



CASE NO: 2008-00163

P. O. BOX 240 • 1621 KY HWY 40 W • STAFFORDSVILLE, KY 41256

May 1, 2008

RECEIVED

MAY 02 2008

PUBLIC SERVICE
COMMISSION

Mrs. Stephanie L. Stumbo, Executive Director
Kentucky Public Service Commission
P.O. Box 615
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

In Re: In the Matter of the Application of Foothills Rural Telephone Cooperative Corporation, Inc., for a Certificate of Convenience and Necessity to Construct New Facilities, Upgrade Facilities, and Borrow Funds to assist in same

Dear Mrs. Stumbo:

Pursuant to KRS 278-020 Foothills Rural Telephone Cooperative Corporation, Inc ("Foothills") requests authority to construct and upgrade facilities in its certified territory. Enclosed are copies of Foothills' verified Application seeking the approval of the Kentucky Public Service Commission ("Commission") for the construction of new facilities and upgrade of existing facilities within its seven (7) exchanges in the eastern region of Kentucky.

Pursuant to 807 KAR 500:1 Section 9(2) three (3) sets of maps of the affected exchanges areas, are attached and identified as Exhibit "A" to the Application. Exhibit "B" contains a statement showing our current switch has been manufacturer discontinued. Exhibit "C" contains Foothills' Articles of Incorporation, and Exhibit "D" contains cost projections after construction is complete.

After the Application has been processed, Foothills' personnel will be available to meet with members of the Commission's engineering staff and other concerned Commission personnel.

In the event that there are other filing requirements or information requests associated with this Application, please advise me at your earliest convenience.

Yours Truly,

Thomas E. Preston
CEO/General Manager

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF
KENTUCKY

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PUBLIC SERVICE
COMMISSION

In the Matter of:

The Application of Foothills Rural Telephone)
Cooperative Corporation Inc., for a Certificate)
Convenience and Necessity to Construct)
New Facilities, Upgrade Facilities, and Borrow)
Funds to assist in same)

CASE No. 2008-00163

Pursuant to the provisions of Section 278.020, Kentucky Revised Statutes, and 807 KAR 5:001 of Kentucky Administrative Regulations, the Applicant, Foothills Rural Telephone Cooperative Corporation, Inc. ("Foothills RTCC") respectively submits this verified Application and ten (10) copies, to the Kentucky Public Service Commission ("Commission"):

I.

Foothills RTCC is a non-stock, non-profit membership cooperative corporation, duly organized and existing under and by virtue of the provisions of Chapter 279, Kentucky Revised Statutes, and pursuant to 807 KAR 5:001: Section 9(1)(a). A copy of Foothills' Articles of Incorporation and all amendments are attached as Exhibit D.

II.

Pursuant to 807 KAR 5:001 Section 8(1) the address of the headquarters office of the Applicant is:

Foothills Rural Telephone Cooperative Corporation, Inc.
P.O. Box 240
Staffordsville, Kentucky 41256

III.

Foothills RTCC, a Rural Utilities Services ("RUS") borrower, operates a local telephone system containing seven (7) exchanges in eastern Kentucky. As of December 31, 2007, the

Applicant had a total of 15,232 access lines providing telephone service to subscribers in parts of Magoffin, Johnson, Lawrence, and Breathitt Counties of eastern Kentucky.

IV.

The proposed construction of new facilities throughout Foothills RTCC's exchanges and the replacement of main central office switch will have a total estimated project cost of \$14,000,000. Pursuant to 807 KAR 5:001 Section 9(2)(e) the Applicant proposes to finance the cost of the construction of these new facilities through a loan with CoBank in the amount of \$8,500,000.00, with the rest to come from general funds.

V.

Pursuant to 807 KAR 001: Section 9(2) the below information demonstrates the public need for the new and additional facilities. The purpose of the new construction is to expand on Foothills RTCC's fiber-to-the-home FTTH which already passes more than 7500 homes to date. Also planned is the replacement Foothills RTCC's manufactured discontinued Siemens Class 5 EWSD Switch.

