

ORIGINAL



MEMORANDUM

2013 MAR 14 A 8:55

TO: Docket Control
FROM: Steven M. Olea
Director
Utilities Division

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

DATE: March 14, 2013

RE: IN THE MATTER OF THE APPLICATION OF TABLE TOP TELEPHONE COMPANY, INC. 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)

Attached is the Staff Report for Table Top Telephone Company, Inc.'s application to increase residential rates to compensate for the rate impacts of the Federal Communications Commission's Universal Service Fund/Intercarrier Compensation ("FCC's USF/ICC") Transformation Order.

Staff recommends approval of Table Top Company, Inc.'s request to increase its monthly residential local exchange service rate from \$13.55 to \$14.00, effective June 1, 2013.

SMO:AFF:tdp\CH

Originator: Armando Fimbres

Arizona Corporation Commission

DOCKETED

MAR 14 2013

DOCKETED BY	TSM
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SERVICE LIST FOR: TABLE TOP TELEPHONE COMPANY, INC.
DOCKET NO.: T-02724A-12-0489

Mr. Craig A. Marks
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Phoenix, Arizona 85028

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

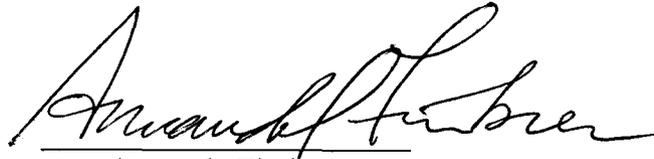
**TABLE TOP TELEPHONE COMPANY, INC.
DOCKET NO. T-02724A-12-0489**

**IN THE MATTER OF THE APPLICATION OF TABLE TOP TELEPHONE
COMPANY, INC. 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**

MARCH 14, 2013

STAFF ACKNOWLEDGMENT

The Staff Report for Table Top Telephone Company, Inc. (Docket No. T-02724A-12-0489) was the responsibility of the Staff member listed below.

A handwritten signature in black ink, appearing to read "Armando Fimbres". The signature is written in a cursive style with a horizontal line underneath it.

Armando Fimbres
Executive Consultant III

**EXECUTIVE SUMMARY OF
TABLE TOP TELEPHONE COMPANY, INC.
DOCKET NO. T-02724A-12-0489**

On December 7, 2012, Table Top Telephone Company, Inc. ("Table Top Telephone" or "Applicant") filed an application for a determination of its earnings and the fair value of its investment and requested that its residential rates be increased to compensate for the rate impacts of the Federal Communication Commission's ("FCC's") November 18, 2011, Universal Service Fund/Intercarrier Compensation ("USF/ICC") Transformation Order ("USF/ICC Order") pursuant to Arizona Revised Statute ("A.R.S.") § 40-250 and the Arizona Corporation Commission's ("Commission's") Arizona Administrative Code ("A.A.C.") R14-2-103.

Staff recommends that the Table Top Telephone monthly residence local exchange rate increase from the \$13.55 to \$14.00 to address the impact of the FCC's USF/ICC Order. Staff believes the proposed increase is just, fair and reasonable for the following reasons:

- The increase is necessitated by the FCC's November 18, 2011 USF/ICC Order;
- The increase is necessary to preserve the entirety of the Federal Universal Service Fund ("FUSF") funds that may flow to Table Top Telephone pursuant to the FCC's rules;
- The increase will minimize/reduce the amount of future rate increase; and
- The increase will allow the Applicant to receive matching funds from the FUSF.

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INTRODUCTION

On December 7, 2012, Table Top Telephone, Inc. (“Table Top Telephone” or “Applicant”) filed an application for a determination of its earnings and the fair value of its investment and requested that its residential rates be increased to compensate for the rate impacts of the Federal Communication Commission’s (“FCC’s”) November 18, 2011, Universal Service Fund/Intercarrier Compensation (“USF/ICC”) Transformation Order (“USF/ICC Order”) pursuant to Arizona Revised Statute (“A.R.S.”) § 40-250 and the Arizona Corporation Commission’s (“Commission’s”) Arizona Administrative Code (“A.A.C.”) R14-2-103. A.A.C. R14-2-103(A)(1) requires specific financial and statistical information be filed with a request by a public service corporation doing business in Arizona for a determination of the value of the property of the corporation and of the rate of return earned. Table Top Telephone submitted, as recommended by Staff, a streamlined filing in which Table Top Telephone submitted the following six exhibits to support the requested increase in residential rates:

- Adjusted Results Twelve Months Ending December 31, 2011
- Adjustments
- Year 1 FCC Order ICC Impact
- Rate Base
- Working Capital
- Rate Design.

