,236 | (347,314) |
| Comprehensive income | $ 3,500,984 | $ 5,029,908 |

See accompanying notes.

# LOGAN TELEPHONE COOPERATIVE, INC.
## CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

| | Memberships Issued | Patronage Captial | Retained Margins | Accumulated Other Comprehensive Loss | Total Members' Equity |
|---|---|---|---|---|---|
| December 31, 2012 | $ 5,199 | $ 15,192,024 | $ 42,007,956 | $ (453,534) | $ 56,751,645 |
| Memberships issued | 404 | - | - | - | 404 |
| Patronage capital refunds and Retirements | (524) | (673,579) | - | - | (674,103) |
| Allocation of 2012 Patronage margin | - | 2,289,048 | (2,289,048) | - | - |
| Net margins | - | - | 5,377,222 | - | 5,377,222 |
| Other comprehensive loss | - | - | - | (347,314) | (347,314) |
| December 31, 2013 | 5,079 | 16,807,493 | 45,096,130 | (800,848) | 61,107,854 |
| Memberships issued | 386 | - | - | - | 386 |
| Patronage capital refunds and Retirements | (529) | (675,660) | - | - | (676,189) |
| Allocation of 2013 Patronage margin | - | 2,101,012 | (2,101,012) | - | - |
| Other equity adjustments | | | 645,102 | | 645,102 |
| Net margins | - | - | 2,877,748 | - | 2,877,748 |
| Other comprehensive income | - | - | - | 623,236 | 623,236 |
| December 31, 2014 | $ 4,936 | $ 18,232,845 | $ 46,517,968 | $ (177,612) | $ 64,578,137 |

See accompanying notes.

# LOGAN TELEPHONE COOPERATIVE, INC.
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31, 2014 | 2013 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net margins | $ 2,877,748 | $ 5,377,222 |
| Adjustments to reconcile net margin to cash from operating activities | | |
| Depreciation and amortization | 2,494,430 | 2,735,836 |
| Nonregulated deprecaition | 44,395 | 42,656 |
| Amortization of bond premium/discount | 42,651 | 36,189 |
| Income from affiliates | (4,478,261) | (6,063,289) |
| Deferred income taxes | (36,065) | (43,400) |
| Postretirement benefits | 140,206 | (203,651) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 239,760 | 179,498 |
| Materials and supplies | (92,188) | (9,924) |
| Prepaid income tax | 1,932 | (49,150) |
| Other current assets | 41,828 | (2,013) |
| Accounts payable | 574,592 | 287,155 |
| Advance billings and customer deposits | 66,664 | 871 |
| Accrued taxes | (348,535) | (1,135,488) |
| Other current and noncurrent liabilities | 149,841 | 198,878 |
| Net cash from operating activities | 1,718,998 | 1,351,390 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to property, plant, and equipment | (6,884,207) | (4,162,306) |
| Purchase of investments | (3,804,218) | (3,766,830) |
| Proceeds from investments | 3,977,993 | - |
| Distributions from investments in affiliates | 4,129,446 | 7,386,622 |
| Net cash from investing activities | $ (2,580,986) | $ (542,514) |

# LOGAN TELEPHONE COOPERATIVE, INC.
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31, 2014 | 2013 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Capital credit retirements | $ (675,660) | $ (673,579) |
| Payment of members' subscriptions | (529) | (524) |
| Proceeds from members' contributions | 386 | 404 |
| Net cash from financing activities | (675,803) | (673,699) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (1,537,791) | 135,177 |
| CASH AND CASH EQUIVALENTS, beginning of year | 10,509,244 | 10,374,067 |
| CASH AND CASH EQUIVALENTS, end of year | $ 8,971,453 | $ 10,509,244 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION | | |
| Cash paid during the year for | | |
| Interest | $ - | $ 942 |
| Income taxes | $ 1,866,994 | $ 3,038,502 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Postretirement benefit obligation adjustment | $ 623,236 | $ (347,314) |
| Deferred income tax adjustments | $ 645,102 | $ - |

See accompanying notes.

# LOGAN TELEPHONE COOPERATIVE, INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 – Summary of Significant Accounting Policies

**Organization** – Logan Telephone Cooperative, Inc. (the Cooperative), a cooperative organized in the state of Kentucky, is a regulated local exchange telephone company providing telephone and internet service to approximately 5,200 access lines in Logan County, Kentucky.

The Cellular Division of Logan Telephone Cooperative, Inc. (the Cellular Division), a corporation organized in the state of Kentucky, owns non-controlling interests in two partnerships and a limited liability company which provide cellular telephone service and long distance service to members as well as nonmembers of Logan.

**Principles of consolidation** – The accompanying consolidated financial statements include the accounts of the Cooperative and the Cellular Division, the consolidated group herein referred to as the "Cooperative". All significant intercompany balances and transactions have been eliminated.

**Accounting policies** – The financial statements of the Cooperative have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to regulated public utilities. Such accounting principles are consistent, in all material respects, with accounting prescribed by the Federal Communications Commission (FCC).

**Accounting estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include depreciation expense, deferred income tax expense, postretirement benefit plan obligations, and interstate access revenue settlements.

**Cash and cash equivalents** – For purposes of the statements of cash flows, the Cooperative considers all highly liquid investments with an original maturity of six months or less when purchased to be cash equivalents.

**Concentration of risk** – At various times throughout the year, the cash balances deposited in local institutions exceed federally insured limits. A possible loss exists for those amounts in excess of $250,000.

The Cooperative invests excess funds in repurchase agreements which are collateralized primarily by bonds of financial institutions. Such investment in repurchase agreements amounted to $7,600,000 and $9,100,000 as of December 31, 2014 and 2013, respectively. Collateral pledged on these investments in repurchase agreements amounted to $9,351,537 and $9,670,000 as of December 31, 2014 and 2013, respectively. Repurchase agreements have been included in cash and cash equivalents at both December 31, 2014 and 2013.

# LOGAN TELEPHONE COOPERATIVE, INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Valuation of accounts receivable –** Accounts receivable are stated at the amount management expects to collect on outstanding balances. The Cooperative reviews the collectability of accounts receivable annually based upon an analysis of outstanding receivables, historical collection information, and existing economic conditions. Receivables from subscribers are due 10 days after issuance of the bill and receivables from other exchange carriers are due 30 days after issuance of the bill. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Company management believes it has established adequate reserves for any risk associated with these receivables. The allowance for doubtful accounts was $500 and $208,318 at December 31, 2014 and 2013, respectively.

**Material and supplies –** Material and supplies consist of construction materials, handsets and accessories held for resale, and other equipment, which are valued at the lower of average cost or market.

**Investments in affiliates –** The Cooperative accounts for its investments in limited liability companies and other entities by the equity method of accounting under which the Cooperative's share of the net income of the affiliates is recognized as income in the Cooperative's income statement and added to the respective investment account. Under the equity method of accounting, dividends or returns of capital reduce the investment balance.

