

Confidential per WAC 480-07-160

ETC ANNUAL REPORT PER WAC 480-123-070 AND WAC 480-123-080
Contains Certifications Required by WAC 480-123-060 and 070
July 1, 2015

McDaniel Telephone Company (the "Company") hereby submits the following reports in accordance with WAC 480-123-070 and WAC 480-123-080.

1. Report 1: Report on use of funds: WAC 480-123-070(1)(a):

The Company used support from the federal high-cost fund in 2014 as follows:

The Company received \$899,300 in Federal USF support in 2014. Most of the support was used to help cover operating expenses necessary to maintain the Company's network in order to continue providing high quality voice and broadband services. As discussed below, some of the support was used for network capital additions.

For 2014 the Company's gross capital expenditures were [REDACTED] (refer to Schedule A of the 5-Year Service Quality Improvement Plan on Form 481). The Company's 2014 operating expenses were [REDACTED] (page 1 of the 5-Year Plan). Recent major projects are listed on Schedule A of the 5-Year Plan.

Per the direction of Commission Staff, the NECA -1 report will be provided as soon as it is available and no later than August 1, 2015.

2. Report 2: WAC 480-123-070(1)(b): The Company reports that the investments and expenses reported under Report 1, above, benefited the customers by maintaining and expanding the network to continue providing high quality telecommunications and broadband services including making the necessary capital additions to serve new customers and add capacity at DSA 41300. The support has allowed the company to sustain the current local technical support staff therefore avoiding delayed repairs and maintenance.

Through the expenditure of these funds, the Company was able to continue to provide services at a level that the Company believes meets the intent set forth in 47 U.S.C § 254 of providing quality telecommunications services to customers in the service area for which the Company is designated as an ETC.¹ The Company has made substantial investments over the past several years which allow it to provide quality telecommunications services to its customers in its designated ETC service area. Those expenditures and investments, including those reflected in Report 1 above, generally

¹ The term "ETC" is used in the same sense as the term is used in Chapter 480-123 WAC.

Confidential per WAC 480-07-160

benefit all customers receiving the federal high-cost fund supported services from the Company within its designated ETC service area. The Company has expanded its network over the past several years so that it is capable of providing access to broadband services throughout most of the Company's designated ETC service area. The Company offers services that are comparable to services offered in urban areas at rates that are comparable to rates for such services in urban areas.

See also the responses to Report 1.

3. Report 3: Local Services Outage Report: WAC 480-123-070(2):

Outages are listed on the report labeled (200) Service Outage Reporting (Voice) of Form 481.

4. Report 4: Report on Failure to Provide Service: WAC 480-123-070(3):

The Company had [REDACTED] unfulfilled voice service requests and [REDACTED] unfulfilled broadband requests (see lines 300 and 320 on page 1 of Form 481).

5. Report 5: Report on Complaints per 1000 Connections: WAC 480-123-070(4):

The Company reports that it is aware of [REDACTED] voice service complaints per 1,000 customers made during calendar year 2014. [REDACTED] was a voice service billing complaint to the OAG, while [REDACTED] was a voice service quality complaint to the FCC. The company had [REDACTED] broadband service quality complaints per 1,000 customers to the FCC. Both the voice and broadband complaints are concerning the services provided to its customers by the Company that are either subject to the regulatory jurisdiction of the Washington Utilities and Transportation Commission or among the services supported by the federal high-cost fund. (lines 410 and 440 on page 1 of Form 481).

6. Report 6: Annual Plan: WAC 480-123-080(1):

As they are known to the Company at the date of this Report, the planned investment and expenses related to Washington state for the period January 1, 2016, through December 31, 2016, are projected to be [REDACTED] for gross capital expenditures and [REDACTED] for operating expenses. Major projects completed in 2014 are disclosed on FCC Form 481. The Company expects that levels of expenses will remain relatively the same as those it experienced in calendar year 2014, subject to the effects of inflation, other commonly experienced changes in cost of labor and materials, and increased depreciation on new investment placed in service. The Company does not anticipate major adjustments in staffing levels for the relevant period.

7. Report 7: Plan of Investments and Expenditures: WAC 480-123-080(2):

As they are known to the Company at the date of this Report, the planned investment and expenses related to Washington state for the period January 1, 2016, through December 31, 2016, will remain relatively the same as those it experienced in calendar year 2014, subject to the effects of inflation, other commonly experienced changes in cost of labor and materials, and increased depreciation on new investment placed in service. The

Confidential per WAC 480-07-160

Company does not anticipate major adjustments in staffing levels for the relevant period. Major projects are disclosed on FCC Form 481 as referenced in Report 6, above. The Company expects that the continued receipt of federal high-cost support will allow the Company to continue to provide the supported services at rates that are comparable to the rates for such services in urban areas. All customers in the Company's designated ETC service area will benefit from the expected level of support by continuing to have available to them services that are comparable to the telecommunications services offered in urban areas at rates that are comparable to the rates for such services in urban areas.