

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

**ELECTRONIC APPLICATION OF FOOTHILLS RURAL)
TELEPHONE COOPERATIVE CORPORATION, INC.) CASE NO. 2017-00086
FOR A GENERAL ADJUSTMENT IN RATES)**

APPLICATION

Applicant Foothills Rural Telephone Cooperative Corporation, Inc. (“Foothills”), by counsel, pursuant to KRS 278.180, 807 KAR 5:001, Sections 14 and 16, and 807 KAR 5:011, Section 6 and consistent with the Public Service Commission of the Commonwealth of Kentucky’s (the “Commission”) May 29, 2013 order in Case No. 2013-00193 (the “2013 Rate Floor Order”) as well as with Foothills’ rate floor proceeding in Case No. 2016-00051, files this application (the “Application”) for authority to adjust its rates and charges for basic local exchange service and gives notice of its intention to increase the same rates and charges effective no later than June 1, 2017.

INTRODUCTION

This Application for a rate increase is necessitated by an order from the Federal Communications Commission (“FCC”) that fundamentally alters the cost structure of providing telecommunications services in high-cost rural areas, like those Foothills serves. *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) (“ICC/USF Order”). For decades prior to the ICC/USF Order, high-cost carriers had received subsidies from the federal government’s “Universal Service Fund” (“USF”). Those USF subsidies were intended to fulfill the Federal Communications Act’s requirement that “[c]onsumers in all regions of the Nation, including . . .

those in rural, insular, and high cost areas, should have access to telecommunications and information services . . . that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.” 47 U.S.C. § 254(b)(3). The FCC found, however, that many rural consumers were paying rates that were less than those paid by consumers in urban areas. ICC/USF Order at ¶ 235. As a consequence, the FCC’s ICC/USF Order sets a rate floor equal to the national average of local rates, plus state regulated fees. *Id.* at ¶ 238. The ICC/USF Order also “limit[s] high-cost support where local end-user rates plus state regulated fees” do not meet that national rate floor; those carriers’ federal subsidies will be reduced “on a dollar-for-dollar basis . . . to the extent that [the] carrier’s local rates (plus state regulated fees) do not meet the urban rate floor.” *Id.* at ¶ 239.

On June 10, 2014, the FCC altered the schedule for the imposition of rate floor penalties, effectively requiring carriers to ensure that their 2017 rate floor obligations are met no later than June 1, 2017 (the “2014 Rate Floor Order”). *See 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, ¶¶ 79-80.*

Foothills’ proposed rate adjustment is thus necessary to preserve its ability to receive these USF subsidies that are important to its ability to provide telephone and information services in its high-cost rural service territory. Without a minimum rate sufficient to meet the FCC’s new rate floor, high-cost carriers like Foothills will lose significant federal funding that has historically allowed these carriers to provide service to the most costly, rural customers. That loss of federal funding will threaten the financial existence of these rural carriers like Foothills, who have important obligations under federal and state law as carriers of last resort. Moreover, the loss of those subsidies would increase the pressure for Foothills to raise its rates

even higher than the federal rate floor sought here because any loss of federal funds would lead to a need for Foothills to make up that revenue directly from its customer-members.

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In support of its Application, Foothills states as follows:

1. Pursuant to 807 KAR 5:001, Section 14(1): (i) the full name of the applicant is Foothills Rural Telephone Cooperative Corporation, Inc.; (ii) the mailing address of the applicant is 1621 Kentucky Route 40 West / P.O. Box 240, Staffordsville, KY 41256-0240.; and (iii) the electronic mailing address of the applicant is RuthC@Foothills.coop.

2. Pursuant to 807 KAR 5:001, Section 14(2), Foothills states that it is currently in good standing in the Commonwealth of Kentucky, where it is incorporated. A certified copy of Foothills' Articles of Incorporation and all amendments thereto is on file with the Commission in Case No. 2013-00193 (Exhibit 2 to Application).