**Other investments –** The Cooperative's policy for investment securities is as follows:

> **Trading securities –** Trading securities consist of debt and equity securities that are bought and held principally for the purpose of selling in the near term and are reported at fair value, with unrealized gains and losses included in earnings. The Cooperative did not hold any trading securities during 2014 and 2013.
>
> **Securities, held to maturity –** Debt securities to which the Cooperative has the positive intent and ability to hold to maturity are classified as held to maturity. Held to maturity securities are stated at amortized cost.
>
> **Securities, available for sale –** Securities not classified as held to maturity or trading are classified as available for sale. Available for sale securities are stated at fair value, with unrealized gains and losses reported as a separate component of members' equity. The Cooperative did not hold any available for sale securities during 2014 or 2013.

# LOGAN TELEPHONE COOPERATIVE, INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 – Summary of Significant Accounting Policies (continued)

**Property, plant, and equipment –** Property, plant, and equipment are stated at original cost. Regulated plant includes assets that are jointly used for regulated and nonregulated activities. The cost of additions and substantial betterments of property, plant, and equipment is capitalized. The cost of maintenance and repairs is charged to operating expenses.

In accordance with composite group depreciation methodology, when a portion of the Cooperative's regulated depreciable property, plant, and equipment is retired in the ordinary course of business, the gross book value is charged to accumulated depreciation.

Depreciation of the Cooperative's nonregulated plant is provided by the straight-line method over the estimated useful lives of the assets. Upon retirement, sale, or other disposition of nonregulated investments, the cost and related accumulated depreciation are removed from the related accounts and the resulting gains or losses are included in operations.

**Long-lived assets –** Long-lived assets are reviewed whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. When such events occur, the Cooperative determines potential impairment by comparing the carrying value of its assets with the sum of the undiscounted cash flows expected to be provided by operating and eventually disposing of the asset. Should the sum of the expected future net cash flows be less than carrying values, the Cooperative would determine whether an impairment loss should be recognized. No impairment losses on long-lived assets have been identified in the financial statements.

**Members' equity** – Patronage margins are assigned to members on a patronage basis in accordance with the Cooperative's bylaws. Nonpatronage margins, in addition to the net margins of the Cellular Division, are retained by the Cooperative and are not assignable to patrons until the Board of Directors determine otherwise. If authorized by the Board, a portion of total assigned patronage is distributed to members as a general retirement. The total amount retired is determined by Board resolution each year.

**Comprehensive income –** Comprehensive income is defined as the change in equity of a business during a period as a result of net margins and other gains and losses affecting equity that, under accounting principles generally accepted in the United States of America, are excluded from net margins. Unrecognized actuarial adjustments in postretirement benefit plan obligations are included in other comprehensive income.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Income taxes –** In 2014 and 2013 the Cooperative was taxable for federal purposes. As a taxable cooperative, taxable income consists of margins earned from nonpatronage and nonoperating sources. Margins earned from patronage are not taxable to the extent margins are allocated to patrons in the form of capital credits. The Cellular Division is a taxable entity for federal and state income tax purposes.

Deferred taxes are provided on a liability method whereby deferred tax liabilities are recognized for taxable temporary differences, and deferred tax assets are recognized for deductible temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. The differences relate primarily to differences in book basis and tax basis of partnership interests. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

The Cooperative records uncertain tax positions if the likelihood the position will be sustained upon examination is less than 50 percent. As of December 31, 2014 and 2013, the Cooperative had no accrued amounts related to uncertain tax positions. The Cooperative is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2011. Interest and penalties, if any, are recorded as interest expense and other expense, respectively.

**Revenue recognition –** Monthly service fees derived from local wireline and Internet services are billed one month in advance, but recognized in the month that service is provided.

Usage sensitive revenues such as access (revenues earned for originating/terminating long distance calls), long distance, and wireless roaming are generally billed as a per-minute charge. Although these revenues are billed in arrears, an estimate of unbilled revenues is accrued in the month service is provided.

Interstate access revenues also include settlements based on the Cooperative's participation in the revenue pools administered by the National Exchange Carrier Association (NECA). Settlement revenues are determined by annually prepared separations and interstate access cost studies. These studies are prepared subsequent to year end and therefore, the related revenues are recorded on the books based on an estimate of the Company's costs, NECA pool earnings and on other assumptions related to information utilized in the preparation of the Cooperative's cost study. The studies are subject to a 24-month pool earnings adjustment period and a review of the study by NECA. There was an insignificant revenue impact in 2014 and 2013 for adjustments related to prior year differences between the recorded estimates and actual revenues. Management does not anticipate that 2014 and 2013 recorded revenues will require significant adjustments in future years.

Internet revenues are derived from providing end user customers connection to the public Internet. Additionally, interstate access revenues include settlements from NECA that compensate the Cooperative for the DSL transport related to Internet traffic.

# LOGAN TELEPHONE COOPERATIVE, INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Revenue recognition (continued)**

Universal Service support revenue is intended to compensate the Cooperative for the high cost of providing rural telephone service. Universal Service support revenue includes funds received for high cost loop support (HCLS), interstate common line support (ICLS), Connect America Fund (CAF), and other miscellaneous programs. High cost loop support and interstate common line support are based on the Cooperative's relative level of operating expense and plant investment. Support from the CAF is based on a historical frozen amount related to 2011 investment and expenses associated with the switching function and certain 2011 intrastate access revenues, which together make up the CAF base. The CAF base will be reduced by five percent each year in determining CAF support.

**Regulation –** The Cooperative's services are subject to rate regulation as follows:

- Local telephone and intrastate access revenues are regulated by the Kentucky Public Service Commission. The FCC also has assumed preemptive authority to regulate intrastate telecommunications services, including intrastate terminating access rates.
- Interstate access revenues are regulated by the FCC through its regulation of rates and settlements procedures as administered by NECA.
- Universal Service support revenues are administered by Universal Service Administrative Company (USAC), based on rules established by the FCC.

Other sources of revenues are not rate regulated and include Internet, equipment sales, directory, rents, and other incidental services. Nonregulated expenses and nonregulated plant are directly attributable to nonregulated services and miscellaneous revenues. All other operating expenses and telecommunications plant are related primarily to wireline revenues. However, some of these costs jointly relate to regulated and nonregulated services. For interstate access settlement, Universal Service support, rate case, and other regulatory purposes, the portion of these common costs related to nonregulated activities are removed in accordance with Part 64 of the FCC rules in order to ensure regulated revenues are based on costs of providing regulated services.

**Concentration of market risk –** The Cooperative receives a significant portion of its annual operating revenues from Universal Service support. For the years ended December 31, 2014 and 2013, revenues from Universal Service support represent approximately 39 percent and 40 percent, respectively, of operating revenues.

# LOGAN TELEPHONE COOPERATIVE, INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Advertising expenses –** The Cooperative expenses advertising costs as incurred. Advertising expenses during the years ended December 31, 2014 and 2013 were $85,594 and $89,329, respectively.

**Fair value measurements –** Fair value represents the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The Cooperative follows the following fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities.

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value measurement guidance is applicable to the Cooperative related to the postretirement benefit plan assets in Note 5.

