

ETC ANNUAL REPORT PER WAC 480-123-070 AND WAC 480-123-080
Contains Certifications Required by WAC 480-123-060 and 070
June 30, 2017

Hood Canal Telephone Co., Inc. (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 2016 as follows:

For 2016 the Company's gross capital expenditures were \$300,588. The Company's 2016 operating expenses were \$2,876,671. Recent major projects included acquiring a new battery backup and generator for approximately \$46,300; new computer, office and other work equipment for approximately \$52,600; leasehold improvement additions for a retention pond and drainage upgrades for approximately \$67,100; fiber-to-the-home electronics for approximately \$54,500; and fiber-to-the-home and buried drops for approximately \$80,100.

Per the direction of Commission Staff, the NECA -1 report for the calendar years 2015 and 2016 are included in this filing.

2. Report 2: WAC 480-123-070(1)(b): The Company reports that the investments and expenses report under Report 1, above, benefited the customers as follows:

The customers served by the Company benefited from the use of high-cost fund support by continuing to receive high quality telecommunications services. The Company started a fiber-to-the-home project in 2016 that is close to completion in 2017 with approximate costs of \$162,700 that will potentially benefit 28 subscribers in Union Ridge of their study area. The Company plans to continue to install fiber-to-the-home throughout its study area in the coming years.

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 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.

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

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

The Company had one service outage that occurred on November 25, 2016 at 5:00 pm and service was restored on November 27, 2016 at 6:00 pm that affected its whole serving area. Services affected were 911, SS7 signaling, wireline voice and broadband, cable and VOIP. Limited voice services were available within their study area only and 911 calls were rerouted to Macecom, the local 911 call center business line. However, important information like the caller name and address were not transmitted during the outage. The outage was caused by a fiber event on NoaNet's fiber optic network. The Company utilizes CenturyLink to provide critical circuits that interconnect the Company's telephone services with other providers. CenturyLink contracts with NoaNet as the underlying long haul provider of these critical circuits. The Company has two routes for these circuits and both routes were knocked out simultaneously due to a transport network failure by NoaNet. Preventive measures have been requested to CenturyLink for circuit redesign with increased redundancy.

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

None

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

None

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, 2018, through December 31, 2018, are projected to be \$350,000 for gross capital expenditures and \$2,222,900 for operating expenses. Major projects are disclosed on FCC Form 481 filed with the Commission on June 30, 2014 in Docket No.UT-143013 which contains the Company's five year plan. The major projects consist of additions to targeted areas for fiber-to-the-home improvements in the amount of \$260,000, new vehicles in the amount of \$75,000 and power upgrades of \$15,000.

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, 2018, through December 31, 2018, will remain relatively the same as those it experienced in calendar year 2016, 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. Major projects are disclosed on FCC Form 481 as referenced in Report 6, above. The Company has not completed its budgeting process and does not have final numbers prepared for investment and expense levels for 2018. 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.