Over 2800 additional homes will be passed by the proposed construction. This construction will take place in the Oil Springs area which encompasses parts of the Salyersville and Staffordsville exchanges. Also construction will take place in Lowmansville which encompasses parts of Staffordsville, Flat Gap, Blaine, and Chapman exchanges. Once completed over two thirds of Foothills RTCC's customers will be passed with FTTH. Also all the main corridors in Foothills RTCC's serving area will be covered by FTTH including Route 40 and US 23.

Our FTTH product enables the rural customers we serve to conduct business from their homes, and home businesses. Our standard high speed Internet product over FTTH

starts at 2Mbs. When customers take all out services including high speed Internet, cable TV, basic phone service, and long distance, they get an additional \$10 off their high speed Internet. These savings are only made possible by the ability of FTTH to deliver all these products in a bundle. We are also able to offer unlimited calling plans as a result of our ability to bundle products. Therefore, the public benefits every time we pass a home with fiber.

Construction will begin with Oil Springs this spring and should be completed this year. We hope to begin staking engineering of the Lowmansville area pending this approval by summer which will bring this highly desired FTTH product to those customers by next summer. Given that both these projects will pass roughly the same amount of homes and have a similar amount of route miles, we expect the total costs for both projects including engineering, construction, and back office equipment to be around \$6,000,000.00 for a total of \$12,000,000.00.

In addition to these major outside plant projects, we will be adding a new central switch. We estimate this change out to cost roughly \$2,000,000.00. While not all costs will be associated with the switch itself, there will be additional costs in replacing old remotes out in the field (installed in the early 90's) in order that they may interface the new switch. The new switch will be a "soft switch". The soft switch utilizes IP or Internet Protocol technologies which allow more efficient call routing and updated special calling features and functions for customers. Given the attached notice from Siemens, we feel it necessary to replace out old switch in order to continue to provide reliable updated service to the public.

VI.

Pursuant to 807 KAR 001:Section 9(2)(f), Foothills RTCC's cost of operation after construction is complete is provided in Exhibit D. Exhibit D provides estimates of the revenues and costs considering the aforementioned construction, upgrades, and financing.

Foothills RTCC does not anticipate seeking any rate adjustments as a result of the construction expenditures associated with this project.

VII.

Pursuant to 807 KAR 001 Section 9(2)(b), Foothills RTCC does not require franchise approval from any public authority for the proposed construction.

VIII.

The Applicant does not anticipate that the proposed new construction will compete with any public utility, corporation, or persons providing telecommunications services within its service area. It may compete with cablevision firms within the service area.

IX.

Pursuant to 807 KAR 500:1 Section 9(2)(d), three (3) copies of the required maps for the proposed construction are provided.

X.

Foothills RTCC files herein as Exhibits, and by this reference make the Exhibits a part of this application, the following:

- | | |
|-----------|--|
| Exhibit A | Required Maps |
| Exhibit B | Statement of Manufacturer Discontinuance |

Exhibit C Articles of Incorporation

Exhibit D Cost of Operations after Construction

Pursuant to the provisions of Section 278.020 Kentucky Revised Statutes and 807 KAT 5:001, Section 8, the Applicant, Foothills Rural Telephone Cooperative Corporation, Inc. requests that the Kentucky Public Service Commission issue a Certificate of Convenience and Necessity to construct new facilities, upgrade facilities, and borrow money to assist in same throughout its seven (7) exchanges in eastern Kentucky, as described herein, and in the attached exhibits.

