



175 EAST MAIN STREET • P.O. BOX 2150 • LEXINGTON, KENTUCKY 40588-9945 • TELEPHONE: 859-255-9500 • TELECOPIER: 859-281-6478
www.jacksonkelly.com

September 10, 2010

Via Hand Delivery

Jeff Derouen
Executive Director
Public Service Commission
211 Sower Blvd.
P. O. Box 615
Frankfort, KY 40602-0615

RECEIVED

SEP 10 2010


PUBLIC SERVICE
COMMISSION

**Re: In the Matter of: Adjustment of Rates of Highland
Telephone Cooperative, Inc.
Case No. 2010-00227**

Dear Mr. Derouen:

Enclosed for filing in the above-referenced case, please find one original and ten (10) copies of Highland Telephone Cooperative, Inc.'s Supplement to Notification of Adjustment in Existing Rates. I have also enclosed two copies of the pleading which we request be date stamped and returned to the person delivering this letter.

Thank you and please call if you have any questions.

Sincerely yours,


Jeffrey J. Yost

JJY/pom

Enclosures

c: Attorney General, Office of
Rate Intervention (w/encl)
Highland Telephone Cooperative, Inc. (w/encl)

RECEIVED

SEP 10 2010

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CASE NO. 2010-00227

ADJUSTMENT OF RATES OF
HIGHLAND TELEPHONE
COOPERATIVE, INC.

SUPPLEMENT TO NOTIFICATION OF
ADJUSTMENT IN EXISTING RATES

* * * * *

In order to correct the filing deficiencies noted by the Commission Staff, Highland Telephone Cooperative, Inc. ("Highland") hereby supplements its Notification of Adjustment in Existing Rates ("Notification") that was filed on July 20, 2010. Each of the deficiencies is restated below, followed by Highland's corrective information.

1. *807 KAR 5:001: Section 10(6)(g) An analysis of customers' bills in such detail that revenues from the present and proposed rates can be readily determined for each customer class.*

Correction 1: Highland proposes to adjust its rates by increasing its basic local rate for residence service by \$5.00 per month and its basic local rate for business service by \$8.00 per month. As a result, Highland's basic local rates per month in Kentucky will increase from \$9.73 to \$14.73 for residence service and from \$15.98 to \$23.98 for business service. Highland has already implemented these increases for its Tennessee customers and is unaware of any specific losses of Tennessee customers as a result of the rate increases. (Prepared testimony of Steve Armes attached to the Notification as Exhibit "I"). Based on that experience, Highland is assuming that it will not lose any Kentucky customers as a result of the rate increases. Likewise, it does not expect the rate increases will generate any new customers. Therefore, no adjustment

was made to the number of Kentucky customers in its income statement for the historical test period as adjusted for the projected rate increases. (Exhibit “F” to the Notification). A supplemented income statement showing the adjustments to the income statement for 2009 historical test year that would result from these rate increases is attached as page 1 of Exhibit “R”. An analysis of customers’ bills in such detail that revenues from the present and proposed rates can be readily determined for each customer class is set forth in the Supplement to Adjustments to Historical Income Statement attached as page 2 of Exhibit “R”. It shows that revenues from the basic local rates of Kentucky residential customers totaled \$621,046 for the 2009 historical test year and under the proposed rates are projected to total \$940,186 per year, an increase of \$319,140, and that revenues from the basic local rates of Kentucky business customers totaled \$199,622 for the 2009 historical test year and under the proposed rates are projected to total \$24,968 per year, an increase of \$99,936.

2. 807 KAR 5:001: Section 10(7)(a) A detailed income statement and balance sheet reflecting the impact of all proposed adjustments.

Correction 2: A supplemented income statement showing the impact of all proposed adjustments to the income statement for 2009 historical test year is attached as page 1 of Exhibit “R”. An analysis of the adjustments is provided on the second page of Exhibit “R”. In addition to the increased revenues from Kentucky customers discussed in Correction 1, adjustments are made for the increased revenues projected to be received from Highland’s Tennessee customers and to eliminate a non-recurring loss on obsolete inventory.

Highland’s balance sheet as of December 31, 2009 showing the adjustments for the historical test year is attached as Exhibit “S”. The projected rate increases will increase the cash and accounts receivable among the assets and will increase patronage capital in members’ equity.

The result of writing off the obsolete inventory already appears in the 2009 balance sheet, so no adjustment is necessary for that loss.

