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RECEIVED

MAR 7 2016

PUBLIC SERVICE
COMMISSION

March 4, 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 North Central Telephone Cooperative Corporation; Case No. 2016-00043*

Dear Acting Executive Director Gardner:

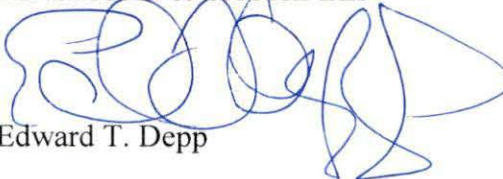
On behalf of North Central Telephone Cooperative Corporation, I have enclosed for filing with the Public Service of the Commonwealth of Kentucky one (1) original and ten (10) copies of the following documents.

- 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

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

MAR 7 2016

PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF NORTH CENTRAL TELEPHONE)
COOPERATIVE CORPORATION) CASE NO. 2016-00043
FOR A GENERAL ADJUSTMENT IN RATES)

APPLICATION

Applicant North Central Telephone Cooperative Corporation (“NCTC”), 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”) as well as with NCTC’s November 26, 2014 rate floor proceeding in Case No. 2014-00303, 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 NCTC 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.*

NCTC’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 NCTC 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 NCTC, 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 NCTC 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 NCTC to make up that revenue directly from its customer-members.

* * * * *

In support of its Application, NCTC states as follows:

1. Pursuant to 807 KAR 5:001, Section 14(1): (i) the full name of the applicant is North Central Telephone Cooperative Corporation; (ii) the mailing address of the applicant is 872 Highway 52 By-Pass East, P.O. Box 70, Lafayette, TN 37083-0070; and (iii) the electronic mailing address of the applicant is johnny.mcclanahan@nctc.com.

2. Pursuant to 807 KAR 5:001, Section 14(2), NCTC states that it is currently in good standing in the Commonwealth of Kentucky, where it is incorporated. A certified copy of NCTC's Articles of Incorporation and all amendments thereto is on file with the Commission in Case No. 2007-00432.

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

a. NCTC was established in 1951 as a member-owned cooperative to provide local telephone service to business and residential members in the Kentucky exchange designated Scottsville Rural in Allen County. It also provides service in the Tennessee exchanges of Hillsdale, Westmoreland, Green Grove, Lafayette, Pleasant Shade, Red Boiling Springs, Defeated, Bethpage, and Oak Grove. Collectively, "Service Territory." Per its 2014 PSC Report, NCTC provided 4,235 residential and 369 business lines in Kentucky and 10,822 and 1,895 residential and business lines, respectively, in Tennessee. NCTC is an eligible telecommunications carrier ("ETC"), and it is also the carrier of last resort ("COLR") in the

Service Territory. In 2015, NCTC received \$5,349,378 from the High Cost Loop Support (“HCLS”) Fund to support its COLR responsibilities in the Service Territory.

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 NCTC 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, NCTC 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 NCTC does not operate under an assumed name pursuant to KRS 365.015.

5. Pursuant to 807 KAR 5:001, Section 16(1)(b)(3), NCTC 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), NCTC 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), NCTC 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), NCTC 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), NCTC, which has more than twenty (20) customers and is not a sewage utility, has provided notice by publishing a legal notice once a week for three (3) consecutive weeks in a prominent manner in a newspaper of general circulation in the utility's service area, the first publication made no later than the date the application is submitted to the commission. A copy of the published legal notice attached hereto as part of Exhibit 3.

c. Pursuant to 807 KAR 5:001, Section 17(3), an affidavit verifying NCTC'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), NCTC 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 NCTC'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 NCTC 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 NCTC is not a water district.

9. Pursuant to 807 KAR 5:001, Section 16(2), NCTC states that it notified the Commission in writing of its intent to file the Application on January 14, 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), NCTC 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 NCTC 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 NCTC'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 NCTC's Motion for Waiver of Certain Rate Application Requirements ("Motion for Waiver") filed contemporaneously with this Application, NCTC 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 NCTC has gross annual revenues in excess of \$5,000,000.00.

14. Pursuant to 807 KAR 5:001, Section 16(4)(d), NCTC estimates that the total amount of revenue increase resulting from the proposed rate adjustment will be approximately \$363,432.

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

16. Pursuant to 807 KAR 5:001, Section 16(4)(f), NCTC states that the proposed rate adjustment will increase the average affected customer bill by \$2.00. 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), NCTC states that because the FCC's rate floor requirements apply only to residential rates, only NCTC's residential customers will be affected by the proposed rate adjustment. NCTC's analysis of customers' bills and the corresponding revenue impact are provided in NCTC'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), NCTC states that parts A and B of its 2014 RUS operating report, the most recently available to NCTC, containing its TIER calculation, which assesses NCTC's actual revenue position compared to its required operating revenues, are attached as Exhibit 5. To the extent the Commission believes this section imposes additional requirements relevant to this Application, NCTC respectfully seeks waiver of those requirements for the reasons set forth in its accompanying Motion for Waiver.

19. As more fully explained in NCTC's Motion for Waiver, NCTC 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), NCTC states that its current chart of accounts was provided in Case 2014-00303 and is unchanged.

