

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTH CENTRAL TELEPHONE) CASE NO.
COOPERATIVE CORPORATION FOR A GENERAL) 2014-00303
ADJUSTMENT IN RATES)

ORDER

North Central Telephone Cooperative Corporation (“North Central”) submitted an Application with the Commission for a general adjustment of its rate for basic local exchange service that was deemed filed on October 30, 2014. North Central informed the Commission of its intent to place its proposed rates into effect on and after November 30, 2014, in order to meet the rate floor mandated in 47 C.F.R. § 54.318.

North Central filed its proposed increased rates to comply with the 2011 directive of the Federal Communications Commission (“FCC”) that, *inter alia*, comprehensively reformed intercarrier compensation.¹ In addition to establishing a glide path to reduce access charges to zero, the FCC’s ICC/USF Order also established a rate floor for local exchange rates.² The FCC required that Local Exchange Carriers, such as North Central, be eligible to receive high-cost support in a study area only if their rates for local exchange service are at or above the rate floor on June 1 of every subsequent year. Failure to meet the rate floor will result in forfeiture of the high-cost support that

¹ See, *In the Matter of Connect America Fund et. al., Report and Order and Further Notice of Proposed Rulemaking*, FCC 11-161 (November 18, 2011) (“FCC’s ICC/USF Order”).

² *Id.* para. 238.

the carrier would have otherwise received for that year.³ On March 20, 2014, the FCC released the results of its urban rate floor survey that established the 2014 rate floor of \$20.46 and also sought comment on a petition to extend the deadline for compliance with the 2014 rate floor.⁴ On June 10, 2014, the FCC issued an order on reconsideration that modified the schedule for imposition of rate floor penalties and allowed for a phase-in of the residential floor.⁵ The revised schedule allowed for a four-year period to meet the rate floor of \$20.46.⁶ The first phase of the modified schedule required that the residential rates of companies be no lower than \$16.00 beginning December 1, 2014.

The Commission is cognizant that North Central's ability to receive High Cost Loop Support ("HCLS") will be jeopardized if its rate for basic local exchange service is not at or above the \$16.00 rate floor mandated in the FCC's ICC/USF Order. The loss of HCLS would necessitate even larger rate increases in the future to offset loss of federal funding.

North Central is a rural incumbent local exchange carrier serving individuals and businesses within part of Allen County in Kentucky and nine exchanges in Tennessee ("Service Territory"). North Central was established in 1951 as a member-owned cooperative to provide local telephone service to business and individual customers

³ *Id.* para. 239.

⁴ *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 14-84, Released March 20, 2014.

⁵ 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) ("FCC's Modified Rate Floor Order").

⁶ *Id.* para. 80.

approximately 4,228 residential lines and 397 business lines in Kentucky and 10,886 residential and 2,012 business lines in Tennessee. North Central is an eligible telecommunications carrier in the communities it serves and is also the carrier of last resort (“COLR”) in its Service Territory. In 2013, North Central received approximately \$4,582,296 from HCLS to support its COLR responsibilities in its Service Territory and anticipates receiving \$4.5 million in 2014.

North Central has not had a general rate increase since 2007 and did so at that time because it was not meeting its Times Interest Earned Ratio (“TIER”) for its mortgage requirements.⁷ North Central states that it is continuing to have problems meeting its TIER requirements. North Central has provided ample notice to its members. Because North Central’s current rate is below the December 1, 2014 rate floor established by the FCC, North Central proposes to increase its rate in order to avoid a loss of HCLS. Based on its current access line count, failure to meet the FCC’s \$16.00 rate floor would deprive North Central of approximately \$362,736 in HCLS to which the company would otherwise be entitled. To meet the \$16.00 residential rate floor established by the FCC, North Central proposes to increase its residential services rate by \$1.10, or 7 percent, which will produce an annual increase in revenue of approximately \$362,736. North Central anticipates the average residential subscriber will experience a 1.1 percent increase in monthly charges. North Central is proposing

⁷ Case No. 2007-00162, *Application of North Central Telephone Cooperative Corporation to Adjust rates and Charges for Basic Local Exchange Service* (Ky. PSC Oct. 11, 2007).

changes to its residential rate on a company-wide basis, for both Kentucky and Tennessee customers.⁸

Additionally, as part of the FCC's ICC/USF Order, the FCC established that the intercarrier compensation collected in 2011 fiscal year, from October 1, 2010, to September 30, 2011, was the maximum amount of allowed revenues from intercarrier compensation. In addition, the FCC's ICC/USF Order established a phase-down schedule of those maximum amounts allowed, requiring that the maximum intercarrier compensation amount be reduced by 5 percent for the 2012 fiscal year, 4.75 percent for the 2013 fiscal year, and 4.5 percent for the 2014 fiscal year. With this change, North Central cannot collect more than the maximum intercarrier compensation revenue amount established by the FCC. The reduction in intercarrier compensation has grown larger each fiscal year,⁹ and when this reduction in revenue is combined with the increase in revenue from the proposed rate increase, North Central's revenue will be lower than its level prior to the FCC ICC/USF Order.

The Commission also notes that the telecommunications market has gone through and continues to go through major changes. The General Assembly has enacted significant changes to the authority of the Commission in light of competitive choices and options available to consumers.¹⁰ For example, the Commission has jurisdiction only over basic service rates of telecommunication companies, which

⁸ As a Cooperative organization in Tennessee, North Central is not subject to regulation by the state of Tennessee and thus does not have to seek approval of changes to its rates and charges in Tennessee.

⁹ Application of North Central Telephone Cooperative Corp., Confidential Exhibit 1, filed October 30, 2014.

¹⁰ KRS 278.541–544.

includes only a single business or residential service line.¹¹ All other retail rates of the telecommunication's companies are not subject to the Commission's rate regulation. The Commission also notes that in the case of North Central, it is a cooperative organization subject to the board of directors of the cooperative and its member owners.

The Commission finds that, based on the foregoing information submitted by North Central, the rate increase should be granted. North Central has demonstrated that the proposed rate increase is necessitated by the FCC's ICC/USF Order and is reasonable.

IT IS THEREFORE ORDERED that:

1. North Central's proposed increases in basic local exchange residential service rate, as set forth in the tariffs attached to its application deemed filed on October 30, 2014, are approved.

2. Within 20 days of the date of this Order, North Central shall file, using the Commission's electronic Tariff Filing System, its revised tariff sheets containing the rates approved herein and signed by an officer of the utility authorized to issue tariffs. The tariff sheets shall reflect that they were approved pursuant to this Order and shall contain an effective date of November 30, 2014.

3. Any future increases to basic local exchange rates necessitated by the FCC's ICC/USF Order shall be filed as an application in compliance with Commission regulations.

¹¹ KRS 278.541(1).

By the Commission

ENTERED
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KENTUCKY PUBLIC
SERVICE COMMISSION

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