Company Information

The full name and address of the company is Logan Telephone Cooperative, Inc. ("Logan"), 10725 Bowling Green Road, Auburn, KY 42206. Logan was incorporated in 1954 as a not-for-profit, member-owned cooperative to provide local telephone service to business and residential members within the exchanges of Adairville, Auburn, Dunmor, Lewisburg, Logansport, and Rochester ("Service Territory"). Logan is a rural incumbent local exchange carrier serving parts of Butler, Muhlenberg, Warren, Logan, Ohio, Simpson, and Todd counties in south central Kentucky. Pursuant to its 2016 PSC Report, Logan provided 4,858 residential lines and 493 business lines to its members.

Logan is an eligible telecommunications carrier ("ETC") in the communities it serves and is also the carrier of last resort ("COLR") in its Service Territory. The Universal Service Administrative Company reported that Logan would receive $1,592,853 from the Universal Service Fund, including High Cost Loop Support ("HCLS"), to support its COLR responsibilities in its Service Territory for 2016 and $1.8M in calendar year 2017.[1] As a high cost company, all HCLS revenues are crucial for Logan to continue to meet its COLR responsibilities and to continue bringing advanced services to the communities it serves. As discussed below, Logan's receipt of its full HCLS support requires it to meet minimum pricing levels imposed by the Federal Communications Commission ("FCC").

A schedule of Logan'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, Logan 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]

This is the second filing required by Logan to meet the rate floor. In its 2016 filing[6] it raised residential rates by $2.00, but offset the increase by reducing the price of other calling features.

Proposed Revisions and Customer Impact

With this filing, Logan proposes increasing its basic residential rates by $2.00, to $20.00, in order to meet the 2017 rate floor. Logan does not propose any changes to its basic business

[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 Logan Tele. Coop. Corp.*, Ky. P.S.C. Case No. 2016-00041.

services, which are not subject to the Transformation Order and which are priced above the $20.00 residential rate floor.

In order to help mitigate the effect of this adjustment, Logan proposes to provide value-added benefits to its subscribers by increasing the number of exchanges included as extended area service ("EAS"). This proposed change would expand Logan's EAS to include all exchanges currently part of its extended area calling plans ("EAP") and to make all calling between its own exchanges part of its local calling scope.

Logan anticipates that this EAS expansion will benefit all of its customers by providing them the ability to complete calls to communities of interest without incurring a toll charge. It also represents Logan's efforts use the proposed increase in residential rates to improve the value of its telephone services to its overall membership, recognizing that some of its subscribers will see dramatic reductions in price while others will experience the impact of the full $2 increase. In estimating the impact on its subscribers, Logan could not realistically estimate toll savings its customers may also receive, so the average impact below is overstated and actual rate impact will be less. As shown below, the *average* local rate increase across all customers is 14-cents per line or less than 1% of the *average* basic local exchange bill <u>excluding</u> FCC line charges, features, KYUSF fees, or toll billing that would reduce the impact percentage even more.

Average Monthly Impact - Local rates only; ignores Long Distance cost savings		
All Customers	$	0.14
Residential Customers	$	0.60
Business Customers	$	(5.94)

Financial Impact

As a consequence of expanding its EAS calling scope, Logan will eliminate its monthly recurring rates for EAP charged to residential and business subscribers. Additionally, Logan 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. To terminate the traffic to these exchanges, Logan will pay a contracted interexchange carrier for termination to those areas in which it lacks established EAS arrangements. Hence, the terminating charges and lost interexchange carrier and EAP revenues are costs that Logan expects to incur in expanding its EAS calling.

Logan 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, Logan expects that, for many of its residential subscribers, the expanded local calling will offset the local rate increase and may actually offer savings. All EAP subscribers will see an immediate rate reduction, regardless of their calling patterns.

As described in Attachment C of this Exhibit, Logan estimates that its residential rate increase minus the costs associated with its expanded calling area will create a net *reduction* in revenues of approximately $13,022 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 Logan 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. Logan 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 Logan to avoid losing $117,120 per year in HCLS, which constitutes approximately 6.4% of its total anticipated Universal Service Support.

	Subscribers	Current Rate	FCC Floor	Retained HCLS
Residential Year-end 2016	4,880	$ 18.00	$ 20.00	$ 117,120
2017 Universal Service Support (See Attachment A)				$ 1,842,307
Universal Service Support at risk absent a rate increase				6.4%

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

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

	Access Cap	**Incremental Reduction**	**Cumulative Reduction**	**Percent 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]	

This is the second rate change filed by Logan to meet the FCC residential rate floor. In its June 1, 2016 filing,[8] Logan forecast an increase in revenues of $44K per year. This filing offsets the proposed rate increase to yield modest *decreases* in net revenues of approximately $13K per year. As shown above, Logan's aggregate net revenue increases resulting from its two 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 Logan and which have been used to meet their COLR obligations 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 Logan 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, Logan has no realistic options except to meet the FCC's 2017 rate floor, and it is

[8] *See In the Matter of Tariff Filing of Logan Tele. Coop. Corp., Inc.*, Ky. P.S.C. Case No. 2016-00041

proposing reasonable measures to mitigate the effects of the rate change. For these reasons, Logan respectfully requests that its tariff revisions be approved.

Attachments to this Exhibit:

Attachment A: Logan's Quarterly Universal Service Support 2016-2017

Attachment B: National Exchange Carrier Association Report of Access Lines

Attachment C: Rate Design Analysis