**Taxes imposed by governmental authorities –** The Cooperative's customers are subject to taxes assessed by various governmental authorities on many different types of revenue transactions with the Cooperative. These specific taxes are charged to and collected from the Cooperative's customers and subsequently remitted to the appropriate taxing authority. The taxes are accounted for on a net basis and excluded from revenues.

**Subsequent events –** Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Cooperative recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Cooperative's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued.

The Cooperative has evaluated subsequent events through March 19, 2015, which is the date the financial statements are available to be issued.

**Reclassifications –** For comparability, certain amounts reported in 2013 have been reclassified in order to conform to the 2014 presentation. These reclassifications had no effect on net margins or members' equity as previously reported.

# LOGAN TELEPHONE COOPERATIVE, INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 2 – Investments**

Investments consist of the following at December 31:

| | 2014 | 2013 |
|---|---|---|
| Investments in affiliates | $ 32,050,469 | $ 31,701,654 |
| Investments, held to maturity | 4,302,174 | 4,521,218 |
| Cash surrender value of life insurance | 38,324 | 35,706 |
| Total | $ 36,390,967 | $ 36,258,578 |

**Investments in affiliates** – Investments in affiliates include investments in two partnerships which operate cellular telephone systems and two limited liability companies (LLCs) which provide network services and long distance services.

Investment balances and the Company's respective ownership percentages in the entities are as follows:

| | Ownership | 2014 | 2013 |
|---|---|---|---|
| Kentucky RSA #3 Cellular General Partnership | 25.00% | $ 19,978,255 | $ 19,888,819 |
| Bluegrass Networks, LLC | 20.00% | 4,570,177 | 4,080,917 |
| Bluegrass Telecom, LLC | 20.00% | 341,983 | 341,983 |
| Cumberland Cellular Partnership | 12.50% | 7,160,054 | 7,389,935 |
| Total | | $ 32,050,469 | $ 31,701,654 |

The Cooperative's investment in affiliate balances exceed the underlying assets of the individual investees by approximately $350,000 which represents goodwill arising from excess amounts invested in the partnerships and LLCs. The Cooperative assesses this asset annually for indications of impairment to this asset. During the years ended December 31, 2014 and 2013, there was no impairment of this asset recognized in the consolidated financial statements.

The assets, liabilities, equity, and the operations of the Cooperative's investments in affiliates as of and for the years ended December 31 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Assets | $ 177,250,113 | $ 174,163,713 |
| Liabilities | (17,546,152) | (15,424,751) |
| Equity | $ 159,703,961 | $ 158,738,962 |
| Revenue | $ 149,552,759 | $ 149,562,661 |
| Expenses | (125,237,371) | (117,380,755) |
| Net income | $ 24,315,388 | $ 32,181,906 |

## LOGAN TELEPHONE COOPERATIVE, INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 2 – Investments (continued)**

**Investments, held to maturity** – Investments classified as held to maturity are carried at amortized cost. Those investments include certificates of deposit, corporate bonds, and government bonds. Unrealized losses on investment classified as held to maturity amounted to $13,053 and $67,580 at December 31, 2014 and 2013, respectively.

Investments, held to maturity, consist of the following at December 31:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Amortized cost | Fair Value | Amortized Cost | Fair Value |
| Current investments: | | | | |
| Corporate bonds | $ 62,672 | $ 62,662 | $ 239,814 | $ 240,380 |
| Government bond | 25,000 | 24,775 | - | - |
| Certificates of deposit | 1,184,000 | 1,183,012 | 2,028,059 | 2,026,700 |
| Total current investments | 1,271,672 | 1,270,449 | 2,267,873 | 2,267,080 |
| Long-term investments: | | | | |
| Certificates of deposit | 500,000 | 496,578 | - | - |
| Corporate bonds | 1,576,207 | 1,524,331 | 1,301,944 | 1,271,905 |
| Government bonds | 954,295 | 997,763 | 951,401 | 914,653 |
| Total long-term investments | 3,030,502 | 3,018,672 | 2,253,345 | 2,186,558 |
| Total investments | $ 4,302,174 | $ 4,289,121 | $ 4,521,218 | $ 4,453,638 |

The following is a schedule of the held to maturity investments by maturity date:

| | |
|---|---|
| 2015 | $ 1,271,672 |
| 2016 | 544,865 |
| 2017 | 519,608 |
| 2018 | 509,886 |
| 2019 and thereafter | 1,456,143 |
| | $ 4,302,174 |

# LOGAN TELEPHONE COOPERATIVE, INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 3 – Property, Plant, and Equipment

Major classes of property, plant, and equipment consist of the following at December 31:

| | Depreciable Life | Plant Account | Accumulated Depreciation | 2014 Net Balance | 2013 Net Balance |
|---|---|---|---|---|---|
| Regulated plant | | | | | |
| General support assets | 6-37 years | $ 5,722,166 | $ 2,721,871 | $ 3,000,295 | $ 3,032,585 |
| Central office assets | 8 years | 8,959,376 | 8,282,338 | 677,038 | 469,128 |
| Cable and wire facilities | 10-45 years | 35,943,088 | 23,116,093 | 12,826,995 | 11,362,892 |
| Plant under construction | n/a | 5,718,218 | - | 5,718,218 | 2,961,945 |
| | | 56,342,848 | 34,120,302 | 22,222,546 | 17,826,550 |
| Nonregulated plant | | | | | |
| Internet equipment | 5 years | 267,581 | 239,883 | 27,698 | 78,312 |
| | | 267,581 | 239,883 | 27,698 | 78,312 |
| | | $ 56,610,429 | $ 34,360,185 | $22,250,244 | $ 17,904,862 |

### Note 4 – Income Taxes and Deferred Income Tax

Income tax expense consists of the following for the years ended December 31:

| | 2014 | 2013 |
|---|---|---|
| Current | | |
| Federal | $ 1,451,317 | $ 1,632,714 |
| State | 253,010 | 315,300 |
| Deferred | (36,065) | (43,400) |
| Total income tax expense | $ 1,668,262 | $ 1,904,614 |

For the years ended December 31, 2014 and 2013, the consolidated income tax return computed at the statutory rate differs from the amount of the expense recorded in the financial statements. The difference relates primarily to the tax exempt status of the Cooperative and state income taxes.

Due to the patronage exclusion, no deferred tax provision is recognized for the postretirement benefit plan.

# LOGAN TELEPHONE COOPERATIVE, INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 4 – Income Taxes and Deferred Income Tax (continued)

The components of the Cooperative's net deferred tax liability consist of the following at December 31:

| | 2014 | 2013 |
|---|---|---|
| Deferred tax liabilities, noncurrent | | |
| Partnership basis difference | $ (3,260,033) | $ (3,941,200) |
| | $ (3,260,033) | $ (3,941,200) |

### Note 5 – Pension Plans

**Defined benefit plans** – The Cooperative participates in a multi-employer pension plan with the National Telephone Cooperative Association (NTCA) that cover substantially all of its employees and are described below.

The risks of participating in multi-employer plans are different from single employer plans as follows:

(1) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (2) if a participating employer stops contributing to the Plan, the unfunded obligations of the Plan may be borne by the remaining participating employers, and (3) if the Cooperative chooses to stop participating in a plan, the Cooperative may be required to pay a penalty.

