Company Information

The full name and address of the company is Duo County Telephone Cooperative Corporation, Inc. ("Duo County"), 2150 North Main Street, Jamestown, KY 42629. Duo County was established in 1954 as a not-for-profit, member-owned cooperative to provide local telephone service to business and residential members within the exchanges of Burkesville Rural, Fairplay, Jamestown, and Russell Springs ("Service Territory"). Duo County is a rural incumbent local exchange carrier serving all or parts of Adair, Casey, Cumberland, and Russell counties in southern Kentucky. At year-end 2016, Duo County provided 7,403 residential lines and 1,765 business lines to its members.

Duo County 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 Duo County would receive $2,120,367 from the Universal Service Fund, including High Cost Loop Support ("HCLS"), to support its COLR responsibilities in its Service Territory for 2016 and $1.95M in calendar year 2017.[1] As a high cost company, all HCLS revenues are crucial for Duo County to continue to meet its COLR responsibilities and to continue bringing advanced services to the communities it serves. As discussed below, Duo County's receipt of its full HCLS support requires it to meet minimum pricing levels imposed by the Federal Communications Commission ("FCC").

A schedule of Duo County'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. *See* http://www.universalservice.org/about/tools/fcc/filings/default.aspx.

Description and Reason for Filing

With this filing, Duo County proposes to increase its basic residential local service rates by $2.00, to $20.00 per month. 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]

Duo County has met previous rate floors by raising basic residential rates by 63 cents in its 2013 filing[6], $2.00 in its 2014 filing,[7] and $2.00 in its 2016 filing.[8] In each of its 2014 and 2016 filings, Duo County expanded the local calling area available to all of its customers, offsetting the impact of the rate increases with a greater toll free calling scope.

[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] *See In the Matter of Tariff Filing of Duo County Tele. Coop. Corp., Inc.*, Ky. P.S.C. Case No. 2013-00184.
[7] *See In the Matter of Tariff Filing of Duo County Tele. Coop. Corp., Inc.*, Ky. P.S.C. Case No. 2014-00315.
[8] *See In the Matter of Tariff Filing of Duo County Tele. Coop. Corp., Inc.*, Ky. P.S.C. Case No. 2016-00050.

Proposed Revisions and Customer Impact

With this filing, Duo County proposes increasing its basic residential rates by $2.00, to $20.00, in order to meet the 2017 rate floor. Duo County does not propose any changes to its basic business services, which are not subject to the Transformation Order and which are priced above the $20.00 residential rate floor.

Duo County anticipates that its average residential subscriber will have less than a 3% increase in monthly charges as a result of this change.[9] In order to help mitigate the effect of this adjustment, Duo County 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 2014 and 2016 filings. This expansion will allow all of Duo County's members to enjoy local (i.e., toll-free) calling to the entire state of Kentucky. The FCC's Transformation Order is intended to raise all local rates to be comparable to the national "urban average." This EAS expansion will allow Duo County to provide a correspondingly urban level of local calling.

Financial Impact

As a consequence of expanding its EAS calling scope, Duo County 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, Duo County will pay a contracted interexchange carrier as its underlying service provider. Hence, the terminating charges and the lost interexchange carrier revenues are costs that Duo County expects to incur in expanding its EAS calling.

[9] The anticipated average increase is measured against the mean average amount paid by residential customers.

Duo County proposes to extend the EAS benefit to both its business and residential subscribers. Accordingly, this filing represents a likely cost reduction for its business customers who will enjoy EAS calling on routes previously subject to toll charges. Depending on their individual calling needs and rates paid for toll charges, Duo County expects that, for many of its residential subscribers, the expanded local calling will offset the local rate increase and may actually offer savings. After its 2016 EAS expansion, for example, Duo County experienced a 35% increase in calls on its network to the expanded areas, suggesting that the company's efforts to balance the FCC's rate floor increases with the needs of its customers have been largely successful.

As described in Attachment C of this Exhibit, Duo County estimates that its residential rate increase minus the costs associated with its greatly expanded calling area will create a net impact of approximately $109,102 per year. Even without the expanded EAS offset, 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 Duo County to raise its local service rates to meet the FCC's rate floor.

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. Duo County 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 Duo County to avoid losing $170,496 per year in HCLS, which constitutes approximately 8.8% of its total anticipated Universal Service Support.

	Subscribers	Current Rate	FCC Floor	Retained HCLS
Residential year-end 2016	7,104	$ 18.00	$ 20.00	$ 170,496
2017 Universal Service Support (See Attachment A)				$ 1,945,541
Universal Service Support at risk absent a rate increase				8.8%

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 Duo County's access revenue recovery through the upcoming fiscal period ending June 2018 is [redacted].

	Access Cap	Incremental Reduction	Cumulative Reduction	Percent of Loss
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]	

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

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

This is the fourth rate increase filed by Duo County to meet the FCC residential rate floor. In its June 1, 2013 filing, Duo County forecast an increase in revenues of $59K per year. In its December 1, 2014 and June 1, 2016 filings, Duo County forecast an annual net increase in revenues of $90K, and $79K, respectively. This filing expands the definition of local calling to be state-wide, creating net revenues of $109K per year. As shown above, however, Duo County's aggregate net revenue increases resulting from its four filings remain well below the 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 Duo County 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 Duo County 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, Duo County 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, Duo County respectfully requests that its tariff revisions be approved.

Attachments to this Exhibit:

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