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

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

23. Pursuant to 807 KAR 5:001, Section 16(4)(m), NCTC 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), NCTC states that a schedule identifying current depreciation rates used by major plant accounts was provided in Case 2014-00303 and is unchanged. To the extent the Commission believes this section requires more information than NCTC has provided, NCTC seeks waiver of 807 KAR 5:001, Section (16)(4)(n) for the reasons set forth in its 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, NCTC 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 NCTC has never made a stock or bond offering.

27. The requirements of 807 KAR 5:001, Section 16(4)(q) are inapplicable because NCTC does not provide a formal annual report to its members. Instead, NCTC invites its members to an annual meeting to review and discuss its operations. To the extent the Commission believes this section requires the provision of additional materials, NCTC seeks waiver of those requirements for the reasons set forth in its accompanying Motion for Waiver.

28. As more fully explained in NCTC's Motion for Waiver, NCTC 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 NCTC 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 NCTC 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 NCTC is not an electric, gas, sewage, or water utility.

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

33. The requirements of 807 KAR 5:001, Section 16(5), are inapplicable because NCTC's Application does not include any pro forma adjustments. To the extent the Commission

believes the requirements of this section apply to this Application, NCTC 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 NCTC 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 NCTC 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 NCTC 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, NCTC 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, NCTC 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, NCTC 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, NCTC has provided an estimate of historical line counts in Exhibit 1, Attachment B. As more fully explained in NCTC’s Motion for Waiver, NCTC 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.

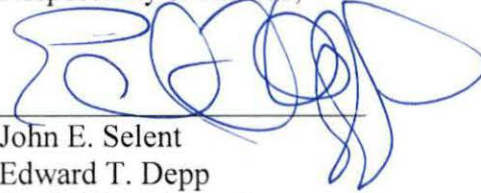
41. Pursuant to ¶ 3.e of the 2013 Rate Floor Order, NCTC has provided historical and projected universal service support information in the narrative response of Exhibit 1 and in Attachment A thereto. As is certified annually to the Commission, these funds are used by

NCTC 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, NCTC states that narrative support for the proposed rate adjustment is contained in this Application and in Exhibit 1.

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

Respectfully submitted,



John E. Selent

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Daniel D. Briscoe Jr.

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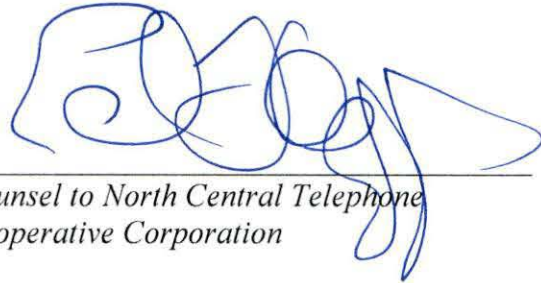
*Counsel to North Central Telephone
Cooperative Corporation*

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 4th day of March, 2016.



*Counsel to North Central Telephone
Cooperative Corporation*

10198703v1

Description and Reason for Filing

With this filing, North Central Telephone Cooperative Corporation (“NCTC”) proposes to increase its basic residential local service rates by \$2.00, 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 Order¹ (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 survey² 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 Reconsideration³ 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, NCTC's basic residential rates are proposed to rise to \$18.00. When measured in regulated monthly costs, the company anticipates that its average residential subscriber will have approximately a 1.93% increase in monthly charges.⁵

NCTC does not propose any changes to its basic business services, which are not subject to the Transformation Order and which are above the \$18.00 residential rate floor in any event. Although this filing is specifically for its Kentucky operating area, NCTC files its financial reports and its high cost recovery with the Universal Service Administration Company (USAC) on a combined basis with its Tennessee operating area. NCTC plans to implement the same rate change in Tennessee as it does in Kentucky. Due to this consolidation, the financial and customer impact is shown for NCTC as a whole and not on a Kentucky-only basis.

Company Information

The full name and address of the company is North Central Telephone Cooperative Corporation, 872 Highway 52 By-Pass East, P.O. Box 70, Lafayette, TN 37083-0070. NCTC was established in 1951 as a member-owned, not-for-profit cooperative to provide local telephone service to business and residential members in the Kentucky exchange designated Scottsville Rural in Allen County⁶ ("Service Territory"). Pursuant to its 2014 PSC Report, NCTC provided 4,235 residential and 369 business lines in Kentucky.

⁴ *Ibid.*, para. 80

⁵ Calculated with residential features and services, including broadband.

⁶ The Tennessee exchanges served by NCTC are: Hillsdale, Westmoreland, Green Grove, Lafayette, Pleasant Shade, Red Boiling Springs, Defeated, Bethpage, and Oak Grove.

NCTC 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, NCTC received \$5,349,378 from the HCLS fund to support its COLR responsibilities in its Kentucky and Tennessee service territories, and it anticipates receiving \$4.9M in calendar year 2016. As a high cost company, all HCLS revenues are crucial for NCTC to continue to meet its COLR responsibilities and to bring advanced services to the communities it serves.

