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BEFORE THE ARIZONA CORPORATION C  
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COMMISSIONERS

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AZ CORP COMMISSION  
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF  
VALLEY CONNECTIONS, L.L.C. FOR  
AUTHORIZATION TO ASSUME NEW DEBT

DOCKET NO. T-04169A-04-0816

COMPLIANCE REPORT

Pursuant to Decision 68080, the Arizona Corporation Commission authorized Valley Connections, L.L.C. ("Valley Connections" or the "Company") to assume new long-term debt of \$14,956,743 to construct and provide broadband service to the rural communities of Willcox, Safford, and Thatcher, Arizona. As part of Decision 68080, Valley Connections was ordered to docket as a compliance item "a report within 30 days of completion of the first phase of construction as to costs incurred versus the estimated amount and customer penetration versus estimated penetration." As Valley Connections understands this requirement, the Company is required to compare the actual amount spent on construction of broadband infrastructure for phase one and the actual customer penetration after it commenced marketing broadband service to its customers to the estimated construction costs and estimated customer penetration listed in the Company's application. Valley Connections attaches, as Exhibit 1, a compliance report which summarizes actual incurred costs of phase one and customer penetration as of August 17, 2006 in comparison to the estimated costs and penetration.

Due to operational and contractual difficulties which prolonged the completion of phase one, Valley Connections could not begin to market the new broadband service to customers in Willcox until July 22, 2006 and Safford and Thatcher until August 17, 2006. These difficulties included delays in negotiating contracts with local and national television networks, delays in

1 obtaining compatible and functional set-top boxes and DVR hardware from vendors, delays in  
2 resolving technical issues with video-on-demand programming by vendors, and prolonged beta  
3 testing due to these difficulties. As a result, Valley Connections was prohibited from  
4 commencing broadband service to customers until recently. Consequently, Valley Connections is  
5 just now establishing its customer base, and the Company's costs of constructing the broadband  
6 network are correspondingly lower than previously estimated, because a portion of these costs are  
7 associated with new customer drops, set top boxes, and other customer hardware.  
8

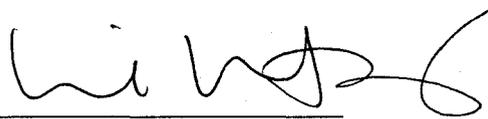
9 Despite some early difficulties, Valley Connections' customer penetration is not far  
10 behind the estimated penetration. Valley Connections' estimated penetration for approximately  
11 one month of marketing is expected to be 171 customers with 30 of those customers estimated to  
12 be in Willcox and 141 of those customers estimated to be in Safford and Thatcher.<sup>1</sup> See Exhibit  
13 1. Valley Connections' actual customer penetration after the first 25 days of marketing (from  
14 July 22, 2006 to August 17, 2006) is 62 customers, all of which are located in Willcox.<sup>2</sup> *Id.*  
15 Customer penetration data for Safford and Thatcher was not available as of August 17, 2006,  
16 because marketing in those areas did not begin until then. Valley Connections believes that as  
17 marketing in Safford and Thatcher continues, vendor delays are addressed, and technical issues  
18 are completely resolved, customer penetration going forward will be on par with or above  
19 estimated penetration. In addition, as Valley Connections serves more new broadband customers,  
20 actual costs and estimated costs for the construction of the broadband network will track more  
21 closely.  
22  
23

24 <sup>1</sup> Valley Connections' original application in this docket estimated that customer penetration would be  
25 1,200 customers after one year from the start of construction of phase one. Valley Connections also  
26 estimated that marketing of broadband services would begin five months from the start of construction,  
27 leaving only seven months to sign-up 1,200 broadband customers, which equates to approximately 171  
28 new customers per month (1200 divided by 7). In order to provide a useful comparison of Valley  
Connections' actual customer penetration versus estimated penetration, Valley Connections compares its  
actual customer penetration after the first 25 days of marketing to the estimated penetration for one month  
in its compliance report.

1 Although the construction of the broadband network in Willcox, Safford, and Thatcher  
2 and the corresponding marketing of broadband service in these rural communities were delayed  
3 for reasons outside Valley Connections' control, the Company remains dedicated to the  
4 construction and development of a quality broadband product to these rural communities. Based  
5 on early results, Valley Connections believes that the new broadband network is a success and  
6 customers enjoy the new service.  
7

8 RESPECTFULLY SUBMITTED this 24<sup>th</sup> day of October, 2006.

9  
10 SNELL & WILMER L.L.P.

11 

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Attorneys for Valley Connections, L.L.C.

17 ORIGINAL and 13 copies of the foregoing  
18 filed this 24<sup>th</sup> day of October, 2006, with:

19 Docket Control  
20 Arizona Corporation Commission  
21 1200 West Washington  
22 Phoenix, AZ 85007

23 

24  
25  
26  
27  
28 <sup>2</sup> Notably, customer penetration for Willcox is more than double the estimated penetration.

# **EXHIBIT 1**

Valley Connection L.L.C.  
ACC Compliance Report

	Loan Budget Willcox	Actual Willcox	Loan Budget Safford/ Thatcher	Actual Safford/ Thatcher	Loan Budget Summary	Actual Summary	Variance Actual to Budget
<b>INVESTMENT AT 8/17/06</b>							
Network, Access Equip & Headend	\$ 1,648,264	\$ 1,738,281	\$ 825,637	\$ 627,393	\$ 2,473,901	\$ 2,365,674	\$ (108,227)
Customer Premise	541,970	283,425	2,315,584	1,094,469	2,857,554	1,377,894	(1,479,660)
Outside Plant	2,256,675	1,541,643	6,690,075	5,353,241	8,946,750	6,894,884	(2,051,866)
Subtotal	4,446,909	3,563,349	9,831,296	7,075,103	14,278,205	10,638,453	(3,639,752)
Engineering					678,538	385,079	(293,459)
Total Investment at 8/17/06	\$ 4,446,909	\$ 3,563,349	\$ 9,831,296	\$ 7,075,103	\$ 14,956,743	\$ 11,023,532	\$ (3,933,211)

**CUSTOMER PENETRATION**  
Customers at 8/17/06 (25 days after availability of useable Set Top Boxes)

	30	62	141	0	171	62	(109)
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**NOTES**

- Investment Actual amounts at 8/17/06 are compared to the Investment Budget at the end of year one as presented in the original application. This variance is primarily funds not yet expended to complete drops which will continue as new customers are signed.
- Customer Penetration Budget was computed by taking total estimated customers at the end of year one and dividing by 7 since marketing was expected to begin after five months.
- Customer Penetration is less than estimated for Safford/Thatcher due to the fact that marketing had not begun in Safford/Thatcher by 8/17/06 because of continuing delays in receiving approval to rebroadcast certain local and national channels. Additional contributing factors were the continuing difficulty in acquiring functional set-top boxes, lack of compatible DVR hardware and the delay in resolution of technical issues that prevented our offering video-on-demand programming.