

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THACKER-GRIGSBY)	
TELEPHONE COMPANY, INC. FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE AND)	CASE NO.
NECESSITY FOR THE CONSTRUCTION OF FIBER)	2008-00106
OPTIC CABLE)	

O R D E R

On March 24, 2008, Thacker-Grigsby Telephone Company, Inc. (“Thacker-Grigsby”) filed an application seeking a Certificate of Public Convenience and Necessity for the construction of fiber optic cable in Knott and Perry counties, Kentucky. Thacker-Grigsby is a rural incumbent local exchange carrier with its main office in Hindman, Knott County, Kentucky. Thacker-Grigsby, as of December 31, 2007, serves 6,225 residential customers and 1,305 business customers providing telephone service to its members in Breathitt, Floyd, Knott, and Perry counties in Kentucky.

DESCRIPTION OF PROPOSED CONSTRUCTION

Thacker-Grigsby states that the proposed construction of the fiber optic cable is required by public convenience and necessity. The proposed construction will allow Thacker-Grigsby to deploy a Fiber-to-the-Home (“FTTH”) overbuild in the designated areas to provide broadband services to customers that currently do not have that capability. The FTTH overbuild would allow Thacker-Grigsby to deliver video services, high-speed Internet services, virtual private networks, and multiple lines in these areas.

Thacker-Grigsby contends that the existing copper cable in this area is over 40 years old, and the strand is not reusable. The FTTH overbuild will consist of new strand

and fiber optic cable on existing joint-use poles and on Thacker-Grigsby owned poles. Additionally, Thacker-Grigsby plans to deploy a Gigabit Passive Optical Network system providing sufficient bandwidth for current and future requirements.

Thacker-Grigsby states in its application that advanced telecommunications services, including broadband, are critical to the economic and social development of the rural communities in Knott and Perry counties, Kentucky. Thacker-Grigsby also states that in Governor Fletcher's Prescription for Innovation Plan,¹ deployment of advanced technologies such as fiber optics was recognized as essential to economic development. Further, Thacker Grigsby claims that this type of technology will bring medical services, educational services, and numerous other economic opportunities to its customers.

Thacker-Grigsby anticipates that the proposed construction will compete with some cable television-based Voice Over Internet Protocol services in both the Fisty and Mousie exchanges. However, there are no other line-based competitive local exchange services or broadband providers serving customers in the Fisty or Mousie exchanges.

The network would be deployed in two phases. Thacker-Grigsby proposes that phase 1 will consist of construction of FTTH in the Fisty exchange, and will commence during the spring season of 2008. Phase 2 will consist of construction in the Mousie exchange commencing upon the completion of phase 1. The proposed two-phased network deployment encompasses existing subscribers as well as anticipated growth in the affected exchanges. After completion, Thacker-Grigsby will be able to provide high

¹ <http://kentucky.gov/Newsroom/connectkentucky/prescription.htm> (Last viewed April 22, 2008).

speed broadband service to 100 percent of its customers in the Fisty and Mousie exchanges.

Thacker-Grigsby estimates that the incremental costs to operate the hybrid fiber-copper network after it has been fully deployed will be negligible. The operational costs, which consist primarily of labor, will be met by existing staff. While it has yet to quantify the savings at the completion of phase 1 and 2 of the proposed construction, Thacker-Grigsby anticipates the proposed network deployment will actually result in operational savings over time.

The total estimated cost of the proposed construction is \$8,656,780. Financing for the proposed project has been secured through the Rural Utilities Services ("RUS") in the amount of \$7,160,151 with the remaining expenditures to be financed through Thacker-Grigsby's retained earnings. The loan was previously approved by RUS under the "H" loan design. Thacker-Grigsby met the purposes of this loan without exhausting the available funds from the "H" loan design. Thacker-Grigsby received approval from RUS for a change of method to permit use of the remaining funds for the proposed FTTH overbuild in exchanges where high speed broadband was not available. Thacker-Grigsby does not anticipate requiring any local rate adjustments as a result of the new construction.

DISCUSSION AND FINDINGS

The proposed construction will result in a significant expansion of the services available to subscribers and will enhance Thacker-Grigsby's ability to maintain its facilities and provision customers. However, the planned construction is extensive with substantial costs and is designed primarily for Thacker-Grigsby 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 initiative to improve the lives of Kentucky citizens...”³ Nevertheless, the Commission remains obligated to ensure that Thacker-Grigsby’s ability to offer safe, adequate, and reasonable basic local exchange service is not adversely affected.⁴ Thacker-Grigsby 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 Thacker-Grigsby should be authorized to proceed with the proposed construction as described herein.

² KRS 278.5462 provides, in part, that the provision of broadband services is not subject to state administrative regulation. However, the Commission retains authority to investigate and resolve complaints stemming from broadband service and authority to arbitrate and enforce interconnection agreements. Interconnection agreements may include provisions related to remote terminals and central office facilities which may incorporate broadband services.

³ KRS 278.546(1).

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.

IT IS THEREFORE ORDERED that:

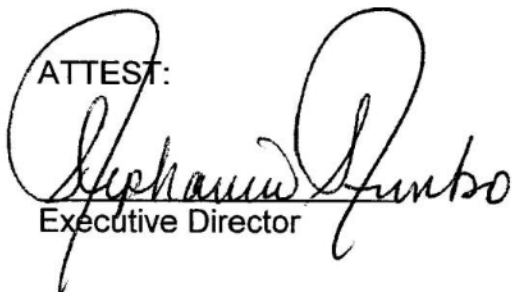
1. Thacker-Grigsby is granted a Certificate of Public Convenience and Necessity for the construction of fiber optic cable in Knott and Perry counties, Kentucky as set forth in its application and as described in this Order.

2. Should the costs of the construction authorized herein exceed by more than 10 percent the estimated costs contained in the application, Thacker-Grigsby shall immediately notify the Commission in writing of the adjustment and include an explanation of the additional costs.

3. As provided for in this Order, Thacker-Grigsby 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.

Done at Frankfort, Kentucky, this 2nd day of May, 2008.

By the Commission

ATTEST:

Executive Director