A schedule of NCTC’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

NCTC is in the midst of a significant upgrade of its broadband network that was significantly funded by a Rural Utilities Services (“RUS”) broadband loan. RUS made that loan to NCTC based, in part, on NCTC’s receipt of federal support from the universal service fund and its billed access revenues. NCTC continues to rely on those funds to repay the loan. Both of these revenues streams have been altered by the FCC in its Transformation Order, putting pressure on NCTC’s historic revenue sources. First, the reduction of HCLS support for residential lines below the rate floor established by the FCC’s Transformation Order requires that NCTC raise rates to be eligible to continue to draw from the HCLS fund. Second, FCC-directed reductions in access charges have capped and reduced access compensation available to NCTC, 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. NCTC is seeking to increase its local exchange

REDACTED

rates by \$2.00, or \$363K per year based on year-end 2015 residential lines. By doing so, NCTC will avoid a comparable reduction in HCLS equal to approximately 7.4% of its total support.

	Subscribers	Current Rate	FCC Floor	At Risk
Residential Lines Based on year end 2015 ⁷	15,143	\$ 16.00	\$ 18.00	\$ 363,432
Annual HCLS (See Attachment A of this Exhibit)				\$ 4,921,128
Support at risk absent a rate increase				7.4%

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 NCTC is allowed to collect. Under the formula specified in the Transformation Order, the FCC capped terminating access revenues from intercarrier compensation at the levels collected in the FCC's 2011 initial base period⁸ and established a phase down of those allowed amounts over the subsequent 5 years. With this change, NCTC 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 NCTC's access revenue recovery is [REDACTED] through the fiscal period ending June, 2016.

Eligible Access Recovery

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

⁷ Includes residential lines in Tennessee.

⁸ October 1, 2010 through September 30, 2011.

Based on its proposed rate increase and assuming no losses due to attrition, NCTC estimates that its proposed rate plan will generate \$363K in annual revenues. Even with this rate increase, NCTC will not recover the amount of access revenues it has lost. When combined with NCTC's rate increase filing in Case 2014-00303, NCTC anticipates that its two rate floor filings will generate \$487K in additional annual revenues for the current fiscal period, which is significantly less than the reductions 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 NCTC 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, NCTC has no other realistic options available to it, and it respectfully requests that its tariff revisions be approved.

REDACTED

**North Central Telephone Cooperative
Case 2016-00043**

Exhibit 1

Attachments to this Exhibit:

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

Attachment B: National Exchange Carrier Association Report of Access Lines

10192698v2

North Central Telephone Cooperative
Case 2016-00043

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	TN	290573	NORTH CENTRAL COOP	\$ 99,708	\$ 427,359	\$ 372,008	\$ 56,728	\$ 955,803	\$ 1,282,077
2Q15	TN	290573	NORTH CENTRAL COOP	\$ 99,708	\$ 446,729	\$ 372,008	\$ 56,728	\$ 975,173	\$ 1,340,187
3Q15	TN	290573	NORTH CENTRAL COOP	\$ 99,708	\$ 454,519	\$ 360,430	\$ 56,728	\$ 971,385	\$ 1,363,557
4Q15	TN	290573	NORTH CENTRAL COOP	\$ 99,708	\$ 454,519	\$ 360,430	\$ 56,728	\$ 971,385	\$ 1,363,557
2015 Total High Cost Loop Support									\$ 5,349,378
1Q16	TN	290573	NORTH CENTRAL COOP	\$ 80,237	\$ 410,094	\$ 360,430	\$ 56,728	\$ 907,489	\$ 1,230,282
2016 Annualized Total High Cost Loop Support									\$ 4,921,128

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

**North Central Telephone Cooperative
Case 2016-00043**

Exhibit 2

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

**North Central Telephone Cooperative
Case 2016-00043**

Exhibit 2

Proposed Tariff Pages (To be Filed)

BASIC LOCAL EXCHANGE SERVICE (Cont'd)

C.2 Local Calling Areas

C.2.1 General

The rates in this Tariff entitle callers to receive local calling (i.e., toll-free) to the local calling areas indicated in Section C.2.2, below. Calls to areas not listed in Section C.2.2 will be subject to applicable long distance charges by the long distance provider.

C.2.2 List of Local Calling Exchanges

Exchange (NPA is 615 unless otherwise noted)

Hillsdale (633)
Westmoreland (644)
Green Grove (655)
Lafayette (666,688)
Pleasant Shade (677)
Red Boiling Springs (699)
Defeated (774)
Bethpage (841)
Oakgrove (888)
Scottsville Rural (270-618, 270-622)

In addition to local calling to all North Central exchanges subscribers in these exchanges will receive local calling to any exchange within the subscriber's county.

C.3 Local Exchange Rates

Rates do not include a charge for instrument or other customer premises equipment. Rates for additional services, including installation charges, are shown elsewhere in this Tariff.

	<u>Monthly Rate</u>	
1. Residential Service	\$ 18.00 (I)	†
2. Business Service	\$ 23.03	†

† Rate to be effective as of the first bill cycle following effective date of rate revision.

Issue Date:

Effective Date: June 1, 2016

Issued By: /s/ Nancy J. White

Nancy J. White, President / CEO

By Authority of Order of the Public Service Commission in
Case No. 2016-00043 dated _____.

