PEND OREILLE TELECOM
892 W. Madison Ave., Glenns Ferry, ID 83623

August 10, 2016

Steven V. King, Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive, SW
Olympia, WA 98504-7250

RE: Pend Oreille Telephone Company
USF Petition – Replacement Exhibits
UT-160942

Dear Mr. King:

Pend Oreille Telephone Company hereby submits its replacement exhibits for Petition of USF Support with demonstration of eligibility under WUTC WAC 480-123-100 and WAC 480-123-110 originally requested on July 29, 2015. This USF Support submission of replacement of Exhibits 2, and Exhibit 3 is filed electronically this date at http://www.utc.wa.gov/docs/Pages/howToFile.aspx and includes revisions to Exhibit 2 and Exhibit 3

These exhibits are required under WAC 480-123-110(1)(e)(i) for Pend Oreille Telephone pursuant to Staff comments and initial review. Pend Oreille Telephone Company hereby submits the replacement exhibits to petition Washington Utilities and Transportation Commission to receive support from the Universal Service Communications Program for Program Year 2017

Sincerely,

Beverly Arrington

Beverly Arrington
Sr. Accounting Specialist

EXHIBIT 2

AFFILIATED TRANSACTIONS

Pend Oreille Telephone Company and its parent, Rural Telephone Company, have a service agreement in which Rural Telephone provides management and operational service to Pend Oreille Telephone Company. These services are direct assigned to Pend Oreille as the expenses are incurred. Rural provided $ 402,333 and $297,712 of such services in 2015 and 2014, respectively. (The difference in 2015 is because Pend Oreille Telephone Company utilized Rural Telephone Company construction employees for Fiber Construction.)

Pend Oreille leased vehicles and equipment from an affiliate, Little Valley Elk Ranch, in the amount of $ 14,526 in both 2015 and 2014. In addition, Little Valley Elk Ranch owes Pend Oreille $ 166,319 for a loan made from Pend Oreille to Little Valley Elk Ranch in 2008. This amount is for principal and interest accrued since that date.

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 of approximately $2,028,622 during the period January 1, 2011 through December 31, 2015. As a result, the Company has a substantial debt obligation to cover the investment that has 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 2015, the Company's total regulated revenue increased by 25 percent from 2011 through 2015. 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.

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 332 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. In addition, those rate increases have tended to stimulate a surge in disconnection of service by customers.

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

[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*).

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 calendar year 2017, including additional reductions that will occur July 1, 2017, the Company has seen a reduction in support from the base line revenue amount of approximately $ 245,213 through 2017.

On top of all this, during the four-year period ended December 31, 2014, the Company has seen its total federal support undergo a significant reduction, declining from $ 555,611 in 2011 to $534,683 in 2015.

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.