BACKGROUND

Table Top Telephone is a corporation duly organized and existing under and by virtue of the laws of the State of Nevada and authorized to do business in the State of Arizona. Table Top Telephone is authorized to engage in and is engaged in the conduct of a general communications business within the State of Arizona. The Commission last considered Table Top Telephone’s rates in Docket No. T-02724A-99-0595, which resulted in Commission Decision No. 62840, dated August 24, 2000. Table Top Telephone is a small rate-of-return (“RoR”) regulated incumbent local exchange carrier (“ILEC”).

On November 18, 2011, the FCC issued the USF/ICC Order. The USF/ICC Order transitions the outdated federal universal service programs and most intercarrier compensation systems into a new Connect America Fund (“CAF”). The FCC’s press release characterized the USF/ICC Order as “the most significant policy step ever taken to connect all Americans to broadband.”

In its USF/ICC Order, the FCC stated that it will reduce intercarrier compensation rates to zero by July 1, 2020, for RoR companies, with limited recovery from customers and partial recovery from the CAF. The recovery from the CAF will phase out over time at 5 percent annually. The USF/ICC Order adds new rules that will reduce federal high-cost loop support ("FHCLS") to carriers by the amount their flat-rate single line residential local service rates fall below a specified local service rate floor. The rate floor includes state subscriber line charges, state universal service fees, and mandatory extended area service charges, if any are assessed. The FCC's order establishes single line residential local service rate floors of \$10.00 as of June 1, 2012, \$14.00 as of June 1, 2013, with the floor thereafter being determined annually by the FCC's Wireline Competition Bureau, based on a nationwide average.

To maintain FHCLS, Table Top Telephone and other rural ILECs must increase single residential local rates to the FCC-mandated residential rate floors. Otherwise, the amount of FHCLS funds will be reduced dollar-for-dollar for each customer by the difference between the existing single line residential local rate and the new rate floor. If single line residential local rates are not increased, the new FCC rules will reduce FHCLS for Table Top Telephone and other applicable ILECs. Table Top Telephone's current weighted average residential local service rate of \$13.55 is above the \$10.00 rate floor. Therefore, with this application, Table Top Telephone only seeks Commission approval to raise its residence local service rate to the rate floor of \$14.00 by June 1, 2013.

CONSUMER SERVICES

On December 7, 2012, the Commission's Corporations Division responded that Table Top Telephone is in Good Standing. A review of Consumer Services database revealed that two complaints, inquiries and opinions were received pertaining to Table Top Telephone for the period January 1, 2009-December 18, 2012. All complaints, inquiries and opinions have been resolved and closed.

COMPLIANCE

A check of the Utilities Division Compliance Section database showed that Table Top Telephone is in compliance with all items.

OPERATING INCOME STATEMENT

Table Top Telephone submitted Regulated 2011 Results of Operations information in its streamlined filing. The submitted information was accepted without adjustment for the purposes of this streamlined application.

Operating Revenue and Expenses

According to the information provided by the Applicant, Table Top Telephone Total Intrastate Operating Revenues for 2011 were \$4,541,836. Subcategories of Total Intrastate Operating Revenues are noted below:

Local	\$1,353,368
USF-HCL ¹ & Safety Net	\$2,287,371
Access Revenues	\$871,502
Other	\$29,595

The Company also provided information that stated that its Total Intrastate Operating Expenses for 2011 were \$3,719,809. Subcategories of Total Intrastate Operating Expenses are noted below:

Plant Expenses	\$1,196,499
Depreciation & Amortization	\$1,572,534
Customer Operations	\$269,731
Corporate Operations	\$472,992
Other	\$208,053

Operating Income

As provided by the Applicant, Table Top Telephone Total Intrastate Operating Income for 2011 was \$822,027 before taxes and \$513,605 after taxes.