3. ***807 KAR 5:001: Section 10(7)(e) The number of customers to be added to the test period-end level of customers and the related revenue requirements impact for all pro forma adjustments with complete details and supporting work papers.***

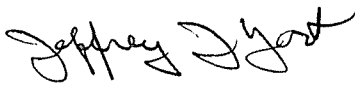
Correction 3: As noted in Correction 1 above, Highland does not anticipate that increasing its rates will cause it to add any new customers beyond the level of customers as of the end of the 2009 historical test period. Therefore, Highland does not expect to incur any additional revenue requirements as a result of its adjustment of rates.

Highland is also refileing its proposed tariff with a new proposed effective date of October 26, 2010. This is attached as Exhibit "T" and a copy of the present tariff marked to show the proposed adjustments by striking over the current rates and underscoring the proposed rates is attached as Exhibit "U". These are to replace Exhibits "A" and "B" that were filed with the Notification.

Based upon the foregoing, Highland requests that its Notification, as supplemented by this filing, be found to be complete and that the Commission enter an Order authorizing the adjustment of its existing rates for basic service and granting all other relief to which Highland may be entitled.

Respectfully submitted,

Highland Telephone Cooperative, Inc.

By:  _____

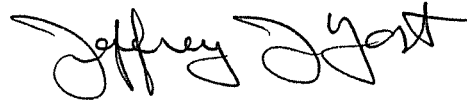
Jeffrey J. Yost
JACKSON KELLY PLLC
P. O. Box 2150
175 East Main Street, Suite 500

Lexington, Kentucky 40588-2150
(859) 255-9500
*Counsel for Highland Telephone
Cooperative, Inc.*

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing Supplement to Notification of Adjustment in Existing Rates was served by U.S. Mail, postage prepaid, on this 10th day of September, 2010, upon the following:

Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, Kentucky 40601



*Counsel for Highland Telephone
Cooperative, Inc.*

EXHIBITS

Exhibit "R" - Supplemented Historical Income Statement

Exhibit "S" - Historical Balance Sheet

Exhibit "T" - Supplemented Proposed Tariff

Exhibit "U" - Supplemented Present Tariff Showing Rate Adjustments

EXHIBIT "R"
SUPPLEMENTED HISTORICAL INCOME STATEMENT
ADJUSTED FOR RATE INCREASES
(SUBSTITUTE FOR EXHIBIT "F")

Highland Telephone Cooperative, Inc.
 Supplement to Historical Income Statement with Projected Rate Increases
 For the Year Ended December 31, 2009

	Historical 2009	Kentucky Rate Increase Residential	Business	Other Adjustments	Adjusted Amounts
Operating revenues:					
Local network services revenue	\$ 6,253,462	\$ 319,140	\$ 99,936	\$ 1,092,408	\$ 7,764,946
Network access services revenue	8,276,452				8,276,452
Miscellaneous revenues	2,706,554				2,706,554
Less uncollectible revenue	(830)				(830)
TOTAL OPERATING REVENUES	\$ 17,235,638	\$ 319,140	\$ 99,936	\$ 1,092,408	\$ 18,747,122
Operating expenses:					
Plant specific operations expense	\$ 5,366,784	\$ 0	\$ 0	\$ 0	\$ 5,366,784
Plant nonspecific operations expense	1,493,262				1,493,262
Provision for depreciation and amortization	4,919,736				4,919,736
Customer operations expense	2,003,595				2,003,595
Corporate operations expense	3,019,841				3,019,841
Operating taxes	323,599				323,599
TOTAL OPERATING EXPENSES	\$ 17,126,817	\$ 0	\$ 0	\$ 0	\$ 17,126,817
OPERATING INCOME	\$ 108,821	\$ 319,140	\$ 99,936	\$ 1,092,408	\$ 1,620,305
Other income (expense):					
Interest income	\$ 65,616	\$ 0	\$ 0	\$ 0	\$ 65,616
Nonregulated loss	(24,989)				(24,989)
Loss on obsolete inventory	(706,485)			706,485	0
Income (loss) from subsidiaries	(193,488)				(193,488)
Income from investment	49,657				49,657
TOTAL OTHER INCOME (EXPENSE)	\$ (809,689)	\$ 0	\$ 0	\$ 706,485	(\$ 103,204)
Fixed charges:					
Interest on long-term debt	\$ 451,231	\$ 0	\$ 0	\$ 0	\$ 451,231
Interest charged to construction - credit	(37,132)				(37,132)
Interest on customer deposits	642				642
TOTAL FIXED CHARGES	\$ 414,741	\$ 0	\$ 0	\$ 0	\$ 414,741
INCOME (LOSS) BEFORE TAXES ON INCOME	\$ (1,115,609)	\$ 319,140	\$ 99,936	\$ 1,798,893	\$ 1,102,360
Income tax expense (benefit)	6,325	0	0	0	6,325
NET INCOME (LOSS)	\$ (1,121,934)	\$ 319,140	\$ 99,936	\$ 1,798,893	\$ 1,096,035

