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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

Arizona Corporation Commission

DOCKETED

MAR 21 2013

DOCKETED BY nr

IN THE MATTER OF THE APPLICATION
OF QWEST CORPORATION DBA
CENTURYLINK QC FOR APPROVAL TO
SET OR INCREASE THE MAXIMUM
TARIFFED RATES FOR CERTAIN
COMPETITIVE TELECOMMUNICATIONS
SERVICES, PURSUANT TO A.A.C. R14-2-
1110.

DOCKET NO. T-01051B-12-0468

DECISION NO. 73781

ORDER

Open Meeting
March 12 and March 13, 2013
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

I. Introduction

1. On November 16, 2012, Qwest Corporation dba CenturyLink QC ("CenturyLink") filed an application to set or to increase the maximum tariffed rates for certain competitive telecommunications services, pursuant to A.A.C. R14-2-1110 ("Rule 1110").

2. In its Application, CenturyLink seeks to set maximum tariff rates for certain services that are competitive subject to conditions defined in the Settlement approved by the Commission in Decision No. 73354 issued on August 21, 2012, and to increase the maximum rate for one service, Directory Assistance ("DA"), that is competitive but not subject to conditions. The proposed maximum rate changes are outlined in the attached Exhibit 1.

3. This Staff Report addresses all services encompassed in CenturyLink's Application with the exception of DA. Thus, Staff recommends approval of CenturyLink's Application for all

1 services but DA. The Company's proposals with respect to DA are still being reviewed by Staff
2 and will be addressed in a separate Staff Report.

3 **II. Background**

4 4. On October 13, 2011, CenturyLink filed with the Commission an Application to
5 classify and regulate certain retail local exchange telecommunications as "competitive" pursuant to
6 A.A.C. R14-2-1108, and to classify and deregulate certain services as non-essential. In Decision
7 No. 73354, the Commission approved a Settlement Agreement between CenturyLink, the Arizona
8 Investment Council, the Residential Utility Consumer Office and Staff providing for competitive
9 classification of CenturyLink's services subject to conditions in the case of Residential and
10 Small/Medium Businesses, and that CenturyLink may file for increased rates pursuant to A.A.C.
11 R14-2-1110 subject to the following conditions:

- 12 (a) For a period of three years from the effective date of the approval of the Settlement,
13 CenturyLink shall not be entitled to increase its maximum rates greater than 25 percent
14 over present rates.
- 15 (b) After making its Rule 1110 filing pursuant to Section 2.2.a of the Settlement, for three
16 years following the Order approving the Settlement, CenturyLink may increase its
17 actual rates pursuant to Rule 1109, by no more than 10 percent annually for
18 Residential services, and by no more than 15 percent annually for Small and Medium
19 Business services.
- 20 (c) Staff will not contest a Rule 1110 request made by CenturyLink that complies with
21 Section 2.2.a, or a Rule 1109 filing to increase rates that comports with Section 2.2.b,
22 but no other party is constrained from opposing the Rule 1110 increase.
- 23 (d) Enterprise or Large Business services, are considered to be fully competitive and may
24 be increased without restrictions, except those provided by the Rules and services that
25 are already classified competitive under Rule 1108 are also not subject to the
26 conditions of Sections 2.2(a) or 2.2.b.
- 27 (e) For three years after the effective date of the Order approving the Settlement
28 Agreement, CenturyLink will charge statewide uniform rates for the services subject to
the limitations of Sections 2.2.a and 2.2.b. Thereafter, CenturyLink will charge
uniform statewide rates until it receives authorization from the Commission to de-
average rates.

26 5. In its current Application, CenturyLink proposes to increase maximum rates for 18
27 residence and business services.

28 ...

1 6. On November 27, 2012, the Residential Utility Consumer Office (“RUCO”) filed
2 an application to intervene without requesting a hearing.

3 7. On January 16, 2013, CenturyLink filed a Notice with an Affidavit of Mailing in
4 the Docket certifying that the notice required by Arizona Administrative Code Section R14-2-
5 1110.B.3 was being sent during the month of January, 2013 via standard U S Mail for those
6 customers who receive paper bills, or was being sent electronically for those customers who have
7 elected to receive their bills in electronic format.

