

ORIGINAL

NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF TABLE TOP TELEPHONE COMPANY, INC., A NEVADA 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-02724A-12-0489

APPLICATION

1 Table Top Telephone Company, Inc. ("Table Top Telephone"), a Nevada 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 Table Top Telephone's earnings and the fair value of the company and requests
4 that its residential rates be increased as necessary to compensate for the rate impacts of the
5 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 The USF/ICC Order transitions the outdated federal universal service programs and most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."

13 The USF/ICC Order will reduce certain terminating inter-carrier compensation rates to
14 zero by July 1, 2020, for rate of return companies, with limited recovery from customers and

1 partial recovery from the CAF. The recovery from the CAF will be reduced over time at 5%
2 annually.

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

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

19 Low customer density makes Table Top Telephone dependent on high-cost federal
20 support mechanisms. It is important that the company be allowed to increase local rates, to the
21 FCC determined annual rate floors, in order to maintain its existing federal support. Therefore,
22 Table Top Telephone requests the Commission to approve local rate increases to the \$14 rate
23 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. TABLE TOP TELEPHONE**

2 Table Top Telephone Company, Inc. is a corporation duly organized and existing under
3 and by virtue of the laws of the State of Nevada and authorized to do business in the State of
4 Arizona. Table Top Telephone is authorized to engage in and is now engaged in the conduct of a
5 general communications business within the State of 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. The Commission last considered Table Top Telephone's rates in
9 Docket No. T-02724A-99-0595, which resulted in Commission Decision 62840, dated August
10 24, 2000.

11 Table Top Telephone's local residential rates are \$13.55/month within the base rate area,
12 with an additional \$1.25/month for customers in Zone 1 or an additional \$3.25/month for
13 customers in Zone 2. The rates for customers within the base rate area are below the federal
14 \$14/month rate floor that will go into effect on June 1, 2013. The rate floor for 2014 and
15 thereafter will be determined by an annual FCC survey.

16 Table Top Telephone is aware that many parties, including the Commission, have
17 appealed the USF/ICC Order. However, in the meantime, Table Top Telephone and other rural
18 ILECS must comply with all provisions of the USF/ICC Order and will remain subject to the
19 increased local residential rate floors and the corresponding losses of federal support funds.

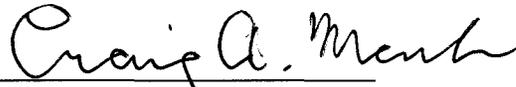
20 Table Top Telephone's loss of federal support funds would be particularly difficult to
21 bear. As the attached schedules demonstrate, Table Top Telephone's return on investment is
22 already low. Losing federal support funds would only drive earnings lower.

23 In connection with this application, Table Top Telephone has filed exhibits which include
24 a schedule of the specific rate changes requested and the impact of the revenue generated on the
25 company's financial position. Table Top Telephone asks that the Commission determine the fair
26 value of the company for ratemaking purposes and stipulates to use original cost less
27 depreciation for those purposes. Because the next opportunity to affect federal support funds is

1 June 1, 2013, Table Top Telephone further asks that the Commission set new rates at the \$14.00
2 floor to be effective no later than June 1, 2013.

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

6 Respectfully submitted on December 7, 2012.

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9

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Phoenix, Arizona 85007

By:

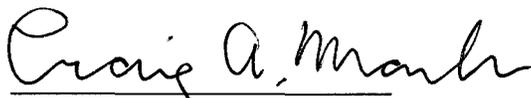

Craig A. Marks
Craig A. Marks

Table Top Telephony Company, Inc.

Streamlined filing to support residential rate increase due to FCC

floor implementation and resulting HCL loss.

December 7, 2012

Table Top Telephony Company, Inc.

December 7, 2012

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Table Top Telephony Company, Inc.

