

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC. FOR A GENERAL ADJUSTMENT IN RATES)	CASE NO. 2016-00050
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O R D E R

On March 14, 2016, Duo County Telephone Cooperative Corporation, Inc. ("Duo County") tendered for filing an application for a general adjustment of its rates for basic local exchange service ("Application"). In its Application, Duo County informed the Commission of its intent to place its proposed rates into effect on and after June 1, 2016, in order to meet the rate floor mandated in 47 C.F.R. § 54.318. With its Application, Duo County filed a motion requesting Commission approval to deviate from certain filing requirements. By Order, the Commission granted Duo County's motion for deviation, and the Application was deemed filed on March 31, 2016.

Duo County filed its proposed increased rates to comply with the 2011 directive of the Federal Communications Commission ("FCC") that, *inter alia*, comprehensively reformed intercarrier compensation.¹ In addition to establishing a glide path to reduce access charges to zero, the FCC's ICC/USF Order also established a rate floor for local exchange rates.² The FCC also ordered that Local Exchange Carriers, such as Duo

¹ See *In the Matter of Connect America Fund et. al., Report and Order and Further Notice of Proposed Rulemaking*, FCC 11-161 (Nov. 18, 2011) ("FCC's ICC/USF Order").

² *Id.*, paragraph 238.

County, be eligible to receive high-cost support in a study area only if their rates for local exchange service are at or above the rate floor on June 1 of every subsequent year. Failure to meet the rate floor will result in forfeiture of the high-cost support that the carrier would have otherwise received for that year.³ On March 20, 2014, the FCC released the results of its urban rate floor survey that established the 2014 rate floor of \$20.46 and also sought comment on a petition to extend the deadline for compliance with the 2014 rate floor.⁴ On June 10, 2014, the FCC issued an order on reconsideration that modified the schedule for imposition of rate floor penalties and allowed for a phase-in of the residential floor.⁵ The revised schedule allowed for a four-year period to meet the rate floor of \$20.46.⁶ The first phase of the modified schedule required that the residential rates of companies must be no lower than \$16.00 beginning December 1, 2014. The second phase of the modified schedule required that the residential rates of companies be no lower than \$18.00 beginning July 1, 2016.

The Commission is cognizant that Duo County's ability to receive High Cost Loop Support ("HCLS") will be jeopardized if its rate for basic local exchange service is not at or above the \$18.00 rate floor mandated in the FCC's ICC/USF Order. The loss of HCLS would necessitate even larger rate increases in the future to offset loss of federal funding.

³ *Id.*, paragraph 239.

⁴ *Wireline Competition Bureau Announces Results of Urban Rate Survey for Voice Services; Seeks Comment on Petition for Extension of Time to Comply with New Rate Floor*, Public Notice, DA 14-84, released Mar. 20, 2014.

⁵ *In the Matter of Connect America Fund et. al., Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking*, FCC 14-54 (June 10, 2014) .

⁶ *Id.*, paragraph 80.

Duo County is a rural incumbent local exchange carrier serving individuals and businesses within all or parts of Adair, Casey, Cumberland, and Russell counties in Kentucky ("service territory"). Duo County was established in 1954 as a member-owned cooperative to provide local telephone service to businesses and individual customers within the exchanges of Burkesville Rural, Fairplay, Jamestown, and Russell Springs. Duo County provides service to approximately 8,034 residential lines and 1,820 business lines. Duo County is an eligible telecommunications carrier in the communities it serves and is also the carrier of last resort ("COLR") in its service territory. In 2015, Duo County received \$1,845,501 from HCLS to support its COLR responsibilities in its service territory and anticipates receiving approximately \$2,170,000 in 2016.

Duo County has not had a general rate increase since September 28, 1981;⁷ however, Duo County increased rates in 2013⁸ and 2014⁹ to meet the rate floor. Duo County states it would not otherwise make this filing if not for the FCC's ICC/USF Order. Duo County has provided ample notice to its members. Because Duo County's current rate is below the July 1, 2016 rate floor established by the FCC, Duo County must increase its rate in order to avoid a loss of HCLS. Based on its current

⁷ Case No. 8153, *Application of Duo County Telephone Cooperative Corporation, Inc., Jamestown, Kentucky 42629 for Authority to Implement an Adjustment In Its Uniform Subscriber Rates* (Ky. PSC Sept. 28, 1981).

⁸ Duo County increased its rates in 2013 to meet the \$14.00 residential rate floor. See Case No. 2013-00184, *Tariff Filing of Duo County Telephone Cooperative Corporation, Inc.* (Ky. PSC Feb. 3, 2014).

