Company information

The full name and address of the company is Mountain Rural Telephone Cooperative Corporation, Inc. ("Mountain"), 425 Main Street, Suite A, P.O. Box 399, West Liberty, KY 41472-0399. Mountain was established in 1950 as a member-owned cooperative to provide local telephone service to business and residential members within the exchanges of Jeptha, Hazel Green, Campton, Ezel, Sandy Hook, West Liberty and Frenchburg in eastern Kentucky ("Service Territory"). Mountain is a rural incumbent local exchange carrier serving all or parts of Elliott, Morgan, Menifee, Bath, and Wolfe Counties. At year-end 2016, Mountain provided 11,401 residential lines and 2,135 business lines to its members.

Mountain 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 Mountain would receive $4,729,362 from the Universal Service Fund, including High Cost Loop Support ("HCLS"), to support its COLR responsibilities in its Service Territory for 2016 and $3.2M in calendar year 2017.[1] As a high cost company, all HCLS revenues are crucial for Mountain to continue to meet its COLR responsibilities and to continue to bring advanced services to the communities it serves. As discussed below, Mountain's receipt of its full HCLS support requires it to meet minimum pricing levels imposed by the Federal Communications Commission ("FCC").

A schedule of the Mountain's quarterly high cost support is provided in Attachment A of this exhibit. Historic access line counts, as reported to the National Exchange Carrier Association, are provided in Attachment B.

[1] As of March 1, 2017: http://www.universalservice.org/about/tools/fcc/filings/default.aspx

Description and Reason for Filing

With this filing, Mountain proposes to increase its basic residential and business local service rates by \$2.00 each, to \$20.00 and \$23.00, respectively. This filing is made in response to the FCC's November 18, 2011 order (the "Transformation Order")[2] mandating minimum local residential service rate levels as a condition to continued receipt of certain federal universal service support.

The FCC ordered that Local Exchange Carriers would remain eligible to receive their full HCLS in a study area only if their rates for residential local exchange service are at or above the rate floor on June 1 of every year, beginning in 2012.[3] Failure to meet the rate floor results in forfeiture of the HCLS that the carrier would have otherwise received for that year.[4] The rate floors were established as follows: \$10.00, effective June 1, 2012; \$14.00, effective June 1, 2013; \$16.00, effective December 1, 2014; \$18.00 effective June 1, 2016; and \$20.00 effective June 1, 2017.[5]

Mountain has met previous rate floors by raising basic residential rates by \$3.37 in its 2013 filing,[6] \$2.00 in its 2014 filing,[7] and \$2.00 in its 2016 filing.[8] In its 2014 filing, Mountain offset its rate increase by discounting its rate for Caller ID. In its 2016 filing, Mountain

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[2] *In the Matter of Connect America Fund et al.,* Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (Nov. 18, 2011).

[3] *See* Transformation Order; *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 14-384 (March 20, 2014) (establishing 2014 Rate Floor); 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) ("Reconsideration Order") (modifying 2014 Rate Floor to allow for a phase-in of the residential rate floor).

[4] Transformation Order at ¶ 239

[5] Reconsideration Order at ¶ 80.

[6] *Application of Mountain Rural Telephone Cooperative Corporation, Inc. For a General Adjustment in Rates*, Case 2013-00194.

[7] *Application of Mountain Rural Telephone Cooperative Corporation, Inc. For a General Adjustment in Rates* Case 2014-00309.

[8] *Application of Mountain Rural Telephone Cooperative Corporation, Inc. For a General Adjustment in Rates* Case 2016-00047.

expanded the local calling area available to all of its customers to include the ten contiguous counties that surround its Service Territory.

Proposed Revisions and Customer Impact

With this filing, Mountain proposes increasing its basic residential rates by \$2.00, to \$20.00, in order to meet the 2017 rate floor. As discussed below, in order to maintain the price difference between residential and business rates, and because the expanded calling area disproportionately benefits its business subscribers, Mountain also proposes increasing its business rates by \$2.00, to \$23.00.

In order to help mitigate the effect of its rate increases, Mountain proposes to provide new value-added benefits to its subscribers by increasing the number of exchanges included as extended area service ("EAS"), similar to the expansions that accompanied its approved rate changes to meet the Rate Floor in its 2016 filing. With its proposed expansion, Mountain's standard local calling area will allow toll free completion of traffic to the nineteen (19) counties served by the 859 area code and the forty-three (43) counties served by the 606 area code. Combined, Mountain subscribers will enjoy local calling to more than half the counties in the Commonwealth.

The cost of the proposed rate increase to Mountain's subscribers will be substantially offset by the conversion of billable long distance usage to unbilled expanded area service ("EAS"). Depending on their individual calling patterns and the cost for toll services assessed by their underlying long distance provider, Mountain believes that for the majority of its customers, its proposed local rate changes may offer a cost savings through savings in long distance toll charges.[9]

Financial Impact

As a consequence of expanding its EAS calling scope, Mountain will forego two sources of revenue previously billed to interexchange carriers on routes it will convert from toll to EAS: (1) originating switched access revenues; and (2) billing and collections services. Additionally, to terminate the traffic to these exchanges, Mountain will pay a contracted interexchange carrier as its underlying service provider. Hence, the terminating charges and the lost interexchange carrier revenues are costs that Mountain expects to incur in expanding its EAS calling.

