

ORIGINAL

NEW APPLICATION



0000140842

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

- GARY PIERCE, Chairman
- PAUL NEWMAN
- SANDRA D. KENNEDY
- BOB STUMP
- BRENDA BURNS

2012 DEC -4 A 11: 27

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF COPPER VALLEY TELEPHONE, INC., AN ARIZONA CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, AND TO INCREASE RESIDENTIAL RATES AS NECESSARY TO COMPENSATE FOR THE RATE IMPACTS OF THE FCC'S USF/ICC TRANSFORMATION ORDER

DOCKET NO. T-02727A-12-0484

Arizona Corporation Commission
DOCKETED

DEC - 4 2012

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1 Copper Valley Telephone, Inc. ("Copper Valley Telephone"), an Arizona corporation,
 2 hereby applies pursuant to A.R.S. § 40-250 and the Commission's Rule R 14-2-103 for a
 3 determination of Copper Valley Telephone's earnings and the fair value of its investment and
 4 requests that its residential rates be increased as necessary to compensate for the rate impacts of
 5 the Federal Communication Commission's November 18, 2011, USF/ICC Transformation Order
 6 ("USF/ICC Order").

7 **I. BACKGROUND**

8 On November 18, 2011, the Federal Communications Commission issued the USF/ICC
 9 Order. The USF/ICC Order transitions the outdated federal universal service programs and most
 10 inter-carrier compensation systems into a new Connect America Fund ("CAF"). The FCC's
 11 press release characterized the USF/ICC Order as "the most significant policy step ever taken to
 12 connect all Americans to broadband."

1 The USF/ICC Order will reduce inter-carrier compensation rates to zero by July 1, 2020,
2 for rate of return companies, with limited recovery from customers and partial recovery from the
3 CAF. The recovery from the CAF will phase out over time at 5% annually.

4 Copper Valley Telephone is a small rate-of-return regulated Incumbent Local Exchange
5 Carrier ("ILEC"). Of particular importance to Copper Valley Telephone and other rural ILECs,
6 the USF/ICC Order adds new rules that will reduce federal high-cost loop support to carriers by
7 the amount their flat-rate residential local service rates fall below a specified annual urban rate
8 floor.¹ The rate floor includes, if any, state subscriber line charges, state universal service fees,
9 and mandatory extended area service charges. The FCC's order establishes local residential rate
10 floors of \$10.00 as of June 1, 2012, and \$14.00 as of June 1, 2013, with the floor thereafter being
11 determined annually by the FCC's Wireline Competition Bureau, based on a nationwide
12 average.²

13 Federal and state support funding are vital to a robust telecommunications network in
14 high cost areas. To maintain federal loop support, Copper Valley Telephone and other rural
15 ILECs must increase local rates to the FCC-mandated residential rate floors. Otherwise, the
16 amount of federal support funds will be reduced dollar-for-dollar for each customer by the
17 difference between the existing local rate and the new rate floor. If local rates are not increased,
18 the new FCC rules will reduce funds coming to the state of Arizona and negatively impact
19 customers living in high-cost areas in the state.

20 Low customer density makes Copper Valley Telephone dependent on high-cost federal
21 support mechanisms. It is important that the company be allowed to increase local rates, to the
22 FCC determined annual rate floors, in order to maintain its existing federal support. Therefore,
23 Copper Valley Telephone requests the Commission to approve local rate increases to the \$14 rate
24 floor established by the FCC's order.

¹ 41 C.F.R § 54.318.

² USF/ICC Order paragraph 236 states the most recently available nationwide average local rate from 2008 was \$15.62.

1 **II. COPPER VALLEY TELEPHONE**

2 Copper Valley Telephone, Inc. is a corporation duly organized and existing under and by
3 virtue of the laws of the State of Arizona. Copper Valley Telephone is authorized to engage in
4 and is now engaged in the conduct of a general communications business within the State of
5 Arizona.

6 **III. SUMMARY OF REQUEST**

7 This application is made pursuant to the provisions of A.R.S. §§ 40-250 and 40-367, and
8 Commission Rule R14-2-103.

9 Copper Valley Telephone's local residential one-party rates are \$12.40/month. These
10 rates are below the federal \$14/month rate floor that will go into effect on June 1, 2013. The rate
11 floor for 2014 and thereafter will be determined by an annual FCC survey.