⁹ Duo County increased its rates in 2014 to meet the \$16.00 residential rate floor. See Case No. 2014-00315, *Application of Duo County Telephone Cooperative Corporation, Inc. for a General Adjustment in Rates* (Ky. PSC Nov. 26, 2014).

access line count, failure to meet the FCC's \$18.00 rate floor would deprive Duo County of approximately \$190,560 in HCLS to which the company would otherwise be entitled. To meet the \$18.00 residential rate floor established by the FCC, Duo County proposes to increase its residential services rate by \$2.00, which will produce an annual increase in revenue of \$190,560.¹⁰ Duo County also proposes to expand extended area service to allow all of its subscribers a larger toll-free calling area. Duo County subscribers will be able to call toll-free to any exchange in the 606, 270, and 364 area codes. Duo County expects that the expanded calling will cost \$89,164 per year, and the revenue reduction associated with this change will partially off-set the increased revenue from the local rate increase.¹¹ Duo County estimates the proposed rate changes will generate \$101,396¹² in net annual revenue.

Additionally, as part of the FCC's ICC/USF Order, the FCC established that the intercarrier compensation collected in the 2011 fiscal year, from October 1, 2010, to September 30, 2011, was the maximum amount of allowed revenues from intercarrier compensation. In addition, the FCC's ICC/USF Order established a phase-down schedule of those maximum amounts allowed, requiring that the maximum intercarrier compensation amount be reduced by 5 percent for the 2012 fiscal year and each year thereafter for five years. With this change, Duo County cannot collect more than the maximum intercarrier compensation revenue amount. The cumulative reduction in

¹⁰ Application, paragraph 14 at 8.

¹¹ *Id.*, Attachment C.

¹² \$190,560 - \$89,164 = \$101,396.

intercarrier compensation has grown larger each fiscal year,¹³ and when this reduction in revenue is combined with the increase in revenue from the proposed rate increase, Duo County's revenue will be lower than its level prior to the FCC's ICC/USF Order.

The Commission also notes that the telecommunications market has gone through and continues to go through major changes. The Kentucky General Assembly has enacted significant changes to the authority of the Commission in light of competitive choices and options available to consumers.¹⁴ For example, the Commission, with the exceptions enumerated in KRS 278.5435, has jurisdiction only over basic service rates of telecommunication companies, which includes only a single business or residential service line.¹⁵ All other retail rates of the telecommunication companies are not subject to the Commission's rate regulation. The Commission also notes that Duo County is a cooperative organization subject to the board of directors of the cooperative and its member owners.

The Commission finds that, based on the foregoing information submitted by Duo County, the rate increase should be granted. Duo County has demonstrated that the proposed rate increase is necessitated by the FCC's ICC/USF Order and is reasonable.

IT IS THEREFORE ORDERED that:

1. Duo County's proposed increase in basic local residential exchange service rate and expansion of its toll-free calling area, as set forth in the tariffs attached

¹³ Application, Exhibit 1 at 6.

¹⁴ See, e.g., KRS 278.541–544 and KRS 278.5435.

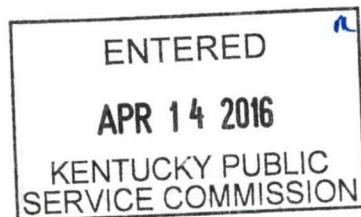
¹⁵ KRS 278.541(1).

to its Application filed on March 31, 2016, and shown in the Appendix attached to this Order, are approved.

2. Within 20 days of the date of this Order, Duo County shall file, using the Commission's electronic Tariff Filing System, its revised tariff sheets containing the rates approved herein and signed by an officer of the utility authorized to issue tariffs. The tariff sheets shall reflect that they were approved pursuant to this Order and shall contain an effective date of June 1, 2016.

3. Any future increases to basic local exchange rates necessitated by the FCC's ICC/USF Order shall be filed as an Application in compliance with Commission regulations.

By the Commission



ATTEST:

Acting Executive Director

Case No. 2016-00050

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2016-00050 DATED **APR 14 2016**

The following Basic Service Rates are prescribed for the customers in the area served by Duo County Telephone Cooperative Corporation, Inc. for service rendered on and after June 1, 2016. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Basic Exchange Monthly Rates

A. Russell Springs, Jamestown, Burkesville Rural, and Fairplay

	<u>Residence</u>
Network Access Charge	\$18.00

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