**Company Information**

The full name and address of the company is North Central Telephone Cooperative Corporation ("NCTC"), 872 Highway 52 By-Pass East, P.O. Box 70, Lafayette, TN 37083-0070. NCTC was established in 1951 as a member-owned, not-for-profit cooperative to provide local telephone service to business and residential members in the Kentucky exchange designated Scottsville Rural in Allen County[1] ("Service Territory"). At year-end 2016, NCTC provided 4,411 residential and 402 business lines in Kentucky.

NCTC 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 ("USAC") reported that NCTC would receive $4,801,794 from the Universal Service Fund, including High Cost Loop Support ("HCLS"), to support its COLR responsibilities in its Kentucky and Tennessee service territories for 2016 and $3.6M in calendar year 2017.[2] As a high cost company, all HCLS revenues are crucial for NCTC to continue to meet its COLR responsibilities and to continue bringing advanced services to the communities it serves. As discussed below, NCTC's receipt of its full HCLS support requires it to meet minimum pricing levels imposed by the Federal Communications Commission ("FCC").

A schedule of NCTC'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] The Tennessee exchanges served by NCTC are: Hillsdale, Westmoreland, Green Grove, Lafayette, Pleasant Shade, Red Boiling Springs, Defeated, Bethpage, and Oak Grove.

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

**Description and Reason for Filing**

With this filing, NCTC 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")[3] 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.[4] Failure to meet the rate floor results in forfeiture of the HCLS that the carrier would have otherwise received for that year.[5] 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.[6]

This is the third filing by NCTC to meet the FCC's rate floor. In its 2014 filing[7] and 2016 filing[8] NCTC raised residential rates by \$1.10 and \$2.00, respectively.

Although this filing is specifically for its Kentucky operating area, NCTC files its financial reports and its high cost recovery with USAC on a combined basis with its Tennessee operating area. NCTC plans to implement the same rate change in Tennessee as it does in

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[3] *In the Matter of Connect America Fund et al.*, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (Nov. 18, 2011).
[4] *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).
[5] Transformation Order at ¶ 239
[6] Reconsideration Order at ¶ 80.
[7] *See In the Matter of Tariff Filing of North Central Tele. Coop. Corp.*, Ky. P.S.C. Case No. 2014-00303.
[8] *See In the Matter of Tariff Filing of North Central Tele. Coop. Corp.*, Ky. P.S.C. Case No. 2016-00043.

Kentucky. Due to this consolidation, the financial and customer impact is shown for NCTC as a whole and not on a Kentucky-only basis.

**Proposed Revisions and Customer Impact**

With this filing, NCTC's proposes increasing its basic residential rates by \$2.00, to \$20.00, in order to meet the 2017 Rate Floor. NCTC 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. When measured in regulated monthly costs, the company anticipates that its average residential subscriber will have approximately a 6.9%. increase in monthly charges.[9]

**Financial Support for Filing**

NCTC is in the midst of a significant upgrade of its broadband network that was significantly funded by a Rural Utilities Services ("RUS") broadband loan. RUS made that loan to NCTC based, in part, on NCTC's receipt of federal support from the universal service fund and its billed access revenues. NCTC continues to rely on those funds to repay the loan. Both of these revenues streams have been altered by the FCC in its Transformation Order, putting pressure on NCTC's historic revenue sources.

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 NCTC to raise its local service rates to meet the FCC's rate floor.

[9] Calculated based on residential features and services, including FCC line charges, but excluding broadband.

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. NCTC 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 NCTC to avoid losing $370,296 per year in HCLS, which constitutes approximately 10.3% of its total anticipated Universal Service Support..

| | Subscribers | Current Rate | FCC Floor | Retained HCLS |
|---|---|---|---|---|
| Residential Lines Based on year end 2016[10] | 15,429 | $ 18.00 | $ 20.00 | $ 370,296 |
| 2017 Universal Service Support (See Attachment A ) | | | | $ 3,606,874 |
| Universal Service Support at risk absent a rate increase | | | | 10.3% |

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

| | 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] | |

[10] Includes residential lines in Tennessee.
[11] October 1, 2010 through September 30, 2011.

The July 2017 through June 2018 tariff period reduction will be [redacted] less than the base period revenues collected in FY2011 – a 26% reduction of historically available revenues. This reduction is [redacted] the rate increase proposed by NCTC.

This is the third rate change request filed by NCTC to meet the FCC residential rate floor. In its December 1, 2014 and June 1, 2016 filings, NCTC forecast an annual net increase in revenues of $124K, and $363K, respectively. This filing raises local residential service rates, creating net revenues of $370K per year. As shown above, however, NCTC's aggregate net revenue increases resulting from its three filings are [redacted] to 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 NCTC 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 NCTC 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, NCTC 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, NCTC respectfully requests that its tariff revisions be approved.

Attachments to this Exhibit:

Attachment A: NCTC Quarterly Universal Service Support 2016-2017

Attachment B: National Exchange Carrier Association Report of Access Lines