

Company information

The full name and address of the company is Ballard Rural Telephone Cooperative Corporation, Inc. (“Ballard”), 159 West Second Street, P.O. Box 209, La Center, KY 42056. Ballard was established in 1951 as a member-owned cooperative to provide local telephone service to business and individual members within the exchanges of Bandana, Barlow, Gage, Heath, Kevil, La Center, and Wickliffe. Ballard is a not-for-profit rural incumbent local exchange carrier serving all of Ballard County and parts of western McCracken County. Ballard provided 3,328 residential lines and 773 business lines to its members as of December, 2016.

Ballard is an eligible telecommunications carrier (“ETC”) in the communities it serves. It is also the carrier of last resort (“COLR”) in its service area. The Universal Service Administrative Company reported that Ballard would receive \$1,486,056 from the Universal Service Fund, including High Cost Loop Support (“HCLS”), to support its COLR responsibilities in its Service Territory for 2016 and \$1.4M in calendar year 2017.¹ As a high cost company, all HCLS revenues are crucial for Ballard to continue to meet its COLR responsibilities and to continue bringing advanced services to the communities it serves. As discussed below, Ballard’s receipt of its full HCLS support requires it to meet minimum pricing levels imposed by the Federal Communications Commission (“FCC”).

A schedule of Ballard’s quarterly high cost support is provided in Attachment A of this exhibit. Historic access line counts as reported 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, Ballard proposes to increase its basic residential and business 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

Ballard has met previous rate floors by raising basic residential rates by \$1.65 in its 2012 filing, \$4.00 in its 2013 filing,⁶ \$2.00 in its 2014 filing,⁷ and \$2.00 in its 2016 filing.⁸

Proposed Revisions and Customer Impact

With this filing, Ballard proposes increasing its basic residential rates by \$2.00, to \$20.00, in order to meet the 2017 rate floor. While its business rates are not subject to the rate

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 Ballard Rural Telephone Coop. Corp., Inc. For a General Adjustment in Rates*, Case 2013-00190.

⁷ *Application of Ballard Rural Telephone Coop. Corp., Inc. For a General Adjustment in Rates* Case 2014-00330.

⁸ *Application of Ballard Rural Telephone Coop. Corp., Inc. For a General Adjustment in Rates* Case 2016-00042.

floor, absent revision to its business rates, its residential subscribers would be paying more for basic local service than its business subscribers. Rather than introduce such a rate disparity, Ballard is proposing to increase its business rates in concert with its residential rates, allowing them to remain at parity with each other.

In order to help mitigate the effect of its rate increases, Ballard proposes to provide new value-added benefits to its subscribers by increasing the number of exchanges included as extended area service (“EAS”) to include all exchanges in the Owensboro LATA. With its proposed expansion, Ballard’s standard local calling area will allow toll free completion of traffic to the 130 Kentucky exchanges and 5 Tennessee exchanges that compromise its primary economic and social centers.

The cost of the proposed rate increase to Ballard’s subscribers will be substantially offset by the conversion of billable long distance usage to unbilled EAS for both residential and business customers. Depending on their individual calling patterns and the cost for toll services assessed by their underlying long distance provider, Ballard believes that for the majority of its customers, the changes proposed in the Application may offer a net cost reduction through savings in long distance toll charges, particularly to its business subscribers, who typically generate 2½ times more intraLATA calling volume than its residential subscribers.

Financial Impact

As a consequence of expanding its EAS calling scope, Ballard will forego originating switched access revenues previously billed to interexchange carriers on routes it will convert from toll to EAS. Additionally, to terminate the traffic to these exchanges, Ballard will pay a contracted interexchange carrier as its underlying service provider. Hence, the terminating

charges and the lost interexchange carrier revenues are costs that Ballard expects to incur in expanding its EAS calling.

As described in Attachment C of this Exhibit, Ballard estimates that its rate increase minus the costs associated with its expanded local calling area will create a net impact of \$54,153.21 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

Ballard is in the final year of its five (5) year plan to deploy fiber-to-the-premises throughout its Service Territory. This plan will dramatically upgrade Ballard's broadband network to increase available broadband speeds by as much as 400% and to add a standardized tier supporting 50M/5M, with additional available speeds up to a Gigabyte in each direction, as requested by Ballard's members to meet their specific broadband needs. In addition, Ballard improved its survivability through the construction of a fiber ring linking all seven (7) of its rate centers. As noted in its two Applications for a Certificate of Convenience and Public Necessity,⁹ the total cost to deploy its state of the art network is expected to be \$39M. Ballard relies on support from the Universal Service Fund and access revenues to finance these improvements; both of these revenue streams have been altered by the FCC in its Transformation Order.

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

⁹ See *In the Application of Ballard Rural Telephone Cooperative for a Certificate of Convenience and Necessity*, Ky. P.S.C. Case No. 2009-00119; *In the Application of Ballard Rural Telephone Cooperative for a Certificate of Convenience and Necessity*, Ky. P.S.C. Case No. 2013-00418.

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 Ballard 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. Ballard 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 Ballard to avoid losing \$79,872 per year in HCLS, which constitutes approximately 5.8% of its total anticipated Universal Service Support.

	Subscribers	Current Rate	FCC Floor	Retained HCLS
Residential Based on year-end 2016	3,328	\$ 18.00	\$ 20.00	\$ 79,872
2017 Universal Service Support (See Attachment A)				\$ 1,368,312
Universal Service Support at risk absent a rate increase				5.8%

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 reduction in Ballard’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				
7/2012 - 6/2013				-5%
7/2013 - 6/2014				-10%
7/2014 - 6/2015				-14%
7/2015 - 6/2016				-19%
7/2016 - 6/2017				-23%
7/2017 - 6/2018				-26%
Six-year Aggregate Reduction				

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] the anticipated net increase proposed in this filing.

This is the fifth rate increase filed by Ballard to meet the FCC rate floor. In June, 2012 Ballard anticipated an annual revenue increase of \$63K. In its June 1, 2013, December 1, 2014 and June 1, 2016 filings, Ballard forecast an annual net increase in revenues of \$195K, \$102K, and \$102K, respectively. This filing expands the definition of EAS, creating net revenues of \$54K per year.

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 Ballard 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 Ballard 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, Ballard 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, Ballard respectfully requests that its tariff revisions be approved.

Attachments to this Exhibit:

Attachment A: Ballard Quarterly Universal Service Support 2015-2016

Attachment B: National Exchange Carrier Association Report of Access Lines

Attachment C: Rate Design Analysis