¹ Universal Service Fund – High Cost Fund

RATE BASE

According to Table Top Telephone, its rate base is \$22,565,967, as stated in the table below:

Table Top Telephone, Inc.
Rate Base
As of December 31, 2011

	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

CUSTOMER BASE

Table Top Telephone reported 2,543 residential lines and 1,452 business lines in its April 15, 2012 Utilities Annual Report.

REVENUE REQUIREMENT

As stated above, the Applicant’s filing was based on a streamlined basis and rates will not be set based on rate of return regulation. Therefore, the Applicant’s filing does not contemplate rate adjustments based on revenue requirement analysis.

RATE DESIGN

The Applicant did not propose a rate design as required by R14-2-103. The Applicant is seeking to increase its residential local exchange service rate by \$0.45. The Applicant’s filing only contemplates changes to residence local exchange service rates to compensate for the

revenue impacts of the FCC’s USF/ICC order. With this filing, Staff will only address the monthly increase of all residence local exchange service rates to \$14.00.

Table Top Telephone has three residence rate areas – (1) Residence Within the Base Rate Area or R1; (2) Residence in Zone 1 or RZ1; and (3) Residence in Zone 2 or RZ2. Table Top Telephone proposes to modify residence rates in the three zones as outlined below:²

Residence Zone	Current Rate	Proposed Rate	Current Zone Rate	Proposed Zone Rate	Current Total	Proposed Total
R1	\$13.55	\$14.00	-	-	\$13.55	\$14.00
RZ1	\$13.55	\$14.00	\$1.25	\$0.80	\$14.80	\$14.80
RZ2	\$13.55	\$14.00	\$3.25	\$2.80	\$16.80	\$16.80

By design, Zone R1 is the only zone that will increase when the proposed Residence Rate is combined with the proposed Zone Rate. Although the Current Rates are increasing in RZ1 and RZ2 to the Proposed Rate of \$14.00, decreases in the corresponding proposed Zone Rates offset increases to the Proposed Rates. The combined customer impacts in zones RZ1 and RZ2, therefore, equal zero and contribute \$0 in annual revenue to Table Top Telephone.

STAFF ANALYSIS

Staff did not perform a regulatory audit of the information submitted by Table Top Telephone. However, Staff reviewed the information filed in the context of the FCC’s November 18, 2011 USF/ICC Order which is intended to transition the outdated federal universal service programs and most intercarrier compensation systems into a new CAF.

Staff has analyzed this application in terms of whether there were fair value implications. For the purposes of this matter the Applicant stipulated to the use of original cost less depreciation as the basis for a determination of its fair value rate base. The Applicant states that its intrastate rate base is \$12,682,890. The Applicant provided information that indicates that its Total Intrastate Operating Revenue for 2011 was \$4,541,836. According to the Applicant, the annual revenue effect of the increase in local telephone service rates to \$14.00 is \$9,817. Compared to the Applicant’s total revenues, any revenue impact from this rate increase would be small and the impact on the Applicant’s return on fair value rate base would be diminimus.

² Rate Design Exhibit, Page 7

STAFF'S RECOMMENDATIONS

Staff recommends that the Table Top Telephone monthly residence local exchange rate increase from \$13.55 to \$14.00, beginning June 1, 2013, to address the impact of the FCC's USF/ICC Order. Staff believes the proposed increase is just, fair and reasonable for the following reasons:

- The increase is necessitated by the FCC's November 18, 2011 USF/ICC Order;
- The increase is necessary to preserve the entirety of the FUSF funds that may flow to Table Top Telephone pursuant to the FCC's rules;
- The increase will minimize/reduce the amount of future rate increase; and
- The increase will allow the Applicant to receive matching funds from the FUSF.

Staff has reviewed the rate application and the federal rule changes that have prompted the rate application. Staff concludes that the costs appear reasonable and appropriate under the unique circumstances of this case. However, Staff's recommendation in these unique circumstances should not be viewed as precedent for the processing of future rate case applications.