as of December 7, 2012

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

	2011 TOTAL TELEPHONE OPERATIONS (e)	ADJUSTMENTS (b)	Ref (c)	ADJUSTED 2011 RESULTS (d)	INTERSTATE (e)	INTRASTATE (f)
1 Local	1,356,579	(3,211)	#9	1,353,368	-	1,353,368
2 Universal Service Fund (USF-HCL) and Safety Net Additive (SNA)	2,290,806	(3,435)	#14,15	2,287,371	-	2,287,371
3 Access Revenues	5,985,478	(109,405)	#9,10,11,12,13	5,876,073	5,004,571	871,502
4 Billing & Collecting	8,691			8,691	1,913	6,778
5 Other Misc., Uncollectibles	27,881	(5,064)	#5	22,817	-	22,817
6 Total Operating Revenues	9,669,435	(121,115)		9,548,320	5,006,484	4,541,836
7 Plant Specific Expenses	1,978,278	(66,394)	#2,3,5	1,911,884	1,034,313	877,571
8 Plant Nonspecific Expenses	649,041	31,370	#3,4,6,9	680,411	361,483	318,928
9 Depreciation & Amortization Expenses	3,286,670			3,286,670	1,714,136	1,572,534
10 Customer Operations Expenses	498,154	2,287	#8	500,441	230,710	269,731
11 Corporate Operations Expenses	1,045,874	(8,089)	#1,7,8	1,037,785	564,793	472,992
12 Other Operating Taxes and (Income)	408,456	1,621	#7	410,077	202,024	208,053
13 Total Operating Expenses	7,866,473	(39,205)		7,827,268	4,107,459	3,719,809
14 OPERATING RETURN BEFORE TAXES	1,802,962	(81,910)		1,721,052	899,025	822,027
15 State Income Taxes (SIT) (6.968%)	161,005	(43,994)	#16	117,011	62,644	54,367
16 Federal Income Taxes (FIT) (35%)	380,513	166,275	#16	546,788	292,733	254,055
17 Total Operating Income Taxes	541,518	122,281		663,799	355,377	308,422
18 Total Expenses and Income Taxes	8,407,991	83,076		8,491,067	4,462,836	4,028,231
19 Net Operating Income	1,261,444	(204,191)		1,057,253	543,648	513,605
20 Total Year-End Rate Base	22,565,967			22,565,967	9,883,077	12,682,890
21 Return on Rate Base (Ln 19/Ln 20)						4.05%
22 Estimated Revenue from Local Rate Increase						9,817
23 State Income Taxes (SIT) (6.968%)						684
24 Federal Income Taxes (FIT) (35%)						3,197
25 Increase in Net Operating Income						5,936
26 Net Operating Income After Increase (Ln 19 + Ln 25)						519,542
27 Return on Rate Base After Increase (Ln 26 / Ln 20)						4.10%

ASSUMPTIONS

Used 2011 Cost Study run dated 6/19/12 for Part 35 separations
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

Table Top Telephone Company, Inc.

Adjustments to Revenues and Expenses

Ref	Account	Description	Debit	Credit
1	Exclude		4,181	
	6720	Corporate Expenses		4,181
		To remove wages and benefits associated with non-regulated activities		
2	Exclude		37,663	
	6230	Circuit Equipment Expense		37,663
		To remove help-desk expenses associated with non-regulated services		
3	6510	Provisioning Expense	23,667	
	6410	Cable & Wire Expense		23,667
		To reclassify physical inventory adjustment		
4	6540	Access Expense	18,314	
	Exclude			18,314
		To adjust USAC expenses to EC1050		
5	5240	Rent Revenue	5,064	
	6120	General Support Expense		5,064
		To net rent revenues with expenses		
6	Exclude		9,793	
	6540	Access Expense		9,793
		To transfer other access expense out of study		
7	7240	Operating Taxes	1,621	
	6720	Corporate Operations Expenses		1,621
		To move FCC Regulatory Fees to the proper account.		
8	6620	Customer Operations Expense	2,287	
	6720	Corporate Operations Expenses		2,287
		To move TRS Fees to the proper account.		
9	5000	Local Service Revenue	3,211	
	5082	Interstate Access Revenue	54,609	
	5084	Intrastate Access Revenue	13,596	
	6540.3	Plant Non-Specific Expense		818
	Exclude			70,598
		Year 1 FCC Order ICC Intrastate and Interstate revenue and expense reductions		

Table Top Telephone Company, Inc.

Adjustments to Revenues and Expenses

Ref	Account	Description	Debit	Credit
10	5082	Interstate Access Revenue	1,063	
	Exclude			1,063
		To remove prior period (2008) Interstate Revenue.		
11	5082	Interstate Access Revenue	52,898	
	Exclude			52,898
		To remove prior period (2009) Interstate Revenue.		
12	5082	Interstate Access Revenue	62,866	
	Exclude			62,866
		To remove prior period (2010) Interstate Revenue.		
13	Exclude		75,627	
	5082	Interstate Access Revenue		75,627
		To adjust 2011 Interstate Revenue trued-up in 2012.		
14	Exclude		729	
	5082.4	Universal Service Fund		729
		To adjust 2011 Universal Service Fund trued-up in 2012.		
15	5082.4	Universal Service Fund	4,164	
	Exclude			4,164
		To remove prior period Universal Service Fund adjustments.		
16	7220	Federal Income Tax	166,275	
	7230	State Income Tax		43,994
	Exclude			122,281