**North Central Telephone Cooperative
Case 2016-00043**

Exhibit 2

Proposed Tariff Pages (with Black Line)

BASIC LOCAL EXCHANGE SERVICE (Cont'd)

C.2 Local Calling Areas

C.2.1 General

The rates in this Tariff entitle callers to receive local calling (i.e., toll-free) to the local calling areas indicated in Section C.2.2, below. Calls to areas not listed in Section C.2.2 will be subject to applicable long distance charges by the long distance provider.

C.2.2 List of Local Calling Exchanges

Exchange (NPA is 615 unless otherwise noted)

- Hillsdale (633)
- Westmoreland (644)
- Green Grove (655)
- Lafayette (666,688)
- Pleasant Shade (677)
- Red Boiling Springs (699)
- Defeated (774)
- Bethpage (841)
- Oakgrove (888)
- Scottsville Rural (270-618, 270-622)

In addition to local calling to all North Central exchanges subscribers in these exchanges will receive local calling to any exchange within the subscriber's county.

C.3 Local Exchange Rates

Rates do not include a charge for instrument or other customer premises equipment. Rates for additional services, including installation charges, are shown elsewhere in this Tariff.

	<u>Monthly Rate</u>	
1. Residential Service	\$ 16 <u>18.00</u> (I)	†
2. Business Service	\$ 23.03	†

† Rate to be effective as of the first bill cycle following effective date of rate revision.

Issue Date: ~~December 1, 2014~~
Effective Date: ~~November 30, 2014~~ June 1, 2016

Issued By: /s/ Nancy J. White
Nancy J. White, President / CEO

By Authority of Order of the Public Service Commission in
Case No. 2014-00303 dated November 26, 2014.

The Citizen (1908)

Consolidated Oct. 10, 1918

Allen County Times (1890)



KENTUCKY
CENTENNIAL
BUSINESS

The Citizen-Times

Allen County's hometown newspaper - Serving you for over a Century



611 E. Main St. P. O. Box 310 Scottsville, Kentucky 42164
Phone (270) 237-3441 Fax (270) 237-4943
ctimes@nctc.com

Date: February 25, 2016

To whom it may concern:

The following Legal Notice/Advertisement was published in The Citizen-Times, a weekly newspaper in Scottsville, Kentucky on the date indicated.

Date: February 4th, 11th & 18th 2016

Subject: Rate change

(Tearsheet included True copy from archives)

Robert B. Pitchford, III
Publisher

Subscribed and sworn before me this day February 25, 2016

Notary Public

My comission expires July 5, 2017



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PUBLIC NOTICE

On or around March 1, North Central Telephone Cooperative will file with the Ky. Public Service Commission an increase in basic local service rates charged to residential subscribers due to a Federal Communication Commission mandate. With this change, residential rates are proposed to increase from \$16 to \$18. Business rates are unchanged with this filing. If approved by the PSC, the effective date of this rate change will be June 1, 2016. We anticipate the average increase being 1.93% of an average residential bill.

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 North Central Telephone Cooperative located at 872 Highway 52 By-Pass East, Lafayette, Tenn. 37083 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 a.m. to 4:30 p.m., or through the commission's website at <http://psc.ky.gov>.

Comments regarding the application may be submitted to the Public Service Commission through its website 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.



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:

North Central Telephone Cooperative ("NCTC") 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 NCTC 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 NCTC 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 615-666-2151 or johnny.mcclanahan@nctc.com.

Sincerely,

A handwritten signature in cursive script that reads "Johnny McClanahan".

Johnny McClanahan, VP Finance | Administrative Services

Cc via email: Nancy White, North Central Telephone Cooperative
Jim Stevens, KY PSC
Eileen Bodamer, Bodamer Consulting

¹ Paragraph 80.

Eileen Bodamer

From: Johnny McClanahan <johnny.mcclanahan@nctc.com>
Sent: Tuesday, January 12, 2016 10:17 AM
To: rateintervention@ag.ky.gov
Cc: Nancy J. White; Stevens, Jim (PSC); Eileen Bodamer
Subject: 2016 Proposed Local Service Rate Application
Attachments: LFYTBO-PSVR-RM@NCENTRAL.NET_20160112_102217.pdf

Importance: High
Sensitivity: Confidential

Attached is a letter that was sent on January 12, 2016 to Mr. Jeff Derouven, Executive Director, KYPSC concerning a proposed local service rate increase application effective June 1, 2016.

Regards,

Johnny McClanahan
VP Finance | Administrative Services
NCTC - North Central | www.nctc.com
872 Highway 52 Bypass East | Lafayette, Tennessee 37083 Office 615.666.2151|615.666.6118
johnny.mcclanahan@nctc.com

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0572-0031. The time required to complete this information collection is estimated to average 4 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

USDA-RUS OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	This data will be used by RUS to review your financial situation. Your response is required by 7 U.S.C. 901 et seq. and, subject to federal laws and regulations regarding confidential information, will be treated as confidential.	
	BORROWER NAME North Central Telephone Cooperative Corporation	
INSTRUCTIONS: Submit report to RUS within 30 days after close of the period. For detailed instructions, see RUS Bulletin 1744-2. Report in whole dollars only.	PERIOD ENDING December, 2014	BORROWER DESIGNATION TN0545
CERTIFICATION We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief. ALL INSURANCE REQUIRED BY 7 CFR PART 1788, CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES. DURING THE PERIOD COVERED BY THIS REPORT PURSUANT TO PART 1788 OF 7CFR CHAPTER XVII (Check one of the following)		
<input checked="" type="checkbox"/> All of the obligations under the RUS loan documents have been fulfilled in all material respects.		
<input type="checkbox"/> There has been a default in the fulfillment of the obligations under the RUS loan documents. Said default(s) is/are specifically described in the Telecom Operating Report.		
_____ Johnny McClanahan		_____ 3/20/2015 DATE