3. Pursuant to 807 KAR 5:001, Section 16(1)(b)(1), Foothills provides the following statement of the reason the adjustment is requested. Further details are provided in Exhibit 1 of this Application.

a. Foothills was established in 1950 as a not-for-profit, member-owned cooperative to provide local telephone service to business and individual members within the exchanges of Blaine, Chapman, Fallsburg, Flat Gap, Royalton, Salyersville, and Staffordsville ("Service Territory"). Foothills is a rural incumbent local exchange carrier serving parts of Lawrence and Johnson counties and all of Magoffin county in eastern Kentucky. At year-end 2016, Foothills provided 11,114 residential lines and 1,777 business lines to its members. Foothills is an eligible telecommunications carrier ("ETC") in the communities it serves. It is also the carrier of last resort ("COLR") in its Service Territory. The Universal Service Administrative Company

reported that Foothills would receive \$2,607,189 from the Universal Service Fund, including High Cost Loop Support (“HCLS”), to support its COLR responsibilities in its Service Territory for 2016 and \$2.9M in calendar year 2017.

b. This proceeding was motivated by an order of the FCC that implemented “a rule to limit high-cost support where end-user rates do not meet a specified local rate floor.” *See* ICC/USF Order at ¶ 235.

c. Under the rule, local exchange carriers such as Foothills must meet a specified rate floor in each year in order to be eligible to receive the maximum possible amount of HCLS funding from the FCC. Failure to meet the rate floor by the deadline will result in a reduction in HCLS funding that the carrier could have otherwise received for that year. ICC/USF Order at ¶¶ 133, 238-40. Therefore, Foothills requires an adjustment of its rates to comply with the 2014 Rate Floor Order, thereby maintaining eligibility for the fiscal year 2016 maximum amount of HCLS funding.

4. The requirements of 807 KAR 5:001, Section 16(1)(b)(2), are inapplicable because Foothills does not operate under an assumed name pursuant to KRS 365.015.

5. Pursuant to 807 KAR 5:001, Section 16(1)(b)(3), Foothills has attached its proposed tariff, in such form as is required by 807 KAR 5:011, as part of Exhibit 2. The proposed effective date of the proposed tariff is May 31, 2017, at least 30 days from the date the Application is filed.

6. Pursuant to 807 KAR 5:001, Section 16(1)(b)(4), Foothills has attached as part of Exhibit 2 its present tariff using italicizing, underscoring, and strikethroughs to show proposed revisions.

7. Pursuant to 807 KAR 5:001, Section 16(1)(b)(5), Foothills states that notice has been given in compliance with 807 KAR 5:001, Section 17, as described below:

a. Pursuant 807 KAR 5:001, Section 17(1), Foothills has posted at its place of business a copy of the Public Notice and will, within five days of the filing of the Application, post on its website a copy of the Public Notice and a hyperlink to the location on the Commission's website where the case documents are available. A copy of the Public Notice is attached hereto as part of Exhibit 3.

b. Pursuant to 807 KAR 5:001, Section 17(2), Foothills, which has more than twenty (20) customers and is not a sewage utility, has provided notice to its customers by including the notice with customer bills mailed no later than the date the Application is submitted to the Commission. A copy of the notice sent to customers is attached hereto as part of Exhibit 3.

c. Pursuant to 807 KAR 5:001, Section 17(3), an affidavit verifying Foothills' provision of the required notice to its customers is attached hereto as part of Exhibit 3.

d. Pursuant to 807 KAR 5:001, Section 17(4), Foothills states that the Public Notice attached to this Application as Exhibit 3 complies with all "Notice Content" requirements prescribed by regulation because it contains all of the following elements:

- i. The proposed effective date and the date the proposed rates are expected to be filed with the Commission;
- ii. The present rates and proposed rates for each customer classification to which the proposed rates will apply;

- iii. The amount of the change requested in both dollar amounts and percentage change for each customer classification to which the proposed rates will apply;
- iv. The effect upon the average bill for each customer classification for the proposed rate change in basic local service;
- v. A statement that a person may examine this Application at Foothills' offices;
- vi. A statement that a person may examine this Application at the Commission's offices located at 211 Sower Boulevard, Frankfort, Kentucky, Monday through Friday, 8:00 a.m. to 4:30 p.m., or through the Commission's Web site at <http://psc.ky.gov>;
- vii. A statement that comments regarding the Application may be submitted to the Commission through its Web site or by mail to Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602;
- viii. A statement that the rates contained in this notice are the rates proposed by Foothills but that the Commission may order rates to be charged that differ from the proposed rates contained in the notice;
- ix. A statement that a person may submit a timely written request for intervention to the Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602, establishing the grounds for the request including the status and interest of the party; and

x. A statement that if the Commission does not receive a written request for intervention within thirty (30) days of initial publication or mailing of the notice, the Commission may take final action on the Application.