8 8. To date seventeen residential customers have filed in opposition to the proposed
9 increase in the basic telephone service rate. Several customers indicated that the increase would
10 be hard on low-income and retired people living on fixed incomes. Another indicated that
11 landline telephone service is a vital service for older persons. One customer in the Safford area
12 indicated that service there has gotten progressively worse over the years. Another customer
13 indicated that Qwest should receive an increase because they have not had a rate increase in 17
14 years; however low usage services should not be affected.

15 9. On February 21, 2013, a procedural conference was held to determine whether a
16 hearing on CenturyLink’s Application was necessary. CenturyLink, Staff and RUCO were the
17 only parties present at the procedural conference. All parties present agreed that a hearing was
18 not necessary.

19 **III. Staff’s Analysis & Conclusions**

20 10. The pricing and rate change provision of A.A.C. R14-2-1109 and A.A.C. R14-2-
21 1110 apply to changes in either the price levels or maximum rates for services provided by
22 CenturyLink. A.A.C. R14-2-1109 allows CenturyLink to price a competitive telecommunications
23 service at any level at or below the maximum rate stated in the company’s tariff on file with the
24 Commission, provided that the price for the service is not less than the company’s total service
25 long-run incremental (marginal) cost of providing the service. Pursuant to A.A.C. R14-2-1110.B,
26 CenturyLink is required to submit the following information in order to increase the maximum
27 rates for a competitive telecommunications service:

28 a. A statement setting forth the reasons for which a rate increase is required;

- 1 b. A schedule of current rates and proposed rates and the additional revenues to be
2 c. An affidavit verifying that appropriate notice of the proposed rate increase has been
3 provided to customers of the service.

4 11. In addition, sixteen (16) of the eighteen (18) services included in CenturyLink's
5 application are subject to conditions in the Settlement Agreement attached as Exhibit A to
6 Decision 73354 issued August 21, 2013. Section II.2.2.b states:

7 "For a period of three years from the date an order is entered by the Commission in
8 this docket approving this agreement or otherwise resolving this petition (the
9 "Order Approving Settlement"), CenturyLink shall not be entitled to increase its
10 maximum rates for residential services or for small and medium business services
11 greater than 25% over present rates."

12 **A. CenturyLink's Maximum Rate Increase Request for Services Other than DA**

13 12. CenturyLink proposes to increase maximum recurring rates and several non-
14 recurring rates for 18 residence and business services.

15 13. It is important to note at the outset, that the Company is not proposing to change its
16 current actual rate levels at this time. Setting maximum rates, however, will allow CenturyLink to
17 increase its actual rates up to the maximum rate level subject to the conditions contained in the
18 Settlement Agreement.

19 14. CenturyLink is asking to set maximum rates for the following services: Basic Flat-
20 Rate Residential Service, Low Use Residential Service, Residential Service Stations, Obsolete
21 Local Service – Residential, Flat-Rate Business Service, Zone Charges for both Residential and
22 Business Service, Returned Payment Charge, Convenience Fee for Credit Card Payments, Late
23 Payment Charges, Non-Published Listings and Non-Lists for Residential Service, and Directory
24 Assistance.

25 15. On November 30, 2012, Staff issued its First Set of Data Requests. Staff confirmed
26 that 16 of the 18 services included in CenturyLink's application are subject to the Settlement
27 Agreement attached as Exhibit A to Decision 73354 issued August 21, 2012. CenturyLink
28 provided information in response to Staff Data Requests stating cumulative revenue impact of the

1 overall increase for Residential and Small/Medium Business Customers should CenturyLink
2 eventually increase its actual rates up to maximum levels. Staff confirmed that the proposed
3 maximum rate increases corresponding to the 16 services subject to the Settlement Agreement in
4 Decision No. 73354 are less than or equal to 25% over present rates.

5 **B. CenturyLink's Request with Respect to DA**

6 16. CenturyLink is proposing a maximum rate of \$1.99 for DA calls, outside the
7 monthly free call allowance, which equals a 73% increase over the present rate of \$1.15.

8 17. The proposed maximum rate of \$1.99 will also apply to all DA calls, resulting in
9 the elimination of CenturyLink's Price Cap Tariff No. 2, section 6.2.4,A.2.a, call allowance - "A
10 customer is allowed one directly dialed Directory Assistance call per month at no charge for each
11 central office line or trunk, excluding Public Access Lines ("PALs.")"