Highland Telephone Cooperative, Inc.
 Supplement to Adjustments to Historical Income Statement
 For the Year Ended December 31, 2009

Rate Increase for Kentucky Customers

		2009 Actual Revenue from Basic Rates			Adjusted Revenue from Basic Rates after Adjustment			Amount of	
		Monthly Number of Annual			Monthly Number of Annual			Basic Rate	Amount of
	Lines	Rate	Months	Revenue	Lines	Rate	Months	Adjustment	Revenue
Kentucky Residential	5,319	\$9.73	12	\$621,046	5,319	\$14.73	12	\$5.00	\$319,140
Business	1,041	\$15.98	12	<u>\$199,622</u>	1,041	\$23.98	12	\$8.00	<u>\$99,936</u>
				\$820,669					\$419,076

Other Adjustment: Rate Increase for Tennessee Customers

The same rate increase has already been implemented for Tennessee customers. Highland is unaware of any Tennessee customers who have been gained or lost as a result of the rate increase. Accordingly, the actual number of Tennessee customers as of the end of 2009 is being used for calculating the adjustment to the historical income statement. the amount of this adjustment has been calculated as follows:

		Monthly Number of Annual		
	Lines	Increase	Months	Revenue
Residential Customers	12,258	\$5.00	12	\$735,480
Business Customers	3,718	\$8.00	12	<u>\$356,928</u>
				\$1,092,408

Other Adjustment: Loss on Obsolete Inventory

During 2009 it was determined that various items of inventory had become obsolete. This resulted in a one time write down of inventory in the amount of \$706,485. Since that loss was a non-recurring deduction, an equal amount has been added back to show the adjusted amount will be zero.

EXHIBIT "S"
HISTORICAL BALANCE SHEET

Highland Telephone Cooperative, Inc.
Historical Balance Sheet
For the Year Ended December 31, 2009

	Historical 2009	Kentucky Rate Increase Residential Business	Other Adjustments	Adjusted Amounts
<u>ASSETS</u>				
<u>Current Assets</u>				
Cash - general	\$4,841,021	\$ 268,566	\$ 84,099	\$6,115,323
Temporary investments	600,000		921,637	600,000
Securities available for sale	5,147,202			5,147,202
Telecommunications accounts receivable	988,260	50,574	15,837	1,225,442
Other accounts receivable	679,582		170,771	679,582
Materials and supplies	1,588,267			1,588,267
Prepayments	393,581			393,581
Due from affiliate	358,293			358,293
Refundable tax deposits	15,596			15,596
Other current assets	127,989			127,989
Total Current Assets	\$14,739,791	\$ 319,140	\$99,936	\$16,251,275
<u>Noncurrent Assets</u>				
Investment in subsidiaries	\$7,504,199	\$0	\$0	\$7,504,199
Other investments	950,489			950,489
Nonregulated investments	2,751,533			2,751,533
Deposits	2,573			2,573
Total Noncurrent Assets	\$11,208,794	\$0	\$0	\$11,208,794
<u>Property, Plant and Equipment</u>				
Telecommunications plant in service	\$99,009,166	\$0	\$0	\$99,009,166
Telecommunications plant under construction	1,564,392			1,564,392
	\$100,573,558	\$0	\$0	\$100,573,558
Less accumulated depreciation	67,401,939	0	0	67,401,939
Total Property, Plant and Equipment	\$33,171,619	\$0	\$0	\$33,171,619
	\$59,120,204	\$319,140	\$99,936	\$60,631,688

Highland Telephone Cooperative, Inc.
Historical Balance Sheet
For the Year Ended December 31, 2009