PART A. BALANCE SHEET					
ASSETS	BALANCE PRIOR YEAR	BALANCE END OF PERIOD	LIABILITIES AND STOCKHOLDERS' EQUITY	BALANCE PRIOR YEAR	BALANCE END OF PERIOD
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	4,816,454	7,328,910	25. Accounts Payable	1,017,250	768,350
2. Cash-RUS Construction Fund	1,770,779	2,179,852	26. Notes Payable	0	0
3. Affiliates:			27. Advance Billings and Payments	215,418	239,094
a. Telecom, Accounts Receivable	1,601,206	1,373,212	28. Customer Deposits	374,587	406,137
b. Other Accounts Receivable			29. Current Mat. LT Debt	4,181,962	4,545,828
c. Notes Receivable			30. Current Mat. LT Debt-Rur. Dev.		
4. Non-Affiliates:			31. Current Mat.-Capital Leases		
a. Telecom, Accounts Receivable	237,264	284,728	32. Income Taxes Accrued		
b. Other Accounts Receivable			33. Other Taxes Accrued	655,712	357,635
c. Notes Receivable			34. Other Current Liabilities	7,687,295	7,428,896
5. Interest and Dividends Receivable			35. Total Current Liabilities (25 thru 34)	14,132,224	13,745,940
6. Material-Regulated	1,114,164	985,106	LONG-TERM DEBT		
7. Material-Nonregulated	25,067	20,598	36. Funded Debt-RUS Notes	29,450,168	32,431,221
8. Prepayments			37. Funded Debt-RTB Notes	10,152,325	9,685,911
9. Other Current Assets	230,159	202,164	38. Funded Debt-FFB Notes		
10. Total Current Assets (1 Thru 9)	9,795,093	12,374,570	39. Funded Debt-Other		
NONCURRENT ASSETS			40. Funded Debt-Rural Develop. Loan		
11. Investment in Affiliated Companies			41. Premium (Discount) on LT Debt		
a. Rural Development			42. Reacquired Debt		
b. Nonrural Development	33,678,460	32,911,276	43. Obligations Under Capital Lease		
12. Other Investments			44. Adv. From Affiliated Companies		
a. Rural Development			45. Other Long-Term Debt	3,466,501	3,107,992
b. Nonrural Development	184,739	251,231	46. Total Long-Term Debt (36 thru 45)	43,068,994	45,225,124
13. Nonregulated Investments	2,949,757	2,923,400	OTHER LIAB. & DEF. CREDITS		
14. Other Noncurrent Assets			47. Other Long-Term Liabilities	10,087,077	6,586,900
15. Deferred Charges			48. Other Deferred Credits	0	0
16. Jurisdictional Differences			49. Other Jurisdictional Differences		
17. Total Noncurrent Assets (11 thru 16)	36,812,956	36,085,907	50. Total Other Liabilities and Deferred Credits (47 thru 49)	10,087,077	6,586,900
PLANT, PROPERTY, AND EQUIPMENT			EQUITY		
18. Telecom, Plant-in-Service	134,218,298	148,475,856	51. Cap. Stock Outstand. & Subscribed		
19. Property Held for Future Use			52. Additional Paid-in-Capital		
20. Plant Under Construction	11,236,234	7,072,510	53. Treasury Stock		
21. Plant Adj., Nonop. Plant & Goodwill			54. Membership and Cap. Certificates		
22. Less Accumulated Depreciation	78,129,485	86,382,091	55. Other Capital		
23. Net Plant (18 thru 21 less 22)	67,325,047	69,166,275	56. Patronage Capital Credits	46,424,054	50,822,810
24. TOTAL ASSETS (10+17+23)			57. Retained Earnings or Margins	220,747	1,245,978
			58. Total Equity (51 thru 57)	46,644,801	52,068,788
	113,933,096	117,626,752	59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	113,933,096	117,626,752

