

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|---------------------------------------|---|------------|
| APPLICATION OF THACKER-GRIGSBY |) | |
| TELEPHONE COMPANY FOR A CERTIFICATE |) | CASE NO. |
| OF CONVENIENCE AND NECESSITY FOR THE |) | 2014-00397 |
| CONSTRUCTION OF FIBER OPTIC CABLE AND |) | |
| NEXT GENERATION SOFT SWITCH |) | |

ORDER

On December 8, 2014, Thacker-Grigsby Telephone Company ("Thacker-Grigsby") filed an application seeking a Certificate of Public Convenience and Necessity to construct and upgrade telecommunications facilities within its certified operating territory.¹ The proposed construction consists of the deployment of a fiber-to-the-premises ("FTTP") network using a gigabit passive optical network architecture in the Topmost exchange and in portions of the Hindman exchange. In addition, Thacker-Grigsby plans to deploy a next-generation softswitch to replace and upgrade an existing digital switch.

Thacker-Grigsby is a rural incumbent local exchange carrier serving 4,625 residential and 1,154 business lines in and around Knott County, Kentucky. Thacker-Grigsby was established in 1956 as a corporation to provide local telephone service to business and individual customers within the exchanges of Hindman, Mousie, Topmost, Cody, Pippa Passes, and Fisty, Kentucky.

¹ The application was received by the Commission on November 14, 2014, but deemed deficient for failing to meet minimum filing requirements. The application was supplemented and subsequently accepted as filed on December 8, 2014.

Description of Proposed Construction

Thacker-Grigsby states that the purpose of the new construction is to continue expanding availability of advanced telecommunications services in and around Knott County, Kentucky, through an FTTP network that will upgrade and replace aging copper facilities that are unable to support high-speed broadband services throughout its service territory.² Thacker-Grigsby currently provides voice and broadband data services over the existing copper facilities via digital loop carrier design and digital subscriber line ("DSL") technology. The bandwidth and distance limitations of DSL prevent Thacker-Grigsby from offering high-speed broadband services to all subscribers.

Thacker-Grigsby submitted the loan design for a five-year construction period in support of its application for financing of the project in the amount of \$9,595,000³ to the Rural Utilities Service ("RUS"). By letter dated September 17, 2014, RUS approved the project, designated as Kentucky - L42 Hindman, and awaits authorization for the financing through a 19-year cost-of-money note to be completed upon receiving approval for the construction from this Commission.⁴ Thacker-Grigsby states that it will not require a rate-adjustment to meet its obligation to service this debt.

² The instant application is a continuation of an FTTP project ultimately planned to extend throughout Thacker-Grigsby's system as previously approved in Case No. 2008-00106, *The Application of Thacker-Grigsby Telephone Company, Inc. for a Certificate of Public Convenience and Necessity for the Construction of Fiber Optic Cable* (Ky. PSC May 2, 2008).

³ The costs of the project are estimated at:

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|-------------------------------------|--------------------|
| Outside Plant | \$6,295,357 |
| Central Office/Electronic Equipment | \$2,040,621 |
| Engineering | <u>\$1,259,071</u> |
| TOTAL | \$9,595,049 |

⁴ Pursuant to KRS 278.300(10), indebtedness incurred that is subject to the supervision or control of the federal government or any agency thereof is exempt from approval of the Commission.

As part of the proposed construction, Thacker-Grigsby will install approximately 115 route miles and 75 drop miles of predominantly aerial fiber optic cable and associated outside plant along with necessary central office and access equipment to serve all subscribers in the Topmost exchange and a portion of the Hindman exchange. In addition, Thacker-Grigsby intends to install a next-generation softswitch platform in the Cody central office that will permit Thacker-Grigsby to take advantage of packet-switching technology and limit costs associated with the existing digital switching equipment. The project is anticipated to occur over a three-year period beginning with the Topmost exchange in 2015, while allowing for the fourth and fifth year of the loan-design period to accommodate contingency issues and construction delays.

In support of its application, Thacker-Grigsby provided evidence of the steady decline in access lines that most incumbent local exchange carriers are experiencing. Thacker-Grigsby states that residential access lines have decreased from 6,861 in 2003 to 4,625 in 2013 (a loss of 32.6 percent), primarily due to the adoption of DSL services that eliminate the need for secondary phone lines and to the expansion of wireless services supplanting land-line phones for many customers. Thacker-Grigsby explains that the investment in advanced telecommunications infrastructure that supports ever-increasing broadband speeds and enhanced services will meet customer demands for such services and is essential for economic development. Thacker-Grigsby asserts that its service area consists of very rural portions of Knott County classified as "distressed" by the Appalachian Regional Commission and that deployment of advanced telecommunications services will allow it to retain existing customers and attract new customers.

Discussion and Findings

It appears that the proposed construction will result in a significant expansion of the services available to subscribers and will enhance Thacker-Grigsby's ability to maintain its facilities and provide service to customers. However, the planned construction is extensive, with substantial costs, and is designed primarily for Thacker-Grigsby to support services that may be beyond the jurisdiction of the Commission.⁵ The Commission recognizes that the General Assembly has found that the provision of broadband and other state-of-the-art telecommunications technologies are an "essential element to the Commonwealth's initiative to improve the lives of Kentucky citizens...."⁶ Nevertheless, the Commission remains obligated to ensure that Thacker-Grigsby's ability to offer safe, adequate, and reasonable basic local exchange service is not adversely affected.⁷ Thacker-Grigsby should carefully account for the costs associated with the construction of these facilities and properly allocate those costs to jurisdictional and non-jurisdictional services, respectively.⁸

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that Thacker-Grigsby should be authorized to proceed with the proposed construction as set forth in its application and described herein.

⁵ KRS 278.5462 provides, in part, that the provision of broadband services is not subject to Commission regulation. However, the Commission retains authority to investigate and resolve complaints stemming from broadband service and has the authority to arbitrate and enforce interconnection agreements. Interconnection agreements may include provisions related to remote terminals and central office facilities that may incorporate broadband services.

⁶ KRS 278.546(1).

⁷ KRS 278.542(1)(n).

⁸ The Commission retains the authority to review the reasonableness of such accounting procedures when considering adjustments of rates for basic local exchange service.

IT IS THEREFORE ORDERED that:

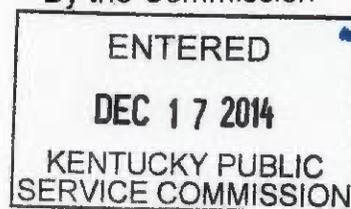
1. Thacker-Grigsby is granted a Certificate of Public Convenience and Necessity to construct new facilities as set forth in its application and as described in this order.

2. Should the costs of the construction authorized herein exceed by more than 10 percent the estimated costs contained in the application, Thacker-Grigsby shall immediately notify the Commission in writing of the adjustment and include an explanation of the additional costs for the Commission's approval.

3. As provided for in this Order, Thacker-Grigsby shall maintain records that clearly and sufficiently document the proper allocation of costs for jurisdictional and non-jurisdictional services provided as a result of this construction project.

4. Any documents filed pursuant to ordering paragraph 2 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

By the Commission



ATTEST:


Executive Director

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