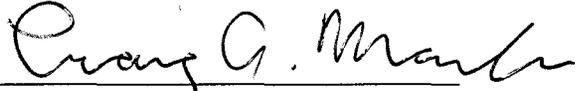
12 Copper Valley Telephone is aware that many parties, including the Commission, have
13 appealed the USF/ICC Order. However, in the meantime, Copper Valley Telephone and other
14 rural ILECS must comply with all provisions of the USF/ICC Order and will remain subject to
15 the increased local residential rate floors and the corresponding losses of federal support funds.

16 Copper Valley Telephone's loss of federal support funds would be particularly difficult to
17 bear. As the attached schedules demonstrate, Copper Valley Telephone's return on investment is
18 already very low. Losing federal support funds will only drive earnings lower.

19 In connection with this application, Copper Valley Telephone has filed exhibits which
20 include a schedule of the specific rate changes requested and the impact of the revenue generated
21 on the company's financial position. Copper Valley Telephone asks that the Commission
22 determine the fair value of the company's investments for ratemaking purposes and stipulates to
23 use original cost less depreciation for those purposes. Because the next opportunity to affect
24 federal support funds is June 1, 2013, Copper Valley Telephone further asks that the
25 Commission set new rates at or above the \$14.00 floor to be effective no later than June 1, 2013.

1 To facilitate processing of this application, Copper Valley Telephone asks that the
2 Commission waive any provisions of Commission Rule R14-2-103 not required by the Arizona
3 Constitution and laws.

4 Respectfully submitted on December 4, 2012.

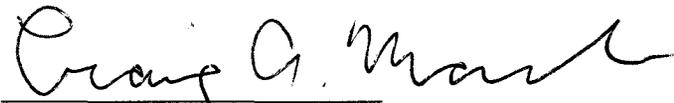
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Original and 13 copies filed
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Arizona Corporation Commission
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By:


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Copper Valley Telephone Company

Streamlined filing to support residential rate increase due to FCC
floor implementation and resulting HCL loss.

November 27, 2012

Copper Valley Telephone Company

November 27, 2012

Index

	<u>Page</u>
Adjusted 2011 Results	1
Adjustments	2
Year 1 FCC Order ICC Impact	4
Rate Base	5
Working Capital	6
Rate Design	7

Copper Valley Telephone Company

as of November 27, 2012

REGULATED 2011 RESULTS OF OPERATIONS
REFLECTS CHANGES EFFECTIVE WITH ARC AND CAF IMPLEMENTATION -- YEAR 1

	2011 TOTAL TELEPHONE OPERATIONS (a)	ADJUSTMENTS (b)	Ref (c)	ADJUSTED 2011 RESULTS (d)	INTERSTATE (e)	INTRASTATE (f)
1 Local	892,194	(3,857)	#3	888,337	-	888,337
2 Universal Service Fund (USF-HCL) and Safety Net Additive (SNA)	1,851,822	(34,772)	#2	1,817,050	-	1,817,050
3 Access Revenues	2,955,519	219,540	#1,3	3,175,059	2,821,315	353,744
4 Billing & Collecting	313	-	-	313	-	313
5 Other Misc., Uncollectibles	64,469	-	-	64,469	-	64,469
6 Total Operating Revenues	5,764,317	180,911		5,945,228	2,821,315	3,123,913
7 Plant Specific Expenses	950,524	(3,689)	#4	946,835	347,795	599,040
8 Plant Nonspecific Expenses	458,303	(22,780)	#4,8	435,523	171,964	263,559
9 Depreciation & Amortization Expenses	1,728,057	(39,854)	#5,6,7,9,10	1,688,203	603,315	1,084,888
10 Customer Operations Expenses	601,140	-	-	601,140	232,975	368,164
11 Corporate Operations Expenses	581,878	(2,384)	#11	579,494	229,282	350,212
12 Other Operating Taxes and (Income)	296,757	770	#4,11	297,527	95,558	201,969
13 Nonregulated Adjustment	-	(67,937)	-	-	1,880,789	2,867,932
14 Total Operating Expenses	4,616,659	(67,937)		4,548,722	1,880,789	2,867,932
15 OPERATING RETURN BEFORE TAXES	1,147,658	246,848		1,395,506	1,140,526	255,981
16 State Income Taxes (SIT) (6.97%)	44,218	-	-	44,218	16,222	27,996
17 Federal Income Taxes (FIT) (35%)	241,311	-	-	241,311	86,526	152,783
18 Total Operating Income Taxes	285,529	-	-	285,529	104,750	180,779
19 Total Expenses and Income Taxes	4,902,188			4,834,251	1,785,539	3,048,711
20 Net Operating Income	862,129	248,648		1,110,977	1,035,776	75,202
21 Total Year-End Rate Base	13,324,258			13,324,258	4,421,938	8,902,319
22 Return on Rate Base (Ln 20 / Ln 21)						0.84%
23 Estimated Revenue from Local Rate Increase						42,234
24 State Income Taxes (SIT) (6.97%)						2,844
25 Federal Income Taxes (FIT) (35%)						13,751
26 Increase in Net Operating Income						25,538
27 Net Operating Income After Increase (Ln 20 + Ln 26)						100,741
28 Return on Rate Base After Increase (Ln27 / Ln21)						1.13%