Total Equity = 44.27% of Total Assets

USDA-RUS		BORROWER DESIGNATION	
OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS		TN0545	
		PERIOD ENDING	
INSTRUCTIONS- See RUS Bulletin 1744-2		December, 2014	
PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS			
ITEM	PRIOR YEAR	THIS YEAR	
1. Local Network Services Revenues	4,368,562	4,409,924	
2. Network Access Services Revenues	15,773,055	17,506,861	
3. Long Distance Network Services Revenues	73,791	280,296	
4. Carrier Billing and Collection Revenues	170,889	143,179	
5. Miscellaneous Revenues	2,305,763	3,010,924	
6. Uncollectible Revenues	162,600	162,600	
7. Net Operating Revenues (1 thru 5 less 6)	22,529,460	25,188,584	
8. Plant Specific Operations Expense	7,273,803	7,502,788	
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	2,468,637	2,719,086	
10. Depreciation Expense	8,692,798	9,179,262	
11. Amortization Expense			
12. Customer Operations Expense	2,590,731	2,766,763	
13. Corporate Operations Expense	2,538,055	1,810,162	
14. Total Operating Expenses (8 thru 13)	23,564,024	23,978,061	
15. Operating Income or Margins (7 less 14)	(1,034,564)	1,210,523	
16. Other Operating Income and Expenses	624,802	996,510	
17. State and Local Taxes	720,469	684,871	
18. Federal Income Taxes			
19. Other Taxes			
20. Total Operating Taxes (17+18+19)	720,469	684,871	
21. Net Operating Income or Margins (15+16-20)	(1,130,231)	1,522,162	
22. Interest on Funded Debt	1,871,510	1,999,134	
23. Interest Expense - Capital Leases			
24. Other Interest Expense	18,412	18,489	
25. Allowance for Funds Used During Construction	375,992	282,701	
26. Total Fixed Charges (22+23+24-25)	1,513,930	1,734,922	
27. Nonoperating Net Income	1,795,099	134,499	
28. Extraordinary Items			
29. Jurisdictional Differences			
30. Nonregulated Net Income	1,069,809	1,324,239	
31. Total Net Income or Margins (21+27+28+29+30-26)	220,747	1,245,978	
32. Total Taxes Based on Income	(413,962)	(135,000)	
33. Retained Earnings or Margins Beginning-of-Year	(156,766)	(142,000)	
34. Miscellaneous Credits Year-to-Date	1,405,529	362,747	
35. Dividends Declared (Common)			
36. Dividends Declared (Preferred)			
37. Other Debits Year-to-Date			
38. Transfers to Patronage Capital	1,248,763	220,747	
39. Retained Earnings or Margins End-of-Period [(31+33+34) - (35+36+37+38)]	220,747	1,245,978	
40. Patronage Capital Beginning-of-Year	45,175,291	50,602,063	
41. Transfers to Patronage Capital	1,248,763	220,747	
42. Patronage Capital Credits Retired	0	0	
43. Patronage Capital End-of-Year (40+41-42)	46,424,054	50,822,810	
44. Annual Debt Service Payments	1,871,510	1,999,134	
45. Cash Ratio [(14+20-10-11) / 7]	0.6921	0.6147	
46. Operating Accrual Ratio [(14+20+26) / 7]	1.1451	1.0480	
47. TIER [(31+26) / 26]	1.1458	1.7182	
48. DSCR [(31+26+10+11) / 44]	5.5717	6.0827	

USDA-RUS							BORROWER DESIGNATION	
OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS							TN0545	
<i>INSTRUCTIONS - See RUS Bulletin 1744-2</i>							PERIOD ENDED December, 2014	
Part C. SUBSCRIBER (ACCESS LINE), ROUTE MILE, & HIGH SPEED DATA INFORMATION								
4. BROADBAND SERVICE								
Details on Least Expensive Broadband Service								
EXCHANGE	No. Access Lines with BB available (a)	No Of Broadband Subscribers (b)	Number Of Subscribers (c)	Advertised Download Rate (Kbps) (d)	Advertised Upload Rate (Kbps) (e)	Price Per Month (f)	StandAlone/Pckg (f)	Type Of Technology (g)
Bethpage	582	434	2	512	256	29.95	StandAlone	DSL
Defeated	616	596	55	512	256	29.95	StandAlone	DSL
Green Grove	274	185	55	512	256	29.95	StandAlone	DSL
Hillsdale	406	238	57	512	256	29.95	StandAlone	DSL
Lafayette	5,611	2,304	412	512	256	29.95	StandAlone	DSL
Oak Grove	1,131	981	82	512	256	29.95	StandAlone	DSL
Pleasant Shade	298	288	1	512	256	29.95	StandAlone	DSL
Red Boiling Springs	1,605	301	225	512	256	29.95	StandAlone	DSL
Scottsville	4,604	1,424	925	512	256	29.95	StandAlone	DSL
Westmoreland	2,194	1,325	380	512	256	29.95	StandAlone	DSL
Total	17,321	8,076						

USDA-RUS			BORROWER DESIGNATION		
OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS			TN0545		
			PERIOD ENDING December, 2014		
INSTRUCTIONS- See RUS Bulletin 1744-2					
PART D. SYSTEM DATA					
1. No. Plant Employees	2. No. Other Employees	3. Square Miles Served	4. Access Lines per Square Mile	5. Subscribers per Route Mile	
54	43	929	18.64	3.71	
PART E. TOLL DATA					
1. Study Area ID Code(s)		2. Types of Toll Settlements (Check one)			
a. 290573		Interstate:		<input type="checkbox"/> Average Schedule <input checked="" type="checkbox"/> Cost Basis	
b. _____		Intrastate:		<input type="checkbox"/> Average Schedule <input checked="" type="checkbox"/> Cost Basis	
c. _____					
d. _____					
e. _____					
f. _____					
g. _____					
h. _____					
i. _____					
j. _____					
PART F. FUNDS INVESTED IN PLANT DURING YEAR					
1. RUS, RTB, & FFB Loan Funds Expended					8,795,715
2. Other Long-Term Loan Funds Expended					
3. Funds Expended Under RUS Interim Approval					
4. Other Short-Term Loan Funds Expended					
5. General Funds Expended (Other than Interim)					2,277,325
6. Salvaged Materials					
7. Contribution in Aid to Construction					
8. Gross Additions to Telecom. Plant (1 thru 7)					11,073,040
PART G. INVESTMENTS IN AFFILIATED COMPANIES					
INVESTMENTS	CURRENT YEAR DATA		CUMULATIVE DATA		
	Investment This Year	Income/Loss This Year	Cumulative Investment To Date	Cumulative Income/Loss To Date	Current Balance
(a)	(b)	(c)	(d)	(e)	(f)
1. Investment in Affiliated Companies - Rural Development					
2. Investment in Affiliated Companies - Nonrural Development					
		(767,184)	8,100,000	24,811,276	32,911,276

