

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF MOUNTAIN RURAL)
TELEPHONE COOPERATIVE CORPORATION, INC.)
FOR A CERTIFICATE OF PUBLIC CONVENIENCE) CASE NO.
AND NECESSITY FOR THE CONSTRUCTION OF) 2009-00538
AN INTERNET PROTOCOL AND ETHERNET)
NETWORK)

O R D E R

On December 23, 2009, Mountain Rural Telephone Cooperative Corporation, Inc. ("Mountain") filed an application with the Commission seeking a Certificate of Public Convenience and Necessity ("CPCN") to construct and upgrade facilities within its service territory in Kentucky. Mountain is a non-profit membership cooperative corporation with its principal business office in West Liberty, Kentucky. Mountain, as an Incumbent Local Exchange Carrier, provides local telephone service to Morgan, Elliott, Menifee and Wolfe counties along with small portions of Bath and Lee counties of Kentucky. Mountain serves approximately 12,709 residential and 2,985 business access lines in Kentucky.¹

Mountain asserts that the construction project proposed herein is a result of its application for a grant through the American Recovery and Reinvestment Act ("ARRA"). The ARRA grant will potentially provide stimulus funding of \$38,281,044. Mountain's application has been approved through the first stage, but any further consideration requires approval of a CPCN prior to issuance of the grant. Mountain has requested the

¹ Reported by Mountain as of December 31, 2008.

Commission expedite review and approval of the proposed construction in order to assist Mountain in its efforts to secure the grant.

Description of Proposed Construction

Mountain intends to deploy an Internet Protocol (IP) based active Ethernet platform including fiber-to-the-premise (FTTP) facilities throughout its service territory and upgrade of access electronics and outside plant facilities. The proposed construction will support a full-service network enabling Mountain to provide “triple-play” services to subscribers consisting of a complete array of advanced services including video and high-speed internet access, as well as providing for the expansion of voice services to its rural customers.

Mountain has analyzed its substantially copper infrastructure in place since the late 1950s and found it to be insufficient to support high-capacity data demands required to keep up with technological developments in the communications industry. Mountain asserts that upgrading the current network is critical to the economic and social development of communities it serves in the Appalachian region where all of the counties are challenged by mountainous terrain, limited transportation infrastructure, and currently high unemployment levels. Mountain states that the proposed construction adheres to the requirements of the State Telecommunications Modernization Plan approved by the Rural Utilities Service (“RUS”) for Kentucky borrowers, which recognizes that deployment of advanced technologies are essential to rural economic development. Although the primary purpose of the proposed construction is to expand the capabilities of the existing network to include video,

broadband data and other advanced services, Mountain expects the upgrades to further enhance its ability to serve traditional voice customers.

The proposed network upgrades will be deployed over a three-year period with an estimated total cost of \$78,124,579. Mountain expects financing to be secured from RUS in the amount of \$39,843,535 with the remaining expenditures financed through an ARRA grant in the amount of \$38,281,044. Mountain advises that construction of the broadband facilities as proposed is dependent upon securing RUS approval of the ARRA grant, without which Mountain would not proceed with the proposed project.

Mountain states that its financial condition will permit it to service the additional RUS debt without additional rate adjustments.

Discussion and Findings

The proposed construction will result in a significant expansion of the services available to subscribers and enhance Mountain's ability to maintain its facilities and provision customers. However, the planned construction is extensive with substantial costs and is designed primarily for Mountain to support services that may be beyond the jurisdiction of the Commission.² The Commission recognizes that the General Assembly has found that the provision of broadband and other state-of-the-art telecommunications technologies are an "essential element to the Commonwealth's initiatives to improve the lives of Kentucky citizens. . . ."³ Nevertheless, the Commission remains obligated to ensure that Mountain's ability to offer safe, adequate and

² KRS 278.5462.

³ KRS 278.546(1).

reasonable basic local exchange service is not adversely affected.⁴ Mountain should carefully account for the costs associated with the construction of these facilities and properly allocate those costs to jurisdictional and non-jurisdictional services, respectively.⁵

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that Mountain should be authorized to proceed with the proposed construction as described herein.

IT IS THEREFORE ORDERED that:

1. Mountain is granted a Certificate of Public Convenience and Necessity to construct new facilities throughout its service territory in Kentucky as set forth in its application and as described in this Order.

2. Should the costs of the construction authorized herein exceed the estimated costs supplied with the application by more than 10 percent, Mountain shall immediately notify the Commission in writing of the adjustment, including an explanation of the additional cost, for the Commission's approval.

3. Mountain shall maintain records that clearly and sufficiently document the proper allocation of costs for jurisdictional and non-jurisdictional services provided as a result of this construction project.

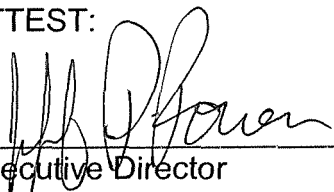
⁴ KRS 278.542(1)(n).

⁵ The Commission retains the authority to review the reasonableness of such accounting procedures when considering adjustments of rates for basic local exchange service. KRS 278.220.

By the Commission

ENTERED
JAN - 6 2010
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



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