RESPECTFULLY SUBMITTED,



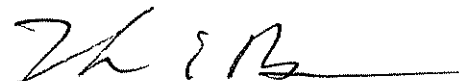
HON. ROBERT J. PATTON
KINNER & PATTON
328 EAST COURT STREET
P.O. BOX 700
PRESTONSBURG, KY 41653
TELEPHONE: (606) 886-1343

COMMONWEALTH OF KENTUCKY

COUNTY OF JOHNSON

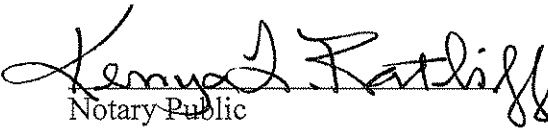
Affiant, Mr. Thomas Preston, CEO/General Manager of Foothills Rural Telephone Cooperative Corporation, Inc., states that he has read the foregoing application, and that the allegations therein contained are true.

This the 1st day of May, 2008.



Mr. Thomas E. Preston
CEO/GM

SUBSCRIBED AND SWORN TO before me, a Notary Public, by Mr. Thomas
Preston, this the 1st day of May, 2008.


Notary Public

MY COMMISSION EXPIRES:

2/24/2011

**Product Phase Out
B800/B900 Announcement # 07-01**

We hereby inform you about the confirmed dates for the End of Manufacturing (B800) and the End of Support (B900) for following EWSD element (functional unit, feature group or EWSD version):

MD of the EWSD CORE		
Last possible order date volume planning date:	7/15/2007	components, parts, elements
B800 date:	7/15/2007	end of manufacturing / marketing
B900 date:	1/15/2008	end of support

Please find affected EWSD elements with their code numbers or sales feature numbers in annex below.

Signature, Date: 1/15/2007

Bob Munson

Kathy Brown

Bill Hedge

PLM

Contracts

Business Administration

Commonwealth of Kentucky
Department of State



Secretary of State

FRANCES JONES MILLS

FRANKFORT, KENTUCKY

CERTIFICATE

I, FRANCES JONES MILLS, Secretary of State for the Commonwealth of Kentucky, do certify that the foregoing writing has been carefully compared by me with the original record thereof, now in my official custody as Secretary of State and remaining on file in my office, and found to be a true and correct copy of Articles of Incorporation of Foothills Rural Telephone Cooperative Corporation, Inc. filed September 10, 1951.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal.

Done at Frankfort this 20th day of

March 1951

Frances Jones Mills
Secretary of State, Commonwealth of Kentucky

D-4775

ARTICLES OF INCORPORATION

OF

FOOTHILLS RURAL TELEPHONE COOPERATIVE CORPORATION, INC.

We, the undersigned, being natural persons and citizens of the Commonwealth of Kentucky do hereby execute these articles of incorporation for the purpose of organizing a nonprofit cooperative corporation (herein called the "Cooperative") under the laws of the Commonwealth of Kentucky, pursuant to an Act entitled "AN ACT relating to telephone cooperative, nonprofit corporations, rural telephones and telephone services", approved March 25, 1950.

FIRST, the name of the Cooperative is Foothills Rural Telephone Cooperative, Corporation, Inc.

SECOND, the address of the principal office of the Cooperative is Paintsville, Johnson County, Kentucky.

THIRD, the names and addresses of the incorporators of the Cooperative are:

<u>Names</u>	<u>Addresses</u>
<u>Mort Mullins</u>	<u>Keaton</u>
<u>J. E. Jayne</u>	<u>Flat Gap</u>
<u>J. W. Carpenter</u>	<u>Salyersville</u>
<u>Sherman Bailey</u>	<u>Tip Top</u>
<u>J. Milton Kitchen</u>	<u>Blaine</u>

Process
gent.....

FOURTH, the names and addresses of the persons who shall constitute the first Board of Trustees of the Cooperative are:

<u>Names</u>	<u>Addresses</u>
<u>Mort Mullins</u>	<u>Keaton</u>
<u>J. E. Jayne</u>	<u>Flat Gap</u>
<u>J. W. Carpenter</u>	<u>Salyersville</u>
<u>Sherman Bailey</u>	<u>Tip Top</u>
<u>J. Milton Kitchen</u>	<u>Blaine</u>

FIFTH, The operations of the Cooperative are to be conducted in the Counties of Johnson, Magoffin, Lawrence, and Floyd. and in such other counties as such operations may from time to time become necessary or desirable in the interest of this Cooperative or of its members.