The Cooperative's participation in the multi-employer plan is outlined in the table below. The information below is from the Plan's most recent Form 5500 filing which covers the Plan years 2013 and 2012. At the date the financial statements were issued, Form 5500 was not available for the year ending 2014.

| Plan Name | Employer Identification Number/Plan Number | Pension Protection Act Zone Status 2013 | Pension Protection Act Zone Status 2012 | Employer Contributions 2014 | Employer Contributions 2013 | Company Contributions Greater than 5% of Total Plan Contributions | Funding Improvement/ Rehabilitation Plan in Place | Surcharges Imposed | Expiration Date of Collective-Bargaining Agreements | Minimum Contributions Required in the Future |
|---|---|---|---|---|---|---|---|---|---|---|
| Retirement & Security program for employees of the National Telecommunications Cooperative Association and its member systems | 52-0741336/333 | At least 80% funded | At least 80% funded | $ 192,133 | $182,058 | No | No | Yes | N/A | No |

# LOGAN TELEPHONE COOPERATIVE, INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 5 – Pension Plans (continued)**

**Defined benefit plans (continued)**

Employees are eligible to receive an annuity or lump-sum payment at retirement based on an average of prior years' compensation. The Cooperative makes monthly contributions to the plan based on each employee's compensation and recognizes as an expense the required contribution for the period.

**Defined contribution plans –** The Cooperative contributes 1 percent of gross wages to a defined contribution 401(k) savings plan covering substantially all employees. Participating employees can contribute up to the maximum percentage of compensation and dollar amount permissible under the Internal Revenue Code. Contributions for this Plan during 2014 and 2013 were $16,174 and $16,206, respectively.

**Other postretirement plan benefits –** The Cooperative also sponsors a funded postretirement benefit plan (the Plan) that covers employees and directors. The Plan provides medical, dental, and vision care to retirees and their spouses for a period of time equal to the retiree's years of service. Directors shall be defined as Board Retirees after having served on the Board of Directors at least three years if leaving the Board before December 31, 2006, and after having service 20 years if leaving the Board after December 31, 2006. The Cooperative funds 100 percent of the costs for these postretirement benefits for all retirees and their spouses who were employees on November 20, 1995. For directors and employees hired after November 20, 1995 and through December 31, 2006, the Cooperative funds 60 percent of these costs. Retirees will be responsible for 100% of these costs if hired after December 31, 2006.

**Obligation and funded status –** The amount of benefit to be paid depends on a number of future events incorporated into a formula, including estimates of the average life of employees and average years of service rendered, and future interest rates. The benefit obligation is the accumulated benefit obligation, which represents the present value of all future benefits attributed to employee service rendered through the measurement date and does not include changes in future compensation.

The Plans' actuaries measure the accumulated postretirement benefit obligation at July 1, 2014 based on projected interest and service costs, amortization, and benefit payments. Estimates have been made in the current year to state the accumulated postretirement benefit obligation as of December 31, 2014.

**Note 5 – Pension Plans (continued)**

**Obligation and funded status (continued)**

The following table summarizes the benefit obligations and the funded status of the defined postretirement health care plan over the two-year period ending December 31:

| | 2014 | 2013 |
|---|---|---|
| Accumulated postretirement benefit plan obligation | $ 4,818,850 | $ 4,920,851 |
| Plan assets at fair value | (5,112,583) | (4,731,555) |
| Funded status | $ (293,733) | $ 189,296 |

Amounts included in other comprehensive loss that have not yet been recognized in net periodic benefit cost at December 31 are listed below:

| | 2014 | 2013 |
|---|---|---|
| Unrecognized net loss | $ (166,367) | $ (757,953) |
| Unrecognized intitial obligation | (11,245) | (42,895) |
| Net amount reported as a reduction to equity | $ (177,612) | $ (800,848) |

The accumulated loss is a result of the accumulated difference between the actuary's estimates based on actuarial principles and the Cooperative's actual experience with factors such as the length of employment, the discount rate for the Plan obligations, and expected rate of return on plan assets. The decrease in net loss was driven primarily by differences between the expected rate of return on plan assets and actual results.

The estimated net loss and prior service cost that will be amortized from other comprehensive loss into net periodic benefit cost over the next year is $11,245.

**Other Plan information –** Other plan information is as follows at December 31:

| | 2014 | 2013 |
|---|---|---|
| Net periodic benefit plan cost | $ (51,244) | $ 38,719 |

# LOGAN TELEPHONE COOPERATIVE, INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 5 – Pension Plans (continued)**

**Other Plan information (continued)**

The net periodic benefit cost is the amount recognized in the financial statements as the cost of the Plan for the year. Components of the net periodic benefit cost are service cost, interest cost, and amortization of unrecognized gains/losses and initial obligations.

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows:

| | |
|---|---|
| 2015 | $ 171,167 |
| 2016 | 180,581 |
| 2017 | 189,610 |
| 2018 | 199,091 |
| 2019 | 209,045 |
| 2020 through 2024 | 1,212,861 |

The weighted average assumptions used in the measurement of the Cooperative's benefit obligation are shown in the following table at December 31:

| | Percent | |
|---|---|---|
| Weighted-average assumptions as of December 31 | 2014 | 2013 |
| Expected return on Plan assets | 7.29 | 7.26 |
| Discount rate | 4.50 | 4.50 |
| Rate of compensation increase | 3.00 | 3.00 |

For measurement purposes, a seven percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2014. The rate was assumed to decrease gradually each year to a rate of five percent for 2017 and remain at that level thereafter.

**Plan assets –** Plan assets are managed by NTCA. Equity securities primarily include investments in large-cap companies located in the United States and internationally. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, and U.S. treasuries. Other types of investments include real estate investment trusts and private equity funds that follow several different strategies.

NTCA makes all the investment decisions for the program with the help of an investment management and consulting firm, Wilshire Associates. The trust committee makes investment decisions, which begin with a review of the assets and liabilities of potential investments and then make their final decision based upon obtaining the rate of return consistent with program needs.

## Note 5 – Pension Plans (continued)

### Plan assets (continued)

The fair values of the Cooperative's pension Plan assets at December 31, 2014, by asset category, are as follows:

| Asset Type | Percentage of Plan Assets | Amount | Hierarchy Level |
|---|---|---|---|
| Bonds | 14% | $ 700,421 | 2 |
| Domestic equities | 25% | 1,262,809 | 2 |
| Private equities | 8% | 414,120 | 2 |
| International equities | 26% | 1,339,497 | 2 |
| Real estate funds | 8% | 424,345 | 2 |
| ETFs | 17% | 869,140 | 2 |
| Cash | 2% | 102,251 | 1 |
| Total | | $ 5,112,583 | |

## Note 6 – Operating Revenue

Wireline and miscellaneous revenues consist of the following for the years ended December 31:

| | 2014 | 2013 |
|---|---|---|
| Wireline | | |
| Customer | $ 2,222,578 | $ 2,275,404 |
| Intercarrier | | |
| Interstate | 840,457 | 953,884 |
| Intrastate | 226,460 | 350,574 |
| Universal Service Support, federal | 3,440,071 | 3,773,100 |
| Total wireline revenues | $ 6,729,566 | $ 7,352,962 |

Wireline revenues are classified above as follows:

- Customer revenues include end user charges, such as the subscriber line charge and the federal universal service charge, and access recovery charge.
- Universal Service Support includes the HCLS, ICLS, and CAF.
- All access charge and settlement revenue, except as described above, are classified as intercarrier revenue.