	Historical 2009	Kentucky Rate Increase Residential Business	Other Adjustments	Adjusted Amounts
<u>LIABILITIES AND MEMBERS' EQUITY</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable	\$775,276	\$0	\$0	\$775,276
Advance billings and payments	730,463			730,463
Customer deposits	1,699			1,699
Current maturities on long-term debt	1,864,295			1,864,295
Accrued taxes	521,190			521,190
Accrued interest	23,946			23,946
Accrued rent	571,107			571,107
Advance from parent company	0			0
Accrued salaries and wages	156,825			156,825
Accrued compensated absences	1,240,384			1,240,384
Accrued federal and state income taxes	0			0
Other current liabilities	279,607			279,607
TOTAL CURRENT LIABILITIES	\$6,164,792	\$0	\$0	\$6,164,792
<u>LONG-TERM DEBT</u>				
Rural Utilities Service	6,252,539	0	0	6,252,539
<u>OTHER LIABILITIES</u>				
Postretirement benefits other than pension	3,995,335	0	0	3,995,335
Deferred taxes	0	0	0	0
TOTAL LIABILITIES	\$16,412,666	\$0	\$0	\$16,412,666
<u>MEMBERS' EQUITY</u>				
Memberships	\$262,442	\$0	\$0	\$262,442
Patronage capital	43,537,490	319,140	1,092,408	45,048,974
Accumulated other comprehensive loss	(1,092,394)			(1,092,394)
Capital stock	0			0
Paid-in capital	0			0
Retained earnings	0			0
TOTAL MEMBERS' EQUITY	\$42,707,538	\$319,140	\$1,092,408	\$44,219,022
	\$59,120,204	\$319,140	\$1,092,408	\$60,631,688

EXHIBIT "T"
SUPPLEMENTED PROPOSED TARIFF
(SUBSTITUTE FOR EXHIBIT "A")

GENERAL SUBSCRIBER SERVICES TARIFF

Highland Telephone Cooperative
Incorporated

PSC 2
Section C
Third Revised Sheet 2
Replaces Second Revised
Sheet 2

C.1 Local Exchange Service Rates

C.1.1 Definitions

C.1.1.1 Network Access Charge - The recurring monthly charge for residential or business service that accounts for network services through the protector. This covers the Company's cost for bringing the entire national network to the local premise.

C.1.2 Monthly exchange service rates as authorized by the Kentucky Public Service Commission.

1. Monthly exchange rates for:
Pine Knot
Stearns-Whitley City

ONE-PARTY SERVICE RATE COMPONENTS	RESIDENCE	BUSINESS
Network Access Charge	\$14.73	\$23.98

2. The rates specified herein, entitle subscribers to an unlimited number to messages to all parties as identified in the Toll free Calling Areas identified below:

EXCHANGE	TOLL FREE CALLING AREAS
Pine Knot	Stearns-Whitley City Oneida, Tennessee
Stearns/Whitley City	Pine Knot Oneida, Tennessee

C.2 Maps

Maps which indicate and define the exchange and base rate area limits of the respective exchanges are filed with the Kentucky Public Service Commission as part of the Certificate of Public Convenience and Necessity granted by the Kentucky Public Service Commission, and are also filed in Section Y of this tariff.

Issued: September , 2010

Effective: October 26, 2010

BY _____
GENERAL MANAGER

EXHIBIT “U”
SUPPLEMENTED PRESENT TARIFF
SHOWING RATE ADJUSTMENTS
(SUBSTITUTE FOR EXHIBIT “B”)

GENERAL SUBSCRIBER SERVICES TARIFF

Highland Telephone Cooperative
Incorporated

PSC 2
Section C
~~Second Revised Sheet 2~~
~~Third Revised Sheet 2~~
Replaces Second Revised
Sheet 2

C.1 Local Exchange Service Rates

C.1.1 Definitions

C.1.1.1 Network Access Charge - The recurring monthly charge for residential or business service that accounts for network services through the protector. This covers the Company's cost for bringing the entire national network to the local premise.

C.1.2 Monthly exchange service rates as authorized by the Kentucky Public Service Commission.

- 1. Monthly exchange rates for:
Pine Knot
Stearns-Whitley City

ONE-PARTY SERVICE RATE COMPONENTS	RESIDENCE	BUSINESS	
Network Access Charge	\$9.73 <u>\$14.73</u>	\$15.98 <u>\$23.98</u>	(l)

- 2. The rates specified herein, entitle subscribers to an unlimited number to messages to all parties as identified in the Toll free Calling Areas identified below:

EXCHANGE	TOLL FREE CALLING AREAS
Pine Knot	Stearns-Whitley City Oneida, Tennessee
Stearns/Whitley City	Pine Knot Oneida, Tennessee

C.2 Maps

Maps which indicate and define the exchange and base rate area limits of the respective exchanges are filed with the Kentucky Public Service Commission as part of the Certificate of Public Convenience and Necessity granted by the Kentucky Public Service Commission, and are also filed in Section Y of this tariff.

Issued: ~~January 1, 1987~~
September , 2010

Effective: ~~June 20, 1987~~
October 26, 2010

BY _____
GENERAL MANAGER