USDA-RUS OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	BORROWER DESIGNATION TN0545
	PERIOD ENDING December, 2014

PART H. CURRENT DEPRECIATION RATES

Are corporation's depreciation rates approved by the regulatory authority with jurisdiction over the provision of telephone services? (Check one)

YES NO

EQUIPMENT CATEGORY	DEPRECIATION RATE
1. Land and support assets - Motor Vehicles	10.10%
2. Land and support assets - Aircraft	10.10%
3. Land and support assets - Special purpose vehicles	7.50%
4. Land and support assets - Garage and other work equipment	7.50%
5. Land and support assets - Buildings	2.70%
6. Land and support assets - Furniture and Office equipment	7.50%
7. Land and support assets - General purpose computers	15.80%
8. Central Office Switching - Digital	7.50%
9. Central Office Switching - Analog & Electro-mechanical	7.50%
10. Central Office Switching - Operator Systems	7.50%
11. Central Office Transmission - Radio Systems	9.10%
12. Central Office Transmission - Circuit equipment	11.90%
13. Information origination/termination - Station apparatus	11.90%
14. Information origination/termination - Customer premises wiring	11.90%
15. Information origination/termination - Large private branch exchanges	11.90%
16. Information origination/termination - Public telephone terminal equipment	11.90%
17. Information origination/termination - Other terminal equipment	11.90%
18. Cable and wire facilities - Poles	5.60%
19. Cable and wire facilities - Aerial cable - Metal	6.60%
20. Cable and wire facilities - Aerial cable - Fiber	5.10%
21. Cable and wire facilities - Underground cable - Metal	5.00%
22. Cable and wire facilities - Underground cable - Fiber	5.00%
23. Cable and wire facilities - Buried cable - Metal	5.50%
24. Cable and wire facilities - Buried cable - Fiber	5.10%
25. Cable and wire facilities - Conduit systems	2.20%
26. Cable and wire facilities - Other	9.40%

USDA-RUS		BORROWER DESIGNATION
OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS		TN0545
INSTRUCTIONS – See help in the online application.		PERIOD ENDED December, 2014
PART I – STATEMENT OF CASH FLOWS		
1.	Beginning Cash (Cash and Equivalents plus RUS Construction Fund)	6,587,233
CASH FLOWS FROM OPERATING ACTIVITIES		
2.	Net Income	1,245,978
<i>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities</i>		
3.	Add: Depreciation	9,179,262
4.	Add: Amortization	0
5.	Other (Explain)	
<i>Changes in Operating Assets and Liabilities</i>		
6.	Decrease/(Increase) in Accounts Receivable	180,530
7.	Decrease/(Increase) in Materials and Inventory	133,527
8.	Decrease/(Increase) in Prepayments and Deferred Charges	0
9.	Decrease/(Increase) in Other Current Assets	27,995
10.	Increase/(Decrease) in Accounts Payable	(248,900)
11.	Increase/(Decrease) in Advance Billings & Payments	23,676
12.	Increase/(Decrease) in Other Current Liabilities	(556,476)
13.	Net Cash Provided/(Used) by Operations	9,985,592
CASH FLOWS FROM FINANCING ACTIVITIES		
14.	Decrease/(Increase) in Notes Receivable	0
15.	Increase/(Decrease) in Notes Payable	0
16.	Increase/(Decrease) in Customer Deposits	31,550
17.	Net Increase/(Decrease) in Long Term Debt (Including Current Maturities)	2,519,996
18.	Increase/(Decrease) in Other Liabilities & Deferred Credits	(3,500,177)
19.	Increase/(Decrease) in Capital Stock, Paid-in Capital, Membership and Capital Certificates & Other Capital	0
20.	Less: Payment of Dividends	0
21.	Less: Patronage Capital Credits Retired	0
22.	Other (Explain)	
23.	Net Cash Provided/(Used) by Financing Activities	(948,631)
CASH FLOWS FROM INVESTING ACTIVITIES		
24.	Net Capital Expenditures (Property, Plant & Equipment)	(10,093,834)
25.	Other Long-Term Investments	727,049
26.	Other Noncurrent Assets & Jurisdictional Differences	0
27.	Other (Explain) Capital Investment	3,251,353
28.	Net Cash Provided/(Used) by Investing Activities	(6,115,432)
29.	Net Increase/(Decrease) in Cash	2,921,529
30.	Ending Cash	9,508,762