Table Top Telephone Company, Inc.
 Estimated ICC Impact of FCC Order

Base Line of Eligible Recovery:

	Total	Estimated Revenue Reduction	
Interstate SWA (Includes LSS)	1,092,188	(54,609)	Interstate
Intrastate Terminating Access	271,913	(13,596)	Intrastate Access
Recip Comp Revenue	64,219	(3,211)	Intrastate Local
Recip Comp Expense	(16,363)	818	Intrastate Local
Total Base of Eligible Recovery	<u>1,411,957</u>	<u>(70,598)</u>	

Table Top Telephony Company, Inc.

2011 Rate Base

	Total Company	Interstate	Intrastate
Plant In Service	49,605,303	24,338,229	25,267,074
Accumulated Depreciation	28,731,400	15,274,569	13,456,831
Net Plant in Service	20,873,903	9,063,660	11,810,243
Plant Under Construction	3,026,273	1,484,804	1,541,469
Material & Supplies	141,662	56,979	84,683
Deferred Income Taxes	(1,565,444)	(772,744)	(792,700)
Other Long Term Liabilities	(10,582)	(5,503)	(5,079)
Customer Deposits	(131,408)	(64,473)	(66,935)
Cash Working Capital	231,563	120,354	111,209
Rate Base	22,565,967	9,883,077	12,682,890

Table Top Telephony Company, Inc.

CALCULATION OF CASH WORKING CAPITAL (CWC)

	<u>Balance</u>
Plant Specific Operations Expense	1,911,884
Plant Non-Specific Operations Expense Excluding Depreciation and Amortization	680,411
Customer Operations Expense	500,441
Corporate Operations Expense	1,037,785
Contributions	7,211
Interest on Customer Deposits	13,655
Operating Taxes	891,983
Interest Expense - Operating	591,324
Total Annual Expense	<u>5,634,694</u>
Cash Working Capital Factor	0.041096
Cash Working Capital Base	<u>231,563</u>
Minimum Cash Balance	-
Working Cash Allowance	-
Total Cash Working Capital	<u>231,563</u>
	15/365

Table Top Telephony Company, Inc.

Proposed Rate Design
June 30, 2012 Average Units*

(A) Service Description	(B) Average Units**	(C) Current Rates	(D) Current Zone Charge	(E) 2011 Annual Revenues	(F) Rates	(G) Proposed Zone Charge	(H)		(I)		(J) Proposed Change Percent
							Revenues	Revenues	Revenue	Revenue	
Basic Service											
Residence Within the Base Rate Area (R1)	1,818	\$ 13.55	\$ -	\$ 295,607	\$ 14.00	\$ -	\$ 305,424	\$ 9,817	\$ 9,817		3.32%
Residence in Zone 1 (RZ1)	98	\$ 13.55	\$ 1.25	\$ 17,405	\$ 14.00	\$ 0.80	\$ 17,405	\$ -	\$ -		0.00%
Residence in Zone 2 (RZ2)	630	\$ 13.55	\$ 3.25	\$ 127,008	\$ 14.00	\$ 2.80	\$ 127,008	\$ -	\$ -		0.00%
Estimated Revenue from Local Rate Increase								<u>\$ 9,817</u>	<u>\$ 9,817</u>		

Notes:

*Average units (7/11-6/12) are used to capture seasonal fluctuations.

** No Reduction Made for Line Loss

Year	Type	Residential Lines											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2011	R1	1,863	1,871	1,860	1,842	1,832	1,832	1,829	1,826	1,819	1,810	1,813	1,813
2011	RZ1	106	106	105	105	106	105	106	100	101	101	100	98
2011	RZ2	655	653	657	648	643	641	644	641	635	637	637	632
2011 Total		<u>2,624</u>	<u>2,630</u>	<u>2,622</u>	<u>2,595</u>	<u>2,581</u>	<u>2,578</u>	<u>2,579</u>	<u>2,567</u>	<u>2,555</u>	<u>2,548</u>	<u>2,550</u>	<u>2,543</u>
2012	R1	1,832	1,843	1,839	1,811	1,797	1,784						
2012	RZ1	97	95	97	96	95	94						
2012	RZ2	635	633	624	615	614	609						
2012 Total		<u>2,564</u>	<u>2,571</u>	<u>2,560</u>	<u>2,522</u>	<u>2,506</u>	<u>2,487</u>						