

Company Information

The full name and address of the company is West Kentucky Rural Telephone Cooperative Corporation, Inc. (“WK&T”), 237 North 8th Street, P.O. Box 649, Mayfield, KY 42066. WK&T was established in 1953 as a not-for-profit, member-owned cooperative to provide local telephone service to business and residential members within the Kentucky exchanges of Cunningham, Fairdealing, Fancy Farm, Farmington, Folsomdale, Hardin, Hazel, Kirksey, Lowes, Lynn Grove, Lynnville, New Concord, Sedalia, West Plains, and Wingo in addition to the Tennessee exchanges of Cottage Grove, Cypress, Puryear, and South Hazel (“Service Territory”). WK&T is a rural incumbent local exchange carrier serving parts of Calloway, Carlisle, Graves, McCracken, Marshall, and Hickman counties in western Kentucky.¹ At year-end 2016, WK&T provided 11,397 residential and 916 business lines in Kentucky.

WK&T 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 WK&T would receive \$4,484,196 from the Universal Service Fund, including High Cost Loop Support (“HCLS”), to support its COLR responsibilities in its Service Territory for 2016 and \$4.6M in calendar year 2017.² As a high cost company, all HCLS revenues are crucial for WK&T to continue to meet its COLR responsibilities and to continue bringing advanced services to the communities it serves. As discussed below, WK&T’s receipt of its full HCLS support requires it to meet minimum pricing levels imposed by the Federal Communications Commission (“FCC”).

¹ The company also provides services to parts of Dyer, Henry, Gibson, Obion, and Weakley counties in northwest Tennessee.

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

A schedule of WK&T's Kentucky quarterly Universal Service 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.

Description and Reason for Filing

With this filing, WK&T 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 fourth filing by WK&T to meet the rate floor. In its 2013 filing⁷ it met the rate floor by eliminating the rotary line discount for non-touchtone subscribers. In its 2014

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 West Kentucky Rural Telephone Coop. Corp., Inc.* Ky. P.S.C. Case No. 2013-00196

filing⁸ and 2016 filing⁹ WK&T raised residential rates by \$1.44 and \$2.00, respectively. In its 2016 filing, it offset the impact of its rate increase by increasing broadband speeds in most of its service tiers.

Proposed Revisions and Customer Impact

With this filing, WK&T's proposes increasing its basic residential rates to \$20.00, in order to meet the 2017 rate floor. WK&T 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. To meet the \$20 residential rate floor, WK&T proposes increasing all of its residential service rates by \$2.00. This proposed increase is approximately 7.5% of WK&T's regulated local service rates;¹⁰ however, the company anticipates that the total percentage increase will be substantially lower when additional fees, services, and features that are typically included in subscriber bills are taken into account.

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 WK&T to raise its local service rates to meet the FCC's rate floor.

⁸ See *In the Matter of Tariff Filing of West Kentucky Rural Telephone Coop. Corp., Inc.* Ky. P.S.C. Case No. 2014-00303

⁹ See *In the Matter of Tariff Filing of West Kentucky Rural Telephone Coop. Corp., Inc.* Ky. P.S.C. Case No. 2016-00043.

¹⁰ Calculation based on regulated local service rates including basic residential service and FCC line charges but excluding E911 and features.

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. WK&T 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 WK&T to avoid losing \$273,408 per year in HCLS, which constitutes approximately 6% of its total anticipated Universal Service Support.

	Subscribers	Current Rate	FCC Floor	Retained HCLS
Residential Based on year end 2016	11,392	\$ 18.00	\$ 20.00	\$ 273,408
2017 Universal Service Support (See Attachment A)				\$ 4,649,418
Universal Service Support at risk absent a rate increase				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.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 WK&T’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				

¹¹ October 1, 2010 through September 30, 2011.

This is the fourth rate change filed by WK&T to meet the FCC residential rate floor. In its June 1, 2013 filing, WK&T forecast an annual net increase in revenues of \$5300. In its December 1, 2014 and June 1, 2016 filings, WK&T forecast an annual net increase in revenues of \$197K, and \$270K, respectively. This filing raises residential rates to meet the rate floor for an annual net increase of \$273K per year. As shown above, however, WK&T's aggregate net revenue increases resulting from its four filings are [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 WK&T 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 WK&T 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, WK&T 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, WK&T respectfully requests that its tariff revisions be approved.

Attachments to this Exhibit:

Attachment A: WK&T Quarterly Universal Service Support 2016-2017

Attachment B: National Exchange Carrier Association Report of Access Lines