# LOGAN TELEPHONE COOPERATIVE, INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 6 – Operating Revenue (continued)

Miscellaneous revenues consist of the following:

| | 2014 | 2013 |
|---|---|---|
| Miscellaneous | | |
| Rent | $ 30,081 | $ 32,054 |
| Directory | 46,293 | 47,023 |
| Billing and collection | 45,841 | 51,520 |
| Maintenance and calling features | 38,483 | 39,878 |
| Cellular sales and commissions | 64,971 | 58,567 |
| Other | 115,369 | 115,766 |
| Uncollectible | (30,630) | 4,579 |
| Total miscellaneous revenues | $ 310,408 | $ 349,387 |

### Note 7 – Related-Party Transactions

Services are performed for the Cooperative by associated companies, which are related through common ownership. The services received include long distance and broadband transport. During 2014 and 2013, the Cooperative received services from associated companies totaling $720,353 and $766,398, respectively.

The receivable from and advances to associated companies due to the Cooperative amount to $32,426 and $16,994, respectively at December 31, 2014 and 2013. Balances due to associated companies by the Cooperative totaled $55,501 and $41,579, respectively at December 31, 2014 and 2013.

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Certified Public Accountants | Business Consultants

# REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

Board of Directors
Logan Telephone Cooperative, Inc.

We have audited the consolidated financial statements of Logan Telephone Cooperative, Inc. and subsidiary as of and for the year ended December 31, 2014, and our report thereon dated March 19, 2015, which contained an unmodified opinion on those consolidated financial statements appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet detail and consolidating statement of income detail are presented for purposes of additional analysis rather than to present financial position, results of operations and cash flows of the individual companies, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Moss Adams LLP

Overland Park, Kansas
March 19, 2015

# LOGAN TELEPHONE COOPERATIVE, INC.
## CONSOLIDATING BALANCE SHEET DETAIL
## DECEMBER 31, 2014

| | Logan Telephone Cooperative, Inc. | Cellular Division of Logan Telephone Cooperative, Inc. | Eliminations | Consolidated |
|---|---|---|---|---|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | $ 8,963,347 | $ 8,106 | $ - | $ 8,971,453 |
| Investments | 1,271,672 | - | - | 1,271,672 |
| Accounts receivable | | | | |
| Customers | 37,755 | 26,255 | - | 64,010 |
| Interexchange carriers and NECA | 416,060 | - | - | 416,060 |
| Related party | 155 | 298,337 | (298,337) | 155 |
| Material and supplies | 339,400 | - | - | 339,400 |
| Prepaid income taxes | 102,419 | 402,649 | - | 505,068 |
| Other current assets | 135,781 | - | - | 135,781 |
| Total current assets | 11,266,589 | 735,347 | (298,337) | 11,703,599 |
| NONCURRENT ASSETS | | | | |
| Investment in affiliates | 29,961,742 | 27,480,293 | (25,391,566) | 32,050,469 |
| Other noncurrent investments | 3,068,826 | - | - | 3,068,826 |
| Prepaid postretirement benefit obligation | 293,733 | - | - | 293,733 |
| Total noncurrent assets | 33,324,301 | 27,480,293 | (25,391,566) | 35,413,028 |
| PROPERTY, PLANT, AND EQUIPMENT | | | | |
| Regulated telecommunications plant in service | 50,624,630 | - | - | 50,624,630 |
| Regulated telecommunications plant under construction | 5,718,218 | - | - | 5,718,218 |
| Nonregulated telecommunications plant in service | 267,581 | - | - | 267,581 |
| | 56,610,429 | - | - | 56,610,429 |
| Less accumulated depreciation and amortization | 34,360,185 | - | - | 34,360,185 |
| Net property, plant and equipment | 22,250,244 | - | - | 22,250,244 |
| Total assets | $ 66,841,134 | $ 28,215,640 | $ (25,689,903) | $ 69,366,871 |

# LOGAN TELEPHONE COOPERATIVE, INC.
## CONSOLIDATING BALANCE SHEET DETAIL
## DECEMBER 31, 2014

| | Logan Telephone Cooperative, Inc. | Cellular Division of Logan Telephone Cooperative, Inc. | Eliminations | Consolidated |
|---|---|---|---|---|
| CURRENT LIABILITIES | | | | |
| Accounts payable | $ 1,105,140 | $ - | $ - | $ 1,105,140 |
| Accounts payable - related party | 298,337 | - | (298,337) | - |
| Advance billing and customer deposits | 106,914 | - | - | 106,914 |
| Other accrued taxes | 24,700 | - | - | 24,700 |
| Other current liabilities | 291,947 | - | - | 291,947 |
| Total current liabilities | 1,827,038 | - | (298,337) | 1,528,701 |
| NONCURRENT LIABILITIES | | | | |
| Deferred income taxes | 435,959 | 2,824,074 | - | 3,260,033 |
| Total noncurrent liabilities | 435,959 | 2,824,074 | - | 3,260,033 |
| MEMBERS' EQUITY | | | | |
| Memberships issued | 4,936 | - | - | 4,936 |
| Common stock | - | 1,100,000 | (1,100,000) | - |
| Patronage capital | 18,232,845 | - | - | 18,232,845 |
| Retained margins | 46,517,968 | 24,291,566 | (24,291,566) | 46,517,968 |
| Accumulated other comprehensive loss | (177,612) | - | - | (177,612) |
| Total members' equity | 64,578,137 | 25,391,566 | (25,391,566) | 64,578,137 |
| Total liabilities and members' equity | $ 66,841,134 | $ 28,215,640 | $ (25,689,903) | $ 69,366,871 |

