

ETC ANNUAL REPORTS PER WAC 480-123-070 AND WAC 480-123-080

July 1, 2016  
 Hat Island Telephone Company

Hat Island 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 the calendar year 2015 as follows: To support investments made by the company in telecommunications plant used to provide voice services, broadband services and other telecommunications services, and to defray operating expenses incurred by the Company in its provision of those services.

For the calendar year 2015, the Company's gross capital expenditures and operating expenses paid, in whole or in part, with support from the were \$4,294 and \$57,192, respectively. Major projects undertaken or completed in the calendar year 2015 include the following as filed with FCC Form 481 filed with the Commission on August 1, 2014 in Docket No. UT-143042:

<b>Network Improvements/Upgrades – Voice Services – For Calendar Year 2015</b>				
<b>Project Description</b> (Specific proposed improvements and/or upgrades)	<b>Estimated Start Date</b>	<b>Estimated Completion Date</b>	<b>Service Area Name</b>	<b>Estimated Population</b>
Maintain/retire/replace existing end-of-life infrastructure hardware and software	01/01/2014	12/31/2015	Hat Island	41

<b>Network Improvements/Upgrades – Broadband Services – For Calendar Year 2015</b>				
<b>Project Description</b> (Specific proposed improvements and/or upgrades)	<b>Estimated Start Date</b>	<b>Estimated Completion Date</b>	<b>Service Area Name</b>	<b>Estimated Population</b>
Maintain/retire/replace existing end-of-life infrastructure hardware and software	01/01/2014	12/31/2015	Hat Island	41

The Company completed a capital project in 2015 that converted ADSL technology to VDSL technology. The deployment of VDSL technology improves capacity on our existing copper plant. It increases download and upload capacity for broadband customers; for all services it: improves quality of signals; eliminates pair bonding which reduces maintenance costs, reduces potential failures, and enhances the life of existing

plant and facilities; increases capacity and coverage for additional subscribers; and finally, improves quality of services with noise interference deterrent.

Per the direction of the Commission Staff, the NECA-1 report will be provided as soon as it is available and no later than August 1, 2016.

WAC 480-123-070(1)(b): The Company reports that the investments and expenses reported under Report 1, above, benefited the consumers as follows:

Consumers served by the Company benefited from the use of high-cost fund support by continuing to receive high quality telecommunications services. These expenditures are critical to maintain and increase the quality, coverage and capacity of voice services within the Company service area. These expenditures include material and labor expenses, and can be for a variety of purposes including, but not limited to, equipment repair and maintenance; service order fulfillment; customer service requests; capital expenditures; equipment replacement and projects not otherwise capitalized; company equipment monitoring; equipment/service testing; technical support both at premise and remotely; and service calls.

Through the expenditure of federal high-cost support 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.<sup>1</sup> 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 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.

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

None

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

None

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

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<sup>1</sup> The term "ETC" is used herein with the same meaning as the term is used in Chapter 480-123 WAC.

None

5. Report 5: Annual Plan: WAC 480-123-080(1):

As they are known to the Company at the date of this Report, the Company's planned gross capital expenditures and operating expenses related to Washington State to be made, in whole or in part, with federal high-cost support to be received by the Company, during the calendar year 2017 are projected to be \$0 and \$60,000, respectively.

Major projects planned to be undertaken or completed in the calendar year 2017 are include the following that were filed on FCC Form 481 filed with the Commission on August 1, 2014 in Docket No. UT-143042:

<b>Network Improvements/Upgrades – Voice Services – For Calendar Year 2017</b>				
<b>Project Description (Specific proposed improvements and/or upgrades)</b>	<b>Estimated Start Date</b>	<b>Estimated Completion Date</b>	<b>Service Area Name</b>	<b>Estimated Population</b>
Maintain/retire/replace existing end-of-life infrastructure hardware and software	01/01/2016	12/31/2017	Hat Island	41

<b>Network Improvements/Upgrades – Broadband Services – For Calendar Year 2017</b>				
<b>Project Description (Specific proposed improvements and/or upgrades)</b>	<b>Estimated Start Date</b>	<b>Estimated Completion Date</b>	<b>Service Area Name</b>	<b>Estimated Population</b>
Maintain/retire/replace existing end-of-life infrastructure hardware and software	01/01/2016	12/31/2017	Hat Island	41

The Company expects that levels of expenses in 2017 will remain relatively the same as those it experienced in calendar year 2015, 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.

6. Report 6: Plan of Investments and Expenditures: WAC 480-123-080(2):

As they are known to the Company at the date of this Report, apart from major projects, the planned investment and expenses to be made with federal high-cost support related to Washington state for the calendar year 2017 are planned to remain relatively the same as those it experienced in calendar year 2015, 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. Planned major projects for the calendar years 2017 are described in Report 5, above, and disclosed on FCC Form 481 as referenced in Report 5, above. The Company has not completed its budgeting process for 2017, so the investment and expense figures presented in Report 6, above, for the calendar year 2017 are not yet final. 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.