INLAND TELEPHONE COMPANY
Corporate Offices

_103 S. 2nd St._
P.O. Box 171
Roslyn, WA 98941

INLAND TELEPHONE

Telephone: (509) 649-2211
Fax: (509) 649-3300

August 11, 2017

Via electronic filing

Mr. Steven V. King, Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 South Evergreen Park Drive SW
Olympia, WA 98504-7250
(360) 664-1160

Re: **DOCKET UT-170829**
UNIVERSAL SERVICE COMMUNICATIONS PROGRAM – Petition for eligibility of Inland Telephone Company to receive support

Dear Mr. King:

Pursuant to Commission Staff review, Inland Telephone Company ("Company") hereby submits to the Washington Utilities and Transportation Commission the attached revised Exhibits 2 and 3 to its petition in Docket UT-170829, for eligibility to receive program support from the State Universal Service Communications Program. The Company believes that these revisions were necessary in order to clarify and support its petition.

If you should have any questions or need further information, please call me at (509) 649-2211.

Sincerely,

James K. Brooks
Treasurer/Controller

Attachments

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UT-170829
PETITION OF INLAND TELEPHONE COMPANY
TO RECEIVE SUPPORT FROM THE STATE UNIVERSAL COMMUNICATIONS SERVICES PROGRAM
- REVISED EXHIBITS

INLAND TELEPHONE COMPANY - SAC 522423
DUE AUGUST 1, 2017 (REVISIONS)

EXHIBIT 2

AFFILIATED TRANSACTIONS

INLAND TELEPHONE COMPANY - SAC 522423

EXHIBIT 2

AFFILIATED TRANSACTIONS

Other than the purchase of tariffed services at tariffed rates, Inland Telephone Company reports the following affiliate transactions for the year ended December 31, 2016:

Shareholders – There are shareholders holding five percent or more of the stock, directly or indirectly, of the Company who are also employees of the Company and receive from the Company employment compensation together with employment associated benefits in accordance with the benefits plan that governs all employees.

Related Party Transactions:

R & R Cable Company – R & R Cable Company paid to ITC for contracted services for managing R & R Cable Company Internet service via cable modem outside of the ITC service area.

Inland Cellular (no longer an affiliate as of April 1, 2016) – Inland Cellular, LLC paid to ITC for Special Access circuits, contract labor for cell site maintenance and for rental space.

EXHIBIT 3

DEMONSTRATION OF RISK

INLAND TELEPHONE COMPANY - SAC 522423

EXHIBIT 3

DEMONSTRATION OF RISK OF RATE INSTABILITY OR SERVICE INTERRUPTION OR CESSATION

The operating environment in which the Company finds itself has created a climate of great financial uncertainty. The Company has been working over the past several years to address growing competition. The Company has taken steps to increase the availability and attributes of advanced services offered by the Company, including broadband. This has resulted in the Company making additional investments in regulated plant, excluding any applicable allocations to Idaho operations, of approximately $17,910,000 during the period January 1, 2011 through December 31, 2016. During this same time period, the Company borrowed approximately $16, 214,000 from the RUS in order to make these plant additions. According to Exhibit 4 of this petition, the Company paid $628,167 and $220,258, principal and interest, respectively, to the RUS in 2016; totaling $848,425. In comparison with 2015, the Company paid $591,489; an increase from 2015 to 2016 of $256,936 (43.44% increase). The 2016 principal and interest figures are somewhat misleading, since four of the loan draws, including the loan closing in October, were done in 2016. To put the borrowing into perspective, principal and interest for 2017 will be approximately $1,273,000; an approximate increase from 2016 to 2017 of $424,575 (50.04% increase). These additions included replacing the switching equipment, adding new subscriber transmission equipment capable of providing broadband service as well as placing subscriber carrier equipment closer to subscribers, adding fiber optic cable into the subscriber and interexchange network infrastructure and adding fiber-to-the-home in the Roslyn exchange. As a result, the Company has a substantial debt obligation to cover the investments that have been made.

The overall financial condition of the Company is detailed on other Exhibits to this Petition. What this information demonstrates is that, when adjusted to eliminate the support from the state Universal Communications Services Program that the Company received or accrued in 2016, the Company's total regulated revenue decreased by 2.2 percent from 2011 through 2016. The Company has looked for ways to lower expenses. However, much of the Company's operating expenses are fixed obligations, such as debt-related payments which are increasing as explained above.

At the same time, the Company is seeing increased competition. For example, the Company has seen some migration of customers "cutting the cord" to move to wireless or other service as their sole method of telecommunications. Since 2011, the Company has lost 38 access lines. A loss of customers equates to a loss of revenue without a corresponding reduction in expenses or corresponding increase in rates. This trend of access line loss is exacerbated by the Federal Communications Commission's requirement that the Company increase its rates to remain eligible for full federal USF support. Since 2012, the Company has increased its local exchange service rates in order to be in compliance with the national urban rate floor prescribed by the Federal Communications Commission. However, those increases have been insufficient to fully replace the revenues that have been lost due to the reduction in access lines.

As an example of why state Program support is needed, the Company's receipt of revenue from the traditional Washington intrastate universal service access rate element and related pooling fund were terminated effective July 1, 2014. Since then, the loss of revenues derived from the traditional universal service access rate element has been off-set by revenues received by the Company as a result of its participation in the Program. Using 2012 as a base line, the Company is facing a loss of traditional universal service fund revenues of approximately $79,875 per year if its participation in the Program is not renewed.

As another example, some of the financial uncertainty that the Company faces stems from the USF/ICC Transformation Order issued by the Federal Communications Commission.[1] The USF/ICC Transformation Order has built in an automatic decline in the Company's intrastate and interstate access revenues. The intercarrier compensation portion of the Transformation Order introduces a concept of a base line year for calculating terminating access and reciprocal compensation revenues and provides support from the Connect America Fund ("CAF") based on the base line year. However, the base line year revenues (from which the level of CAF support is derived) are reduced iteratively by five percent each year. "The CAF support reduction began in July 2012. Projecting through the year ending June 30, 2018, including reductions that will occur July 1, 2017, the Company has seen a reduction in support from the base line revenue of approximately $324,067.

On top of all this, during the six-year period ended December 31, 2016, the Company has seen its total federal high cost support undergo a significant reduction, declining from $1,634,310 in 2011 to $1,156,496 in 2016.

These factors, among others, have led to the strained financial condition of the Company as reflected in the financial reports that are part of the Petition.

The combination of factors noted above creates a situation in which, without support from the state universal communications services program, the Company may be faced with a choice of increasing rates further or reducing service in order to be able to match expenses to revenues. Neither choice presents a viable path for providing continued high quality service to customers. The dilemma presented by these choices reflects the risk of rate instability or service interruption or cessation to which the Company is subject.

[1] *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing an Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up, Universal Service Reform - Mobility Fun,* WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011)(*USF/ICC Transformation Order*).