Logan County Telephone Cooperative Corporation, Inc.
Case 2016-00041

Exhibit 6

# LOGAN TELEPHONE COOPERATIVE, INC.
## CONSOLIDATING STATEMENT OF INCOME DETAIL
## YEAR ENDED DECEMBER 31, 2014

| | Logan Telephone Cooperative, Inc. | Cellular Division of Logan Telephone Cooperative, Inc. | Eliminations | Consolidated |
|---|---|---|---|---|
| OPERATING REVENUES | | | | |
| Wireline | $ 6,729,566 | $ - | $ - | $ 6,729,566 |
| Internet | 1,810,472 | - | - | 1,810,472 |
| Miscellaneous | 310,408 | - | - | 310,408 |
| Net operating revenues | 8,850,446 | - | - | 8,850,446 |
| OPERATING EXPENSES | | | | |
| Plant specific operations | 1,646,555 | - | - | 1,646,555 |
| Plant nonspecific operations | 612,474 | - | - | 612,474 |
| Depreciation and amortization | 2,494,430 | - | - | 2,494,430 |
| Customer operations | 563,973 | - | - | 563,973 |
| Corporate operations | 1,165,681 | - | - | 1,165,681 |
| Operating Income Tax | 457,194 | - | - | 457,194 |
| Nonregulated | 1,923,793 | 14,174 | - | 1,937,967 |
| Total operating expenses | 8,864,100 | 14,174 | - | 8,878,274 |
| Net operating margins | (13,654) | (14,174) | - | (27,828) |
| NONOPERATING INCOME (EXPENSE) | | | | |
| Income from affiliates | 3,021,698 | 3,789,002 | (2,332,439) | 4,478,261 |
| Other nonoperating expenses | (666) | - | - | (666) |
| Interest and dividend income | 95,247 | 996 | - | 96,243 |
| Nonoperating income | 3,116,279 | 3,789,998 | (2,332,439) | 4,573,838 |
| NET MARGINS BEFORE INCOME TAXES | 3,102,625 | 3,775,824 | (2,332,439) | 4,546,010 |
| Income taxes | 224,877 | 1,443,385 | - | 1,668,262 |
| NET MARGINS | $ 2,877,748 | $ 2,332,439 | $ (2,332,439) | $ 2,877,748 |

**Logan County Telephone Cooperative Corporation, Inc.** **Exhibit 7**
**Case 2016-00041**

| Account | Description | Depreciation rate |
|---|---|---|
| 2112 | Motor Vehicles | 12.1% |
| 2116 | Other Work Equipment | 7.5% |
| 2121 | Buildings | 2.7% |
| 2122 | Furniture | 8.7% |
| 2123 | Office Equipment | 7.5% |
| 2124 | General Purpose Computers | 15.8% |
| 2212 | Digital-Electronic Switching | 7.5% |
| 2220 | Operator Systems | 9.8% |
| 2232 | Circuit Equipment | 11.9% |
| 2411.1 | Poles - pre 1988 | 4.9% |
| 2411.2 | Poles - post 1988 | 5.6% |
| 2421.0 | Aerial Cable (metallic) | 6.6% |
| 2421.2 | Aerial Cable (fiber) | 5.1% |
| 2421.1 | Aerial Cable (drop) | 6.6% |
| 2422.0 | Underground Cable (metallic) | 5.0% |
| 2422.1 | Underground Cable (fiber) | 5.0% |
| 2423 | Buried Cable (Metallic) | 5.5% |
| 2423.1 | Buried Cable (fiber) | 5.1% |
| 2424 | Submarine Cable | 3.7% |
| 2431 | Aerial Wire | 9.4% |
| 2441 | Conduit | 2.2% |

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MAR 11 2016

PUBLIC SERVICE
COMMISSION

**COMMONWEALTH OF KENTUCKY**
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

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

**PETITION OF LOGAN TELEPHONE**
**COOPERATIVE, INC.**
**<u>FOR CONFIDENTIAL TREATMENT</u>**

1. Logan Telephone Cooperative, Inc. ("Logan") hereby petitions the Kentucky Public Service Commission (the "Commission"), pursuant to 807 KAR 5:001, Section 13, and KRS 61.878, to grant confidential treatment to certain information Logan is contemporaneously filing with its application for a general adjustment in rates (the "Application"). The information Logan seeks to protect as confidential is hereinafter referred to as the "Confidential Information."

2. The Confidential Information includes portions of:

   a. Exhibit 1 of the Application;

   b. Exhibit 1, Attachment B of the Application; and

   c. Exhibit 5 of the Application.

3. Pursuant to 807 KAR 5:001, Sections 13(2)(a)(3) and 13(2)(b), one (1) copy of the hardcopy pages containing Confidential Information, with the Confidential Information highlighted with transparent ink, printed on yellow paper, or otherwise marked "CONFIDENTIAL," is being filed with this petition. A copy of those pages with the

Confidential Information redacted is being filed with the original and each of the ten (10) copies of the application filed with this petition.

4. The Confidential Information is not publicly available, is not disseminated within Logan except to those employees and professionals with a legitimate business need to know and act upon the information, and is not disseminated to others without a legitimate need to know and act upon the information.

5. If and to the extent the Confidential Information becomes generally available to the public, whether through filings required by other agencies or otherwise, Logan will notify the Commission and have the information's confidential status removed pursuant to 807 KAR 5:001, Section 13(1)(b).

6. As discussed below, the Confidential Information is entitled to confidential treatment based upon KRS 61.878(1)(c)(1), which protects "records confidentially disclosed to an agency or required by an agency to be disclosed to it, generally recognized as confidential or proprietary, which if openly disclosed would permit an unfair commercial advantage to competitors of the entity that disclosed the records."

## ARGUMENT

### I. Disclosure of the Confidential Information Would Permit an Unfair Commercial Advantage to Logan's Competitors.

7. The Confidential Information identified in the exhibits to Logan's Application and listed in Paragraph 2 above consists of information related to the inner workings of Logan, including financial and service usage details. This information "if openly disclosed would present an unfair commercial advantage to competitors" of Logan, and it therefore qualifies as protectable confidential information pursuant to KRS 61.878(1)(c)(1).

8. 807 KAR 5:001, Section 13(2)(a), sets forth the procedure by which certain information filed with the Commission may be treated as confidential. The regulation provides that a party seeking confidential treatment of certain information must:

> Establish specific grounds pursuant to KRS 61.878, upon which the Commission should classify that material as confidential;
>
> State the time period in which the material should be treated as confidential and the reasons for the time period; and
>
> Include[ ] in a separate sealed envelope marked confidential, one (1) copy of the material . . . which identifies by underscoring, highlighting with transparent ink, or other reasonable means only those portions which unless redacted would disclose confidential material.

9. The Kentucky Open Records Act, KRS 61.870, *et seq*., exempts certain records from the requirement of public inspection. In particular, KRS 61.878(1)(c)(1) provides the following exemption from the requirement of public inspection:

> records confidentially disclosed to an agency or required by an agency to be disclosed to it, generally recognized as confidential or proprietary, which if openly disclosed would present an unfair commercial advantage to competitors of the entity that disclosed the records.

10. Logan, as a participant in the telecommunications market, faces economic competition from other entities in the same market. Logan competes in the telecommunications market to sell telecommunication services to customers. With the increased penetration of alternatives to basic local service such as VoIP and wireless services, Logan faces an increasingly competitive market. Logan's ability to successfully compete against other entities in the telecommunications market would be adversely affected by the disclosure of its internal financial and service usage information. Therefore, Logan has "competitors" as is contemplated under the statute and faces actual competition from other market participants. The Confidential

Information contained in Logan's Application would result in an "unfair commercial advantage to competitors" of Logan if disclosed.

11. Information about a company's detailed inner workings is generally recognized as confidential or proprietary. *See, e.g.*, *Hoy v. Ky. Indus. Revitalization Auth.*, 907 S.W.2d 766, 768 (Ky. 1995) ("It does not take a degree in finance to recognize that such information concerning the inner workings of a corporation is 'generally recognized as confidential or proprietary . . . .'"); *Marina Mgmt. Servs. v. Cabinet for Tourism*, 906 S.W.2d 318, 319 (Ky. 1995) ("The most obvious disadvantage may be the ability to ascertain the economic status of the entities without the hurdles systematically associated with the acquisition of such information about privately owned organizations."). The Confidential Information for which Logan seeks confidential treatment under KRS 61.878(1)(c)(1) is generally recognized as confidential or proprietary under Kentucky law. *See e.g.*, *Application of Ballard Rural Telephone Cooperative Corporation, Inc. for a General Adjustment in Rates*, Ky. P.S.C. Case No. 2014-00330 Order (November 26, 2014).