ASSUMPTIONS
Used 2011 Copper Valley Only Cost Study ran 7/31/2012 for Part 36 separate
Separated results based upon frozen 2000 traffic factors
Separated results based upon 2011 financials, interstate rules, adjusted for Part 64 activities
Working Capital included for all jurisdictions
Federal & State Income Taxes reflect 2011 actual

Copper Valley Telephone Company
Adjustments to Revenues and Expenses

Ref	Account	Description	Debit	Credit
1.	5082	Access Revenues		257,224
	9999	Balancing Account	257,224	
		To remove prior period NECA interstate adjustments.		
2.	5082	Universal Service Fund	34,772	
	9999	Balancing Account		34,772
		To adjust for HCL and SN projected change for 2012. Does not include impact of floor.		
3.	5001	Local Revenues	3,857	
	5082	Access Revenues	31,689	
	5084	Access Revenues	5,995	
	6540	Plant Nonspecific Exp		1,421
	9999			40,120
		Year 1 FCC Order ICC intrastate and interstate revenue and expense 5% reductions.		
4.	9999	Balancing Account	5,899	
	6232	Circuit Equipment Expense		2,972
	6423	Buried Cable Expense		717
	6531	Power Expense		221
	6532	Network Admin Expense		156
	6533	Testing Expense		219
	7240	Operating Taxes - Ad Valorem		1,614
		To remove costs associated with non-reg fiber leases		
5.	9999	Balancing Account	7,095	
	6561-2423	Depr Exp - Buried Cable		7,095
		To remove costs associated with Qwest Leased Fiber		

Copper Valley Telephone Company
Adjustments to Revenues and Expenses

Ref	Account	Description	Debit	Credit
6.	9999	Balancing Account	7,922	
	6561-2232	Depr Exp - Circuit Equipment		5,593
	6561-2423	Depr Exp - Buried Cable		2,329
		To remove costs associated with OC12 Fiber Lease		
7.	9999	Balancing Account	18,479	
	6561-2423	Depr Exp - Buried Cable		18,479
		To remove costs associated with Dark Fiber Lease - GIGE Network		
8.	9999	Balancing Account	22,184	
	6540	Access Expense- Recip Comp - Local	26,159	
	6540	Access Expense- Recip Comp - I/S		26,159
	6540	Access Expense		22,184
		To adjust the USF contributions to the EC 1050 3(c)2.		
9.	9999	Balancing Account	6,022	
	6561-2121	Depr. Exp - Buildings		22
	6561-2124	Depr. Exp - General Computers		-
	6561-2212	Depr. Exp - Digital Switching		1,461
	6561-2232	Depr. Exp - Circuit Equipment		3,376
	6561-2411	Depr. Exp.- Poles		11
	6561-2421	Depr. Exp. - Aerial Cable		445
	6561-2422	Depr. Exp - Underground		51
	6561-2423	Depr. Exp - Buried Cable		522
	6561-2441	Depr. Exp - Conduit Systems		70
		To reclassify AFUDC - Dep Exp		
10.	9999	Balancing Account	8,415	
	3100-2121	Acc Dep Tower	2,000	
	2121	Tower		10,000
	2111	Land		15
	6560-2121	Dep Exp Tower		400
		To remove plant associated with Tower and Land leases		
11.	7200	Other Taxes - I/S	2,384	
	6722	Operating Taxes - Other		2,384
		To directly assign FCC Regulatory Fees-CVTC		