12 18. The portion of CenturyLink's Application dealing with DA will be addressed in a
13 separate Staff report. CenturyLink has agreed to defer the DA issue while Staff continues to
14 review this portion of the Company's Application. Currently Staff has asked the Company for
15 additional information on this issue and CenturyLink is in the process of assembling the
16 information requested by Staff.

17 **C. Compliance with Constitutional Fair Value Mandate**

18 19. Article XV, Section 14 of the Arizona Constitution requires that the Commission
19 establish rates by reference to the "fair value" of the utility's property devoted to the public
20 service. However, in a competitive market as here, the Commission has broad discretion in
21 determining the weight to be given fair value rate base in setting rates. Courts have stated that
22 there is no reason to rigidly link the fair value determination to the establishment of rates in a
23 competitive market.

24 20. Staff has reviewed the most recent annual report filed by CenturyLink and
25 determined that the intrastate fair value rate base of the Company for year end 2011 to be
26 CONFIDENTIAL. Staff did request from CenturyLink and did consider the impacts of the
27 proposed maximum rate increases in relation to fair value and the operating revenues of the
28

1 Company. Staff did not accord this analysis the same amount of weight that it would have if
2 CenturyLink still operated in markets that were not competitive.

3 21. In a competitive market, the actual rates ultimately charged by CenturyLink will be
4 heavily influenced by the market. As of this time, CenturyLink has proposed no changes to its
5 actual rates charged to customers. In addition, the maximum rates proposed by CenturyLink for all
6 services other than DA, reflect the Settlement Agreement condition of no more than a 25% overall
7 increase for Residential services and Small and Medium Business Services for the next three years.
8 The Settlement Agreement further limits any increases for Residential and Small/Medium
9 Business in each of the first three years to 10%. CenturyLink has not increased its basic local rates
10 for Residential customers since 1995.

11 22. As another benchmark of reasonableness, Staff reviewed the proposed maximum
12 rates with the rates charged by other ILECs and CLECs operating in the State of Arizona and
13 found CenturyLink's maximum rates to be comparable. There are local exchange service
14 alternatives available to CenturyLink's end-user customers, should customers find any rate
15 increases to actual rates unacceptable.

16 23. Given these considerations, Staff found the proposed maximum rates to be fair and
17 reasonable.

18 **IV. Staff's Recommendations**

19 24. Staff recommends approval of this filing conditioned upon the following:

- 20 a. That CenturyLink's application for a maximum rate increase for all services
21 requested in the Application except Directory Assistance be granted. The portion of
22 CenturyLink's Application which proposes a maximum rate increase for Directory
23 Assistance will be addressed at a later date.
- 24 b. That prior to raising actual rates for services affected by this application,
25 CenturyLink provide both the Commission and its customers notice as required
26 under Arizona law, including the Commission's rules.
- 27 c. That at least 60 days prior to raising the actual rates for services, CenturyLink shall
28 make a filing with Staff, so that Staff can confirm that the conditions of the
Settlement Agreement which impose limits on the amount CenturyLink can
increase actual rates on an annual basis for Residential, Small and Medium
Business services, are met.

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CONCLUSIONS OF LAW

1. Qwest Corporation dba CenturyLink QC is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. § 40-285.

2. The Commission has jurisdiction over Qwest Corporation dba CenturyLink QC and the subject matter in this filing.

3. The Commission, having reviewed the filing and Staff's Memorandum dated February 28, 2013, concludes that it is in the public interest to grant approval of the maximum rates for all services other than DA as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the application of Qwest Corporation dba CenturyLink QC to increase maximum monthly rates as described in the attached Exhibit I, be and hereby is approved.

IT IS FURTHER ORDERED that Qwest Corporation dba CenturyLink PC's DA request be deferred and addressed at a later date.