IN TESTIMONY WHEREOF we have hereunto subscribed our names this

4th day of September 1901, 19 01.

Mart Mullins
J. W. Lappin
Sherman Bailey
Milton Fitcher

STATE OF KENTUCKY
COUNTY OF Jackson

I, Wm. W. Gandy Notary Public in and for the county and state aforesaid, certify that the foregoing instrument of writing from Wm. Mullins and J. E. Payne was this day produced to me in the county and state aforesaid by Wm. Mullins and J. E. Payne and acknowledged by them to be their act and deed.

Given under my hand and seal of my office this 3rd day of Sept 1951.

Wm. W. Gandy
Notary Public, Jackson Co.

My Commission expires April 26, 1954

seal

STATE OF KENTUCKY
COUNTY OF Lawrence

I, O. E. Wheeler Notary Public in and for the county and state aforesaid, certify that the foregoing instrument of writing from Jos. Mullins Hutchins was this day produced to me in the county and state aforesaid by John W. Hutchins and acknowledged by him to be his act and deed.

Given under my hand and seal of my office this 3 day of Sept 1951.

O. E. Wheeler
Notary Public

My Commission expires May 14, 1953

seal



STATE OF KENTUCKY
COUNTY OF Magoffin

I, Wm. H. Higgs Notary Public in and for the county and state aforesaid, certify that the foregoing instrument of writing from Wm. H. Higgs and Wm. H. Higgs was this day produced to me in the county and state aforesaid by Wm. H. Higgs and Wm. H. Higgs and acknowledged by them to be their act and deed.

Given under my hand and seal of my office this 4 day of Sept 1951.