8. The requirements of 807 KAR 5:001, Section 16(1)(b)(6), are inapplicable because Foothills is not a water district.

9. Pursuant to 807 KAR 5:001, Section 16(2), Foothills states that it notified the Commission in writing of its intent to file the Application on March 3, 2017, at least thirty (30) days but not more than sixty (60) days prior to filing the Application. A copy of the notice of intent is included in Exhibit 4 of this Application. Pursuant to 807 KAR 5:001, Section 16(2)(a), the notice of intent stated that the Application will be supported by a historical test period. Pursuant to 807 KAR 5:001, Section 16(2)(c), Foothills sent by electronic mail a .pdf copy of the notice of intent to the Attorney General's Office of Rate Intervention (rateintervention@ag.ky.gov) upon filing it with the Commission. A copy of that email, including the attached notice of intent, is included as part of Exhibit 4 of this Application.

10. The provisions of 807 KAR 5:001, Section 16(3), are inapplicable because Foothills is not an electric utility.

11. Pursuant to 807 KAR 5:001, Section 16(4)(a), a narrative summary of the particular circumstances that justify and support Foothills' Application, including a statement of the reason the adjustment is required, is attached hereto as Exhibit 1 and is incorporated herein by reference. Exhibit 1 is filed subject to a Petition for Confidential Treatment pursuant to 807 KAR 5:001, Section 13, filed contemporaneously with this Application.

12. As more fully explained in Foothills' Motion for Waiver of Certain Rate Application Requirements ("Motion for Waiver") filed contemporaneously with this Application, Foothills seeks waiver of 807 KAR 5:001, Section 16(4)(b), requiring the applicant's witnesses' prepared testimony.

13. The requirements of 807 KAR 5:001, Section 16(4)(c) are inapplicable because Foothills has gross annual revenues in excess of \$5,000,000.00.

14. Pursuant to 807 KAR 5:001, Section 16(4)(d), Foothills estimates that the total amount of revenue increase resulting from the proposed rate adjustment will be approximately \$13,486.

15. The requirements of 807 KAR 5:001, Section 16(4)(e), are inapplicable because Foothills is not an electric, gas, sewage, or water utility.

16. Pursuant to 807 KAR 5:001, Section 16(4)(f), Foothills states that the proposed rate adjustment will increase the average affected customer bill by \$2.00. Additional details regarding the anticipated impact on affected customers are set forth in Exhibit 1.

17. Pursuant to 807 KAR 5:001, Section 16(4)(g), Foothills states that its proposed rate increase will affect its Residential customer class. Foothills' analysis of customers' bills and the corresponding revenue impact are provided in Foothills' responses to the requirements of Section 16(4)(d) and 16(4)(f) in paragraphs 14 and 16 above.

18. Pursuant to 807 KAR 5:001, Section 16(4)(h), Foothills states that parts A and B of its 2016 RUS operating report, the most recently available to Foothills, containing its TIER calculation, which assesses Foothills' actual revenue position compared to its required operating revenues, are attached as Exhibit 5. To the extent the Commission believes this section imposes

additional requirements relevant to this Application, Foothills respectfully seeks waiver of those requirements for the reasons set forth in its accompanying Motion for Waiver.

19. As more fully explained in Foothills' Motion for Waiver, Foothills seeks waiver of 807 KAR 5:001, Section 16(4)(i), requiring a reconciliation of the rate base and capital used to determine revenue requirements.

20. Pursuant to 807 KAR 5:001, Section 16(4)(j), Foothills states that its current chart of accounts was provided in Case 2014-00328 (Exhibit 6 to the Application) and is unchanged.

21. Pursuant to 807 KAR 5:001, Section 16(4)(k), Foothills has attached its independent auditor's annual opinion report hereto as Exhibit 6. The other requirements of this section are inapplicable because Foothills' independent auditor has not indicated "the existence of a material weakness in [Foothills]'s internal controls."

22. The requirements in 807 KAR 5:001, Section 16(4)(l), are inapplicable because Foothills has not been audited by the FCC.

23. Pursuant to 807 KAR 5:001, Section 16(4)(m), Foothills states that its most recent PSC Form T is on file with the Commission.

24. Pursuant to 807 KAR 5:001, Section 16(4)(n), Foothills County states a schedule identifying current depreciation rates used by major plant accounts was provided in Case 2014-00328 and is unchanged. To the extent the Commission believes this section requires more information than Foothills has provided, Foothills seeks waiver of 807 KAR 5:001, Section 16(4)(n) for the reasons set for in its Motion for Waiver.

25. Pursuant to 807 KAR 5:001, Section 16(4)(o), requiring a schedule of detailed information regarding all software, programs, and models used to prepare the Application,

Foothills states that it utilized no specialized software, program, or models, and relied on Microsoft Word and Microsoft Excel to prepare the Application and supporting exhibits.