As described in Attachment C of this Exhibit, Mountain estimates that its rate increase minus the costs associated with its expanded local calling area will create a net impact of $210,738.71 per year. Even without the expanded EAS offsets, however, as shown in the financial support section of this Exhibit, the impact of the FCC's Transformation Order warrants the rate increase proposed in this filing.

Financial Support for Filing

The FCC's Transformation Order included two requirements that had an immediate impact on state revenues and local service. First, the Transformation Order imposed financial penalties on companies that fail to meet the annual residential rate floor. Second, the Transformation Order capped and reduced charges associated with state access and reciprocal compensation. Combined, these items reduced state revenues and introduced additional potential losses that put pressure on Mountain to raise its local service rates to meet the FCC's rate floor.

[9] The company estimates the average line will receive approximately 25-minutes of long distance calling under this plan. Hence, the $2 rate increase is wiped out for those customers paying 8-cents or more per minute for long distance, a realistic expectation in its rural market.

Beginning in June 2017, companies that fail to meet the 2017 rate floor will lose a dollar in HCLS funding for every dollar they are below the residential Rate Floor. Mountain is seeking to increase its local exchange rates by $2.00 to meet the rate floor and avoid a reduction in its HCLS. As shown below, raising its residential rates allows Mountain to avoid losing $273,624 per year in HCLS, which constitutes approximately 8.6% of its total anticipated Universal Service Support.

	Subscribers	**Current Rate**	**FCC Floor**	**Retained HCLS**
Residential Year-end 2016	11,401	$ 18.00	$ 20.00	$ 273,624
2017 Universal Service Support (See Attachment A)				$ 3,173,108
Universal Service Support at risk absent a rate increase				8.6%

Included in the FCC's Transformation Order is a requirement that carriers cap and reduce their reciprocal, state, and interstate inter-carrier compensation rates ("Access Cap"). The initial Access Cap was based on fiscal year 2011 revenues.[10] As mandated by the FCC, the Access Cap is reduced by 5% *each year*. As shown in the step-down of Eligible Access Recovery (as depicted in the following table), the cumulative FCC-mandated reduction in Mountain's access revenue recovery through the upcoming fiscal period ending June 2018 is [redacted].

[10] October 1, 2010 through September 30, 2011.

	Access Cap	Incremental Reduction	Cumulative Reduction	Percent Lost
FY2011 10/1-9/30	[redacted]			
7/2012 - 6/2013	[redacted]	[redacted]	[redacted]	-5%
7/2013 - 6/2014	[redacted]	[redacted]	[redacted]	-10%
7/2014 - 6/2015	[redacted]	[redacted]	[redacted]	-14%
7/2015 - 6/2016	[redacted]	[redacted]	[redacted]	-19%
7/2016 - 6/2017	[redacted]	[redacted]	[redacted]	-23%
7/2017 - 6/2018	[redacted]	[redacted]	[redacted]	-26%
Six-year Aggregate Reduction			[redacted]	

As shown here, the July, 2017 through June, 2018 tariff period revenue will be [redacted] less than the base period revenues collected in FY2011; a 26% reduction of historically available revenues. The company's *incremental* reduction in access revenues for the upcoming year alone is [redacted] of the anticipated net increase proposed in this filing.

This is the fourth rate increase filed by Mountain to meet the FCC rate floor. In its June 1, 2013 filing, Mountain forecast an increase in revenues of $465K per year. In its December 1, 2014 and June 1, 2016 filings, Mountain forecast an annual net *decrease* in revenues of $72K, and an annual net increase of $67K, respectively. This filing expands the definition of EAS, creating net revenues of $211K per year. Mountain estimates that its four filings in total will generate a net increase in local revenues of approximately $2.4M, recovering approximately [redacted] cumulative reduction in access revenues.

Summary

The FCC's Transformation Order continues to dramatically change the revenue sources that have been historically available to high cost rural telephone companies like Mountain and which have been used to meet their COLR obligation and to expand the availability of advanced broadband services to their customers. Unfortunately, for many of these affected companies, doing so requires upward pressure on local service rates. Because Mountain faces competition and is a not-for-profit, member-owned cooperative, the company would not have chosen to impose rate increases on its subscribers absent compelling pressure from the FCC. As shown in this documentation, Mountain has no realistic options except to meet the FCC's 2017 rate floor, and it is proposing reasonable measures to mitigate the effects of the rate change. For these reasons, Mountain respectfully requests that its tariff revisions be approved.

Attachments to this Exhibit:

Attachment A:	Mountain Rural Quarterly Universal Service Support 2016-2017
Attachment B:	National Exchange Carrier Association Report of Access Lines
Attachment C:	Rate Design Analysis