

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MOUNTAIN RURAL)	CASE NO.
TELEPHONE COOPERATIVE CORPORATION,)	2016-00047
INC. FOR A GENERAL ADJUSTMENT IN RATES)	

ORDER

On March 4, 2016, Mountain Rural Telephone Cooperative Corporation, Inc. (“Mountain”) tendered for filing an application for a general adjustment of its rates for basic local exchange service (“Application”). In its Application, Mountain informed the Commission of its intent to place its proposed rates into effect on or after June 1, 2016, in order to meet the rate floor mandated in 47 C.F.R. § 54.318. With its Application, Mountain filed a motion requesting Commission approval to deviate from certain filing requirements. By Order, the Commission granted Mountain’s motion for deviation, and the Application was deemed filed on March 16, 2016.

Mountain 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 required that Local Exchange Carriers, such as Mountain, be eligible to receive high-cost support in a study area only if the rates for local

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.

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 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 Mountain's ability to receive High Cost Loop Support ("HCLS") will be jeopardized if its rates for basic local exchange service are not at or above the \$18.00 rate floor mandated in the FCC's ICC/USF Order. The loss of HCLS funding 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.

Mountain is a rural incumbent local exchange carrier serving individuals and businesses within all or parts of Menifee, Morgan, Elliot, Wolfe, and Bath counties in Kentucky (“service territory”). Mountain was established in 1950 as a member-owned cooperative to provide local telephone service to business and individual customers within the exchanges of Jephtha, Hazel Green, Campton, Ezel, Sandy Hook, West Liberty, and Frenchburg, Kentucky. Mountain provides service to approximately 11,359 residential lines and 3,013 business lines. Mountain 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, Mountain received approximately \$3,768,252 from HCLS to support its COLR responsibilities in its service territory.

Mountain has not had a general rate increase since 1981.⁷ However, Mountain adjusted its rates in 2013⁸ and 2014⁹ to meet the rate floor. Mountain states it would not otherwise make this filing if not for the FCC’s ICC/USF Order. Mountain has provided ample notice to its members. Because Mountain’s current rates are below the July 1, 2016 rate floor established by the FCC, Mountain has to increase its rate in order to avoid a loss of HCLS. Based on its current access line count, failure to meet the FCC’s \$18.00 rate floor would deprive Mountain of \$272,616 in HCLS to which the company would otherwise be entitled. To meet the \$18.00 residential rate floor established by the FCC, Mountain proposes to increase its residential services rates by

⁷ Case No. 7980, *The Application of Mountain Rural Telephone Cooperative Corporation, Inc. for an Upward Adjustment in Rates and Charges for Telephone Service* (Ky. PSC Feb. 20, 1981).

⁸ Mountain increased its rates in 2014 to meet the \$14.00 residential rate floor. See Case No. 2013-00194, *Tariff Filing of Mountain Rural Telephone Cooperative Corporation, Inc.* (Ky. PSC Mar. 26, 2014).

⁹ Mountain increased its rates in 2014 to meet the \$16.00 residential rate floor. See Case No. 2014-00309, *Application of Mountain Rural Telephone Cooperative Corporation, Inc. for a General Adjustment in Rates* (Ky. PSC Nov. 26, 2014).

\$2.00, which will produce an annual increase in revenue of \$273,048.¹⁰ Additionally, Mountain proposes to increase its business basic rates from \$17.63 to \$21.00 to retain the historic rate structure and eliminate a rate disparity. To mitigate the impact of the rate increase on its subscribers, Mountain will offset the increase in basic rates by providing all subscribers with an expanded local calling area, to include Rowan, Carter, Johnson, Lawrence, Magoffin, Breathitt, Lee, Powell, Bath, and Montgomery counties. By expanding the local calling, Mountain will forgo access fees previously billed to interexchange carriers on these former toll routes and will incur costs to complete the traffic. Mountain estimates the total cost of the expanded local calling area will be \$98,075 per year, therefore, providing a net increase of \$296,171.61¹¹ in revenue with this filing.

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, Mountain cannot collect more than the maximum intercarrier compensation revenue amount established by the FCC. The cumulative reduction in intercarrier compensation has grown larger each fiscal year¹²

¹⁰ Application, Exhibit 1, Attachment C Revised.

¹¹ *Id.*

¹² Application, Exhibit 1 at 6.

and, when this reduction in revenue is combined with the increase in revenue from the proposed rate increase, Mountain'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.¹³ For example, the Commission, with the exceptions enumerated in KRS 278.5435, has jurisdiction only over basic service rates of telecommunication companies, which include only a single business or residential service line.¹⁴ All other retail rates of the telecommunication companies are not subject to the Commission's rate regulation. The Commission also notes that Mountain 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 Mountain and the potential loss of high-cost support, the rate increase should be granted. Mountain 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. Mountain's proposed increase in basic local residential exchange service rate and expansion of its local calling area, as set forth in the tariffs attached to its Application filed March 16, 2016, and shown in the Appendix attached to this Order, are approved.

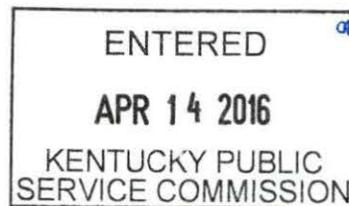
¹³ See, e.g., KRS 278.541–544 and KRS 278.5435.

¹⁴ KRS 278.541(1).

2. Within 20 days of the date of this Order, Mountain 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

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2016-00047 DATED **APR 14 2016**

The following Basic Service Rates are prescribed for the customers in the area served by Mountain Rural 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. All Exchanges

	<u>Residence</u>	<u>Business</u>
Network Access Charge	\$18.00	\$21.00

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