26. The requirements of 807 KAR 5:001, Section 16(4)(p), are inapplicable because Foothills has never made a stock or bond offering.

27. As more fully explained in Foothills' Motion for Waiver, Foothills seeks waiver of 807 KAR 5:001, Section 16(4)(q), requiring the annual report to shareholders or members with statistical supplements. Foothills does not prepare such documents and instead presents its financial results to its members at its annual meeting. To the extent the Commission believes this section imposes additional requirements relevant to this Application, Foothills respectfully seeks waiver of those requirements for the reasons set forth in its accompanying Motion for Waiver.

28. As more fully explained in Foothills' Motion for Waiver, Foothills seeks waiver of 807 KAR 5:001, Section 16(4)(r), requiring monthly managerial reports.

29. The requirements of 807 KAR 5:001, Section 16(4)(s), are inapplicable because Foothills is not required to file the U.S. Securities and Exchange Commission's Form 10-K, Form 8-K, or Form 10-Q.

30. The requirements of 807 KAR 5:001, Section 16(4)(t), are inapplicable because Foothills has not had any amounts charged or allocated to it by an affiliate or general or home office, and has not paid any monies to an affiliate or a general or home office during the test period or during the previous three (3) calendar years.

31. The requirements of 807 KAR 5:001, Section 16(4)(u), are inapplicable because Foothills is not an electric, gas, sewage, or water utility.

32. The requirements of 807 KAR 5:001, Section 16(4)(v), are inapplicable because Foothills has fewer than 50,000 access lines.

33. The requirements of 807 KAR 5:001, Section 16(5), are inapplicable because Foothills' Application does not include any pro forma adjustments. To the extent the Commission believes the requirements of this section apply to this Application, Foothills respectfully seeks waiver of those requirements for the reasons set forth in its accompanying Motion for Waiver.

34. The requirements of 807 KAR 5:001, Section 16(6), are inapplicable because Foothills is not requesting a general adjustment in rates supported by a fully forecasted test period.

35. The requirements of 807 KAR 5:001, Section 16(7), are inapplicable because Foothills is not requesting a general adjustment in rates supported by a fully forecasted test period.

36. The requirements of 807 KAR 5:001, Section 16(8), are inapplicable because Foothills is not requesting a general adjustment in rates supported by a fully forecasted test period.

37. Pursuant to ¶ 3.a of the 2013 Rate Floor Order, Foothills has provided an estimate of the annual revenue to be received in 2017 from HCLS in Exhibit 1, Attachment A.

38. Pursuant to ¶ 3.b of the 2013 Rate Floor Order, Foothills has provided an estimate of the annual revenue to be lost due to adjustment of terminating access rates in the "Financial Support for Filing" section of Exhibit 1.

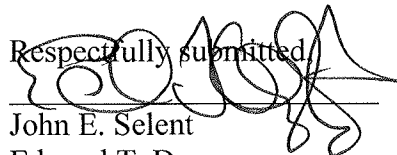
39. Pursuant to ¶ 3.c of the 2013 Rate Floor Order, Foothills has provided an estimate of the annual revenue to be generated by the tariff changes in Exhibit 1 and in response to the requirements of 807 KAR 5:001, Section 16(4)(d), in paragraph 14 above.

40. Pursuant to ¶ 3.d of the 2013 Rate Floor Order, Foothills has provided an estimate of historical line counts in Exhibit 1, Attachment B. As more fully explained in Foothills' Motion for Waiver, Foothills seeks partial waiver of ¶ 3.d of the 2013 Rate Floor Order, insofar as it requests projected line losses beyond those provided in Exhibit 1.

41. Pursuant to ¶ 3.e of the 2013 Rate Floor Order, Foothills has provided historical and projected universal service support information in the narrative response of Exhibit 1 and in Attachment A thereto. As is certified annually to the Commission, these funds are used by Foothills to provide voice and advanced data services to its customers, thereby providing its communities with access to critical communications and broadband services.

42. Pursuant to ¶ 3.f of the 2013 Rate Floor Order, Foothills states that narrative support for the proposed rate adjustment is contained in this Application and in Exhibit 1.

WHEREFORE, Foothills Rural Telephone Cooperative Corporation, Inc., respectfully requests that the Public Service Commission of the Commonwealth of Kentucky enter a final order approving Foothills' proposed revisions to the applicable tariffs and grant all other relief to which it is entitled.

Respectfully submitted,


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