12. The Confidential Information contained in the Exhibits identified in Paragraph 2 above consists of information related to the inner workings of Logan, including financial and service usage details:

a. The Confidential Information in Exhibit 1 of the Application consists of data related to the revenue changes Logan has experienced as a result of adjustment of its terminating access rates pursuant to the Federal Communications Commission's November 18, 2011 Order reforming intercarrier compensation and the Universal Service Fund (the "ICC/USF Order").

b. The Confidential Information in Exhibit 1, Attachment B contains detailed subscriber line data and service usage information.

c. The Confidential Information in Exhibit 5 contains information related to the company's financial performance. This information was included in Logan's July 1, 2015 Federal Communications Commission ("FCC") Form 481 and was granted confidential treatment by the FCC in that filing.

13. The disclosure of the above-referenced Confidential Information would provide competitors an unfair competitive advantage, allowing them insight into Logan's financial position and giving them the ability to unfairly tailor their competitive efforts against Logan in light of this Confidential Information. For these reasons, Logan respectfully requests that the Commission grant confidential treatment to the Confidential Information.

**II. Time Period.**

14. Pursuant to 807 KAR 5:001, Section 13(2)(a)(2), Logan requests that the Confidential Information remain confidential for a period of five (5) years from the date of this petition, which should allow sufficient time for the projected data to become sufficiently outdated that it could not be used to determine similar Confidential Information at that time.

**CONCLUSION**

15. Based on the foregoing, the Confidential Information is entitled to confidential treatment. If the Commission disagrees that Logan is entitled to confidential treatment, due process requires the Commission to hold an evidentiary hearing. *Utility Regulatory Comm'n v. Kentucky Water Serv. Co., Inc.*, 642 S.W.2d 591 (Ky. App. 1982).

WHEREFORE, Logan respectfully requests that the Commission classify and protect as confidential the Confidential Information.

On this the 10th day of March, 2016.

Respectfully submitted,

John E. Selent
Edward T. Depp
Daniel D. Briscoe Jr.
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Louisville, KY 40202
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john.selent@dinsmore.com
tip.depp@dinsmore.com
daniel.briscoe@dinsmore.com

*Counsel to Logan Telephone Cooperative, Inc.*

## CERTIFICATE OF SERVICE

I certify that, on the date this Petition for Confidential Treatment was filed with the Kentucky Public Service Commission, a true and accurate copy of the foregoing was served by Federal Express or by hand delivery upon the persons listed below.

Kentucky Attorney General
Office of Rate Intervention
700 Capitol Avenue, Suite 118
Frankfort, Kentucky 40601-3449

On this the 10th day of March, 2016.

*Counsel to Logan Telephone Cooperative, Inc.*

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MAR 11 2016
PUBLIC SERVICE COMMISSION

**COMMONWEALTH OF KENTUCKY**
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

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

**MOTION OF LOGAN TELEPHONE**
**COOPERATIVE, INC.**
**FOR WAIVER OF CERTAIN**
**RATE APPLICATION FILING REQUIREMENTS**

Logan Telephone Cooperative, Inc. ("Logan"), by counsel, in connection with the contemporaneous filing of its rate adjustment application (the "Application") and pursuant to 807 KAR 5:001, Section 16(10), hereby moves the Public Service Commission of the Commonwealth of Kentucky (the "Commission") for waiver, for good cause, of certain filing requirements set forth in 807 KAR 5:001, Section 16, and the Commission's May 29, 2014 Order (the "2013 Order") in Case No. 2013-00190. In support of its request, Logan states as follows.

## INTRODUCTION

Logan files its Application in order to adjust its rates to comply with the 2016 rate floor imposed by the Federal Communications Commission ("FCC"). *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) ("ICC/USF Order"). Logan faces the same federal mandates that prompted several carriers to submit similar rate floor proceedings in 2014 in order to comply with the FCC's 2014 rate floor (the "2014 Rate Floor Proceedings"). As part of those proceedings, carriers requested and were granted by the Commission waivers of certain requirements of 807

KAR 5:001, Section 16. *See, e.g., In the Matter of: Application of North Central Telephone Cooperative Corporation for a General Adjustment in Rates*, Ky. P.S.C. Case No. 2014-00303 Order (October 30, 2014) ("2014 Waiver Order").

In light of the waivers granted in the 2014 Rate Floor Proceedings, Logan now moves for waiver of certain requirements of 807 KAR 5:001, Section 16.

## ARGUMENT

Upon good cause shown, the Commission shall grant "[a] request for waiver of any of the provisions of [the] filing requirements." 807 KAR 5:001, Section 16(10). In determining whether good cause exists, the Commission may consider:

> (a) Whether other information provided by the utility is sufficient to allow the Commission to "effectively and efficiently" review the rate application;
>
> (b) Whether the information for which waiver is requested is normally maintained by the utility or reasonably available to it from the information the utility does maintain; and
>
> (c) The expense in providing the information which is the subject of the waiver request.

*Id.*

Logan's Application is simply a response to a regulatory pronouncement of the FCC; it has not been filed to address a financial need for additional revenue from Logan's ratepayers.

Wherefore, Logan requests waiver of the filing requirements identified below. These requested waivers are consistent with the waivers the Commission granted to Logan during the 2014 Rate Floor Proceedings. *See, e.g.,* 2014 Waiver Order (granting waiver of the requirements of, among others, 807 KAR 5:001, Section 16(4)(b), 16(4)(h), 16(4)(i), 16(4)(n), 16(4)(q), and 16(4)(r), 16(5), and Paragraph 3.d of the 2013 Order. A brief supporting narrative is included for each of these requests.

| | |
|---|---|
| **807 KAR 5:001, Section 16(4)(b)** | **If utility has gross annual revenues exceeding $5,000,000, prepared testimony of each witness who will support the application.** |

Logan's filing is in response to the FCC's ICC/USF Order and is not driven by a financial need to obtain more revenue from its ratepayers or achieve a higher rate of return. Logan has provided a detailed narrative explanation of its proposed rate adjustment in Exhibit 1 of the Application. Logan asserts that the information provided in the Application does not require further explication through prepared testimony. Accordingly, Logan seeks waiver of 807 KAR 5:001, Section 16(4)(b).

| | |
|---|---|
| **807 KAR 5:001, Section 16(4)(h)** | **Summary of determination of revenue requirements based on return on net investment rate base, return on capitalization, interest coverage, debt service coverage, or operating ratio, with supporting schedules.** |

Logan has included its Operating Report for Privately Held Rate of Return Carriers in its July 2015 FCC Form 481 (Line 3005a) containing its TIER calculation, which assesses Logan's actual revenue position compared to its required operating revenues, in Exhibit 5 of the Application.

