

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 \$10.5 million during the period 2011 through 2014. As a result, the Company has a substantial debt obligation to cover the investment that has been made, and continues to require substantial cash allocation for investments, as well as operation and maintenance of existing infrastructure.

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 (the "Program") that the Company received or accrued in 2014, the Company's total regulated revenue decreased by approximately 9% from 2011 through 2014. The Company has looked for ways to lower expenses, including a reduction in workforce in 2014. However, much of the Company's operating expenses are fixed obligations, such as debt-related payments. In 2014, the Company had to defer approximately \$1 million in capital expenditures due to lack of funding. In the long term, an inability to replace and improve existing infrastructure will tend to drive operating expenses higher, which will inevitably cause further rate instability.

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. From December 31, 2011 through December 31, 2014, the Company has lost 9.45% of access lines, for a total of 1,007 access lines. However, the portions of the Company's service area for which the Company is seeking Program support includes recreational areas that experience seasonal fluctuations within the customer base. After adjusting for seasonal fluctuations, the actual loss since 2011 for the areas for which the Company is seeking support is 11.76%, for a total of 1,254 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. Those rate increases have tended to stimulate a surge in disconnection of service by customers.

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 \$746,182 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 calendar year 2016, including additional reductions that under existing federal rules will occur July 1, 2016 the Company will see a reduction in support from the base line revenue amount of approximately \$ 490,545 for 2016.

On top of all this, during the four-year period ended December 31, 2014, the Company has seen its federal high cost loop support disappear. This loss has not been made up by increases in other federal USF support programs.

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 Program, the Company may be faced with a choice of increasing rates beyond those increases that may otherwise need to occur 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*).