Revision Date 2010

USDA-RUS OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	BORROWER DESIGNATION TN0545
INSTRUCTIONS - See RUS Bulletin 1744-2	PERIOD ENDED December, 2014
NOTES TO THE OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	

USDA-RUS OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	BORROWER DESIGNATION TN0545
INSTRUCTIONS - See RUS Bulletin 1744-2	PERIOD ENDED December, 2014
CERTIFICATION LOAN DEFAULT NOTES TO THE OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	



Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 2013, and have issued our report thereon dated February 14, 2014. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and 7 CFR part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 2013, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

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7 CFR 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(2), and related party transactions and investments. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38 - .45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our independent auditors' report, and our independent auditors' report on compliance and on internal control over financial reporting, all dated February 14, 2014) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding North Central Telephone Cooperative Corporation's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

ACCOUNTING RECORDS - In addition to our observation of the effectiveness of internal control, it appears that the bookkeeping and accounting records, including the many supplementary files and ledgers are well kept and adequately maintained. From tests made by us, it appeared that the methods used in accumulating costs for material, transportation, labor and overhead and the distribution of these costs to the various accounts were in accordance with proper procedures.

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MATERIAL CONTROL – Materials and supplies are stated at average cost. Inventory quantities of outside plant materials and supplies were ascertained by physical count, weight or other measure as of December 31, 2013, by employees of the Cooperative. We were present during the time of taking the physical inventories to observe the procedures used to determine inventory quantities. We made test counts of quantities on hand and subsequently traced these counts to the perpetual inventory records. We reviewed the basis of pricing and tested the clerical accuracy of the extensions and footings. We tested the accuracy of perpetual inventory records. Our review indicated only minor differences between the counts reflected by the tests and those accumulated on the books.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. The procedures we performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement or lease between the borrower and an affiliate for the year ended December 31, 2013, of North Central Telephone Cooperative Corporation.
 1. No contracts for management, operations or billing services were in effect during the year ended December 31, 2013 as defined in 1773.33(e)(2)(i).
 2. Reviewed Board of Directors minutes to ascertain whether board-approved written contracts should have been included in a borrower-prepared schedule.
- Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:

Financial statements as of December 31, 2013, included in copies of RUS Form 479 were compared with the Cooperative's books and found to be in agreement in all material respects.

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The results of our tests indicate that, with respect to the items tested, North Central Telephone Cooperative Corporation complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested include the requirements that:

- The borrower has obtained written approval of the RUS to enter into any contract, agreement, or lease with an affiliate as defined in 1773.33(e)(2)(i);
- The borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 2013, represented by the borrower as having been submitted to RUS is in agreement with the North Central Telephone Cooperative Corporation's audited records in all material respects as of December 31, 2013, appears reasonable based upon the audit procedures performed.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of North Central Telephone Cooperative Corporation, nothing came to our attention that caused us to believe that North Central Telephone Cooperative Corporation failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33 (c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33 (c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- The approval of the sale and disposition of proceeds for the sale of plant, material, or scrap addressed at 7 CFR 1773.33 (c)(5); and
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards No. 57, Related Party Transactions, for the year ended December 31, 2013, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33 (e).

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of investments in affiliated companies required by 7 CFR 1773.33(i) and provided below, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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Detailed schedule of investments

	North Central Communications, Inc.
Book value of investments as of 12/31/11	\$22,823,218
Additional investments as of 12/31/12	0
Undistributed earnings (losses) as of 12/31/12	<u>2,173,611</u>
Book value of investments as of 12/31/12	\$24,996,829
Additional investments as of 12/31/13	0
Undistributed earnings (losses) as of 12/31/13	<u>581,631</u>
Book value of investments as of 12/31/13	<u>\$25,578,460</u>

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

Sotheron, Haile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
February 14, 2014



To the Board of Directors of
North Central Telephone
Cooperative Corporation

We have audited the consolidated financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 2013, and have issued our report thereon dated February 14, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 27, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Central Telephone Cooperative Corporation are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for doubtful accounts is based on historical sales, historical loss levels, and an analysis of the collectability of the individual accounts.

Management's estimate of the deferred tax asset encompasses the temporary differences in tax reporting and financial statement presentation based on future expected financial trends of the Company.

Management's estimate of the accrued postretirement benefits is based on the actuarial findings of an independent actuary for the cost of medical benefits for current and future associate retirees.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 14, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Company's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not condition to our retention.

This information is intended solely for the use of the Board of Directors and management of North Central Telephone Cooperative Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Sotheron, Haite, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
February 18, 2014



Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation as of December 31, 2013 and 2012 and for the years ended December 31, 2013 and 2012 and have issued our report thereon dated February 14, 2014. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Central Telephone Cooperative Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness North Central Telephone Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Central Telephone Cooperative Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Cooperative's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Cooperative's financial statements that is more than inconsequential will not be prevented or detected by the Cooperative's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Cooperative's internal control.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies that we consider to be material weaknesses, as defined above.

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Compliance

As part of obtaining reasonable assurance about whether North Central Telephone Cooperative Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This communication is intended solely for the information and use of the Board of Directors, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.

Jotherow, Hite, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
February 14, 2014