Wm. H. Higgs
Notary Public

My Commission expires 1-3-1954

seal

2008 BUDGET
With Bank Lending

FOOTHILLS RURAL TELEPHONE COOPERATIVE Staffordsville, Kentucky 41256		Kentucky 522					PAGE 1
OPERATING BUDGET INCOME STATEMENT		2,007	2,008	2,009	2,010	2,011	2,012
TOTAL ACCESS LINES		15,232	15,374	15,523	15,673	15,825	15,978
BUDGET ITEM							
1. LOCAL NETWORK REVENUES		3,983,958	4,175,551	4,440,784	4,722,864	5,022,863	5,341,917
a. VIDEO REVENUES		1,815,051	1,905,156	2,000,413	2,100,434	2,205,456	2,315,729
b. INTERNET REVENUES		2,169,724	2,234,816	2,301,860	2,370,916	2,442,043	2,515,305
c. FHLD REVENUES		1,217,113	1,253,626	1,253,626	1,253,626	1,253,626	1,253,626
d. CUSTOMER PREMISE REVENUES		327,970	327,970	327,970	327,970	327,970	327,970
2. NETWORK ACCESS REVENUES		16,377,895	16,821,750	17,163,191	17,511,749	17,867,575	18,230,836
3. LONG DISTANCE NETWORK SERVICES REVENUE		36,631	37,417	37,779	38,145	38,514	38,886
4. MISCELLANEOUS REVENUES		892,453	915,993	943,473	971,777	1,000,931	1,030,959
5. UNCOLLECTIBLE REVENUES		(24,000)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)
6. NET OPERATING REVENUES (1 thru 4 less 5)		26,796,795	27,644,280	28,441,098	29,269,462	30,130,978	31,027,228
7. PLANT SPECIFIC EXPENSE		4,412,425	4,538,062	4,764,965	5,003,214	5,253,374	5,516,043
8. PLANT NONSPECIFIC EXPENSE		1,662,600	1,737,404	1,777,680	1,818,890	1,861,056	1,904,199
a. VIDEO OPERATING EXPENSE		1,962,163	2,074,708	2,139,512	2,217,388	2,298,984	2,384,480
b. INTERNET OPERATING EXPENSE		1,776,864	1,865,707	1,905,023	1,936,052	1,966,374	2,002,048
c. FHLD OPERATING EXPENSE		1,003,625	1,033,734	1,064,746	1,096,688	1,129,589	1,163,476
d. CUSTOMER PREMISE OPERATING EXPENSE		470,250	484,358	498,889	513,855	529,271	545,149
9. DEPRECIATION EXPENSE		6,645,493	7,621,445	8,125,669	8,332,128	8,502,465	8,661,043
a. VIDEO DEPRECIATION EXP		78,662	82,595	86,725	91,061	95,614	100,395
b. INTERNET DEPRECIATION EXP		76,018	79,819	83,810	88,000	92,400	97,020
c. FHLD DEPRECIATION EXP		0	0	0	0	0	0
d. CUSTOMER PREMISE DEPRECIATION EXP		16,767	17,102	17,444	17,793	18,149	18,512
10. AMORTIZATION EXPENSE		0	0	0	0	0	0
11. CUSTOMER OPERATIONS EXPENSE		1,457,924	1,648,290	1,862,961	2,105,591	2,379,821	2,689,765
12. CORPORATE OPERATIONS EXPENSE		1,107,041	1,119,722	1,106,800	1,094,028	1,081,403	1,068,923
13. TOTAL OPERATING EXPENSES (7 thru 12)		20,669,832	22,302,946	23,434,224	24,314,689	25,210,499	26,151,054
14. OPERATING MARGINS (6 less 13)		6,126,963	5,341,334	5,006,874	4,954,793	4,920,478	4,876,174
15. OTHER OPERATING INCOME AND EXPENSE		0	0	0	0	0	0
16. PROPERTY TAXES		818,924	555,660	583,443	612,615	643,246	675,408
17. FEDERAL INCOME TAXES		0	0	0	0	0	0
18. KY TELECOM GROSS REVENUE TAX		203,677	212,592	223,222	234,383	246,102	258,407
19. TOTAL OPERATING TAXES (16+17+18)		1,022,601	768,252	806,665	846,998	889,348	933,816
20. NET OPERATING MARGINS (14+15-19)		5,104,362	4,573,081	4,200,209	4,107,795	4,031,130	3,942,359
21. INTEREST ON FUNDED DEBIT		1,543,267	1,748,617	1,877,592	1,777,001	1,591,232	1,304,538
22. INTEREST EXPENSE - CAPITAL LEASES		0	0	0	0	0	0
23. OTHER INTEREST EXPENSE		11,024	11,339	11,339	11,339	11,339	11,339
24. ALLOW FOR FUNDS USED DURING CONSTRUCTION		0	0	0	0	0	0
25. TOTAL FIXED CHARGES (21+22+23+24)		1,554,291	1,759,957	1,888,932	1,788,341	1,602,572	1,315,878
26. NONOPERATING INCOME AND EXPENSE							
INVESTMENT INTEREST INCOME		255,882	266,123	278,427	291,163	304,344	317,986
MISC NON OPERATING REVENUE		50,014	50,014	50,014	50,014	50,014	50,014
27. NONOPERATING TAXES		0	0	0	0	0	0
28. ESTIMATED EOY CELLULAR SERVICES NET		1,458,945	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
29. JURISDICTIONAL DIFFERENCES		0	0	0	0	0	0
30. NONREGULATED NET INCOME							
31. TOTAL NET MARGINS (20+26+28+29+30-25-27)		5,314,912	4,629,261	4,139,718	4,160,631	4,282,916	4,494,481
TIER (LN25+LN30+LN31)/LN25		4.4195	3.6303	3.1916	3.3265	3.6725	4.4156

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**CONTAINS
LARGE OR OVERSIZED
MAP(S)**

RECEIVED ON: 5/02/08