Logan does not seek a rate adjustment in this proceeding based on a failure to earn an adequate rate of return. The changes in rates that it seeks are requested in order to maintain eligibility to receive the maximum amount of High Cost Loop Support ("HCLS") and are expected by Logan to provide either no additional revenue or nominal additional revenue that will serve as an offset to other revenue reductions imposed by the FCC.

Furthermore, because Logan's proposed rate adjustment is simply a response to the regulatory pronouncement of the FCC, Logan has not prepared a cost study analyzing its revenue requirement at a state level. It would be unduly expensive for Logan to gather and prepare such information, particularly in light of the fact that the information would provide no discernible advantage in the Commission's evaluation of Logan's Application.

Accordingly, to the extent the Commission believes this section requires more information than Logan has provided, Logan seeks waiver of 807 KAR 5:001, Section 16(4)(h).

**807 KAR 5:001, Section 16(4)(i)** **Reconciliation of rate base and capital used to determine revenue requirements.**

Logan's Application is filed for the purpose of implementing rates to secure the maximum amount of HCLS funding, and not because of a financial need to obtain more revenue from its customers. The new basic local rate was determined based on the rate floor set in the FCC's ICC/USF Order; it was and not determined based on the rate base and capital. This data is thus irrelevant to the proposed rate adjustment and would not aid the Commission in evaluating Logan's Application. Accordingly, Logan seeks waiver of 807 KAR 5:001, Section 16(4)(i).

**807 KAR 5:001, Section 16(4)(n)** **Summary of latest depreciation study with schedules by major plan accounts, except that telecommunications utilities adopting the Commission's average depreciation rates shall provide a schedule identifying current and test period depreciation rates used by major plant accounts.**

Logan provides its current and test period depreciation rates used by major plant accounts in Exhibit 7, which satisfies the filing requirements of 807 KAR 5:001, Section 16(4)(n), because Logan believes it has adopted the Commission's average depreciation rates. In addition, in light of the special circumstances of this rate floor filing, Logan has provided information sufficient to allow the Commission to efficiently evaluate the Application. Accordingly, to the extent the Commission determines that this section requires more information than Logan has provided, Logan seeks waiver of 807 KAR 5:001, Section 16(4)(n).

| | |
|---|---|
| **807 KAR 5:001, Section 16(4)(q)** | **Annual report to shareholders, or members, and statistical supplements covering the two most recent years from the application filing date.** |

Logan's 2014 and 2013 audited financial statement is attached as Exhibit 6 to the Application. Logan has also provided its most recent independent auditor's opinion letter as Exhibit 6 to the Application. This constitutes the most recent such information presently available to Logan, and Logan respectfully submits that it should be sufficient to allow the Commission to efficiently evaluate the Application. Consequently, Logan seeks a waiver of 807 KAR 5:001, Section 16(4)(q).

| | |
|---|---|
| **807 KAR 5:001, Section 16(4)(r)** | **Monthly managerial reports providing financial results for twelve months in test period.** |

Logan's annual financial report for 2014, which covers the test period, is on file with the Commission. This constitutes the most recent such information presently available to Logan, and Logan respectfully submits that it should be sufficient to allow the Commission to efficiently evaluate the Application. Consequently, Logan seeks a waiver of 807 KAR 5:001, Section 16(4)(r).

| | |
|---|---|
| **807 KAR 5:001, Section 16(5)** | **Information related to pro forma adjustments.** |

Logan's Application does not include any pro forma adjustments. To the extent the Commission believes the requirements of this section apply to Logan's Application, Logan requests waiver of those requirements for the reasons set forth below.

Logan's Application is filed for the purpose of implementing rates to secure the maximum amount of HCLS funding, and not because of a financial need to obtain more revenue from its customers. The new basic local rate was determined based on the rate floor set in the FCC's ICC/USF Order. It was not determined based on the rate base, capital, or any pro forma adjustments.

Furthermore, because Logan's proposed rate adjustment is simply a response to the regulatory pronouncement of the FCC, Logan has not prepared the information required by this section. It would be unduly expensive for Logan to gather and prepare the information, particularly in light of the fact that the information would provide no discernible advantage in the Commission's evaluation of Logan's Application. Accordingly, Logan respectfully requests waiver of 807 KAR 5:001, Section 16(5).

**2013 Order at ¶ 3.d.** **Historical and projected line loss.**

Logan has provided historical data concerning line loss, as well as line loss projections through June of 2015, in Exhibit 1 to its Application. Logan does not have readily-available data for projected line loss beyond that point in time. Accordingly, to the extent the Commission believes this paragraph requires the production of more information than Logan has provided, Logan seeks waiver of the filing requirements that appear in the 2013 Order at ¶ 3.d.

## ALTERNATIVE REQUEST FOR RELIEF

Logan is required to adjust its rates by June 1 2016, to comply with the FCC's 2016 rate floor. Failure to comply with the rate floor or failure to meet the regulatory deadline will cause Logan to lose significant federal subsidies that have, historically, allowed it to provide service to the most costly rural customers. That loss of federal funding could threaten the financial existence of Logan, which has important obligations under federal and state law as a carrier of last resort. Moreover, the loss of such subsidies could portend even larger rate increases in the future, as Logan could be forced to raise its rates dramatically to reflect the full, unsubsidized costs of providing service in high-cost rural areas. Accordingly, it is of paramount importance that Logan's proposed rates are put into effect on June 1, 2016, as requested in the Application.

In the event the Commission thinks it appropriate to deny any portion of Logan's waiver request, Logan respectfully requests that the Commission not treat any missing information as a deficiency pursuant to 807 KAR 5:001, Section 16(9). Instead, Logan respectfully requests that the Commission (i) accept the Application for filing as of March 10, 2016, (ii) grant all waivers on a temporary basis in lieu of denying them, (iii) order that Logan's proposed rates will be effective subject to refund (if necessary) on June 1, 2016, and (iv) if necessary, order Logan to file any additional information the Commission believes it needs to fully consider the proposed rate change.

## CONCLUSION

Logan's requested waivers are consistent with the waivers granted by the Commission in the 2014 Rate Floor Proceedings. Furthermore, in each case, Logan does not prepare the requested reports or budgets or otherwise have the information readily available. In addition, in light of the unique circumstances of this proceeding and the limited value of the information for which Logan seeks waiver, it would be unduly expensive for Logan to gather the information and prepare the reports in the timeframe of this case. Accordingly, Logan has demonstrated good cause, and it respectfully requests that the Commission grant the requested waivers.

Respectfully submitted,

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Daniel D. Briscoe Jr.
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daniel.briscoe@dinsmore.com

*Counsel to Logan Telephone Cooperative, Inc.*

## CERTIFICATE OF SERVICE

I certify that, on the date this Motion for Waiver of Certain Rate Application Filing Requirements was filed with the Kentucky Public Service Commission, a true and accurate copy of the foregoing was served by Federal Express upon the persons listed below.

Kentucky Attorney General
Office of Rate Intervention
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601

On this 10th day of March, 2016

*Counsel to Logan Telephone Cooperative, Inc.*

10208339v1