Copper Valley Telephone Company
 Year 1 Estimated ICC Impact of FCC Order

Base Line of Eligible Recovery:

Interstate SWA (Includes LSS)
Intrastate Terminating Access
Recip Comp Revenue
Recip Comp Expense
Total Base of Eligible Recovery

Total	5% Reduction	Access Revenue	Interstate
633,770	(31,689)	Access Revenue	Interstate
119,895	(5,995)	Access Revenue	Intrastate Access
77,141	(3,857)	Local Revenue	Intrastate Local
(28,415)	1,421	Plant Non-Specific	Intrastate Local
802,391	(40,120)		
	AJE #3		

Copper Valley Telephone Company
Rate Base
As of December 31, 2011

	Adjusted		
	Total Company	INTERSTATE	INTRASTATE
Plant in Service	\$ 29,527,075	\$ 9,321,448	\$ 20,205,627
Accumulated Depreciation	(14,428,904)	(4,344,532)	(10,084,372)
Net Plant in Service	\$ 15,098,171	\$ 4,976,916	\$ 10,121,255
Plant Under Construction	186,665	58,929	127,736
Material & Supplies	-	-	-
Deferred Income Taxes	(2,084,595)	(661,052)	(1,423,543)
Customer Deposits	(19,335)	(6,104)	(13,231)
Cash Working Capital	143,352	53,249	90,102
Rate Base	<u>\$ 13,324,258</u>	<u>\$ 4,421,938</u>	<u>\$ 8,902,319</u>

ASSUMPTIONS

Used 2011 Copper Valley Only Cost Study ran 7/31/2012 for Part 36 separation of Average Rate Base.

Copper Valley Telephone Company

CALCULATION OF CASH WORKING CAPITAL (CWC)

CASH OPERATING EXPENSES	<u>Total Company</u>	<u>INTERSTATE</u>	<u>INTRASTATE</u>
Total Operating Expenses	\$ 4,548,722	\$ 1,680,789	\$ 2,867,932
Less Depreciation & Amortization	1,688,203	603,315	1,084,888
Fixed Charges	338,924	112,325	226,599
Interest on Customer Deposits	1,603	531	1,072
Other Nonoperating Expenses - Contributions	1,650	653	997
Cash Operating Federal Income Taxes	241,311	88,528	152,783
Cash Operating State & Local Taxes	44,218	16,222	27,996
Total Cash Operating Expenses	\$ 3,488,225	\$ 1,295,733	\$ 2,192,491
% LAG (15 days)	4.11%	4.11%	4.11%
TOTAL CASH WORKING CAPITAL	<u>\$ 143,352</u>	<u>\$ 53,249</u>	<u>\$ 90,102</u>

Copper Valley Telephone Company
Proposed Rate Design
2012 Average Units

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
Service Description	2012 Avg Units	Dec-11 Rates	2011 Annual Revenues	Proposed Rates	Proposed Revenues	Proposed Revenue	Proposed Change Percent
Basic Service	2,200	\$ 12.40	\$ 327,310	\$ 14.00	\$ 369,544	\$ 42,234	12.90%
Residence One-Party						\$ 42,234	
Estimated Revenue from Local Rate Increase						\$ 42,234	

Notes:
No reduction made for line loss.

Year	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009 Total		3,079	3,036	2,963	2,912	2,903	2,863	2,852	2,827	2,768	2,766	2,727	2,679
2010 Total		2,687	2,682	2,658	2,642	2,633	2,599	2,568	2,578	2,565	2,550	2,527	2,508
2011 Total		2,481	2,483	2,482	2,474	2,439	2,401	2,388	2,361	2,349	2,337	2,309	2,281
2012 Total		2,265	2,254	2,209	2,191	2,155	2,124						