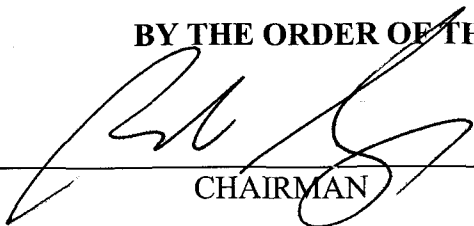
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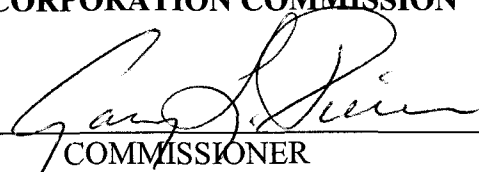
1 IT IS FURTHER ORDERED that before CenturyLink makes any changes to its actual rates
2 it shall provide both the Commission and customers with notice as provided under Arizona law
3 and Commission rules.

4 IT IS FURTHER ORDERED that at least 60 days prior to raising the actual rates for
5 services, CenturyLink shall make a filing with Staff, so that Staff can confirm that the conditions
6 of the Settlement Agreement which imposes limits on the amount CenturyLink can increase actual
7 rates on an annual basis for Residential, Small and Medium Business services, are met.

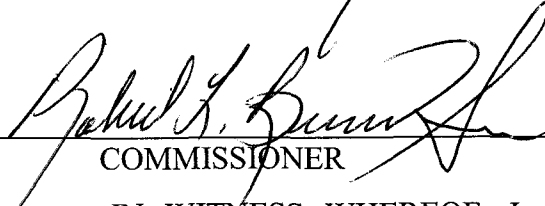
8 IT IS FURTHER ORDERED that this Decision shall be become effective
9 immediately.

10 BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

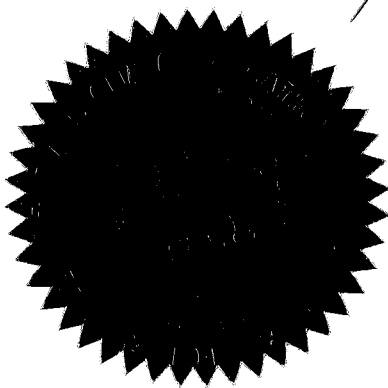
11 
12 CHAIRMAN

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12 COMMISSIONER

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15 COMMISSIONER

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16 IN WITNESS WHEREOF, I, JODI JERICH, Executive
17 Director of the Arizona Corporation Commission, have
18 hereunto, set my hand and caused the official seal of this
19 Commission to be affixed at the Capitol, in the City of
20 Phoenix, this 21st day of March, 2013.

21 
22 JODI JERICH
23 EXECUTIVE DIRECTOR

24 DISSENT: _____

26 DISSENT: _____

27 SMO:AFF:sms/MAS

28

1 SERVICE LIST FOR: QWEST CORPORATION DBA CENTURYLINK QC
2 DOCKET NO.: T-01051B-12-0468

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EXHIBIT 1

Exhibit 1

Proposed Maximum Rate Changes

SERVICE*	PRESENT RATE	PROPOSED MAXIMUM RATE
FLAT RATE SERVICE-RESIDENTIAL PRIMARY LINE	\$13.18	\$16.47
FLAT RATE SERVICE – BUSINESS PRIMARY LINE	\$30.40	\$38.00
SERVICE STATION LINE - RESIDENTIAL	\$13.18	\$16.47
4-PARTY SERVICE - RESIDENTIAL	\$10.70	\$13.37
LOW USE OPTION – RESIDENTIAL PRIMARY LINE OR ADDITIONAL LINE	\$8.50	\$10.62
LOW USE OPTION – RESIDENTIAL PER CALL CHARGE	\$0.20	\$0.25
OUTSIDE OF BASE RATE AREA - ZONE 1 CHARGE	\$0.50	\$0.62
OUTSIDE OF BASE RATE AREAS - ZONE 2 CHARGE	\$1.50	\$1.87
NON-PUBLISHED SERVICE- RESIDENTIAL	\$0.90	\$1.12
NON-LIST SERVICE - RESIDENTIAL	\$0.55	\$0.68
RETURNED PAYMENT CHARGE	\$10.00	\$12.50
CREDIT CARD PAYMENT CONVENIENCE FEE	\$4.00	\$5.00
LATE PAYMENT CHARGE	1.50%	1.88%

*Unless otherwise indicated, the rate applies to both residence and business customers.