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ARIZONA CORP COMMISSION
DOCKET CONTROL

Transcript Exhibit(s)

Docket #(s): 1-218-11A-12-0155

Exhibit #: 11, 12, S1, S2

Arizona Corporation Commission
DOCKETED

APR -9 2013

DOCKETED BY	<i>me</i>
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ORIGINAL

NEW APPLICATION

BEFORE THE ARIZONA CORPORATION COMMISSION

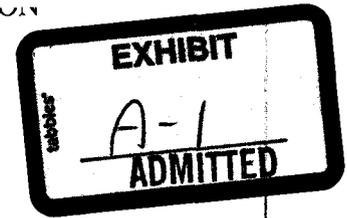
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COMMISSIONERS

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

2012 DEC -4 A 11: 26

AZ CORP COMMISSION
DOCKET CONTROL



IN THE MATTER OF THE APPLICATION OF VALLEY TELEPHONE COOPERATIVE, 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-01847A-12-0485

Arizona Corporation Commission
DOCKETED

DEC - 4 2012

DOCKETED BY [signature]

1 Valley Telephone Cooperative, Inc. ("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 Valley Telephone's earnings and the fair value of its investment 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 The USF/ICC Order transitions the outdated federal universal service programs and most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."

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 Valley Telephone is a small rate-of-return regulated Incumbent Local Exchange Carrier
5 ("ILEC"). Of particular importance to Valley Telephone and other rural ILECs, the USF/ICC
6 Order adds new rules that will reduce federal high-cost loop support to carriers by the amount
7 their flat-rate residential local service rates fall below a specified annual urban rate floor.¹ The
8 rate floor includes, if any, state subscriber line charges, state universal service fees, and
9 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, Valley Telephone and other rural ILECs must
15 increase local rates to the FCC-mandated residential rate floors. Otherwise, the amount of
16 federal support funds will be reduced dollar-for-dollar for each customer by the difference
17 between the existing local rate and the new rate floor. If local rates are not increased, the new
18 FCC rules will reduce funds coming to the state of Arizona and negatively impact customers
19 living in high-cost areas in the state.

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

2 Valley Telephone Cooperative, Inc. is a corporation duly organized and existing under
3 and by virtue of the laws of the State of Arizona. 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 Valley Telephone's local residential one-party rates are \$13.75/month. These rates are
10 below the federal \$14/month rate floor that will go into effect on June 1, 2013. The rate floor for
11 2014 and thereafter will be determined by an annual FCC survey.

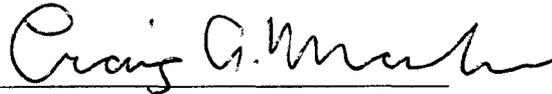
12 Valley Telephone is aware that many parties, including the Commission, have appealed
13 the USF/ICC Order. However, in the meantime, Valley Telephone and other rural ILECS must
14 comply with all provisions of the USF/ICC Order and will remain subject to the increased local
15 residential rate floors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

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

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

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

4 Respectfully submitted on December 4, 2012

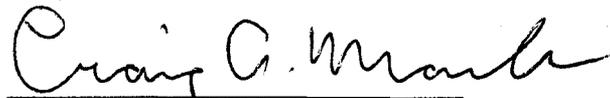
5
6 
7

8 Craig A. Marks
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10 10645 N. Tatum Blvd., Ste. 200-676
11 Phoenix, Arizona 85028
12 (480) 367-1956 (Direct)
13 (480) 367-1956 (Fax)
14 Craig.Marks@azbar.org
15 Attorney for Valley Telephone Cooperative, Inc.

Original and 13 copies filed
on December 4, 2012, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

By:


Craig A. Marks

Valley Telephone Cooperative, Inc. AZ

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

November 27, 2012

Valley Telephone Cooperative, Inc. AZ

November 27, 2012

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Valley Telephone Cooperative, Inc. AZ

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	563,810	(1,331) #3		562,479	-	562,479
2 Universal Service Fund (USF-HCL) and Safety Net Additive (SNA)	3,557,356	(76,696) #2		3,478,458	-	3,478,458
3 Access Revenues	4,529,307	348,695 #1,3		4,878,002	4,478,496	399,506
4 Billing & Collecting	190	-		190	-	190
5 Other Misc., Uncollectibles	72,892	-		72,892	-	72,892
6 Total Operating Revenues	8,743,555	268,466		9,012,021	4,478,496	4,533,525
7 Plant Specific Expenses	1,485,846	(6,602) #4		1,479,244	654,581	824,663
8 Plant Non-specific Expenses	606,928	(16,010) #4,5		590,918	274,557	316,361
9 Depreciation & Amortization Expenses	3,205,841	(77,927) #3,6-12		3,127,914	1,349,788	1,778,126
10 Customer Operations Expenses	557,952	-		557,952	216,198	341,755
11 Corporate Operations Expenses	1,265,273	(3,401) #4		1,261,872	563,163	702,110
12 Other Operating Taxes and (Income)	589,983	-		589,983	230,674	355,968
13 Nonregulated Adjustment	-	-		-	-	-
14 Total Operating Expenses	7,711,823	(103,940)		7,607,883	3,288,971	4,318,913
15 OPERATING RETURN BEFORE TAXES	1,031,732	372,406		1,404,138	1,189,525	214,612
16 State Income Taxes (SIT) (6.87%)	-	-		-	-	-
17 Federal Income Taxes (FIT) (35%)	-	-		-	-	-
18 Total Operating Income Taxes	-	-		-	-	-
19 Total Expenses and Income Taxes	7,711,823	(103,940)		7,607,883	3,288,971	4,318,913
20 Net Operating Income	1,031,732	372,406		1,404,138	1,189,525	214,612
21 Total Year-End Avg Rate Base	30,718,283	-		30,718,283	12,064,884	18,653,398
22 Return on Rate Base (Ln 20 / Ln 21)						1.15%
23 Estimated Revenue from Local Rate Increase						5,245
24 State Income Taxes (SIT) (6.87%)						-
25 Federal Income Taxes (FIT) (35%)						-
26 Increase in Net Operating Income						5,245
27 Net Operating Income After Increase (Ln 20 + Ln 26)						219,856
28 Return on Rate Base After Increase (Ln27 / Ln21)						1.16%

ASSUMPTIONS

Used 2011 Valley AZ Only Cost Study ran 7/31/2012 for Part 36 separation of t
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
No Federal & State Income Taxes for Valley AZ

Valley Telephone Cooperative, Inc. AZ
Adjustments to Revenues and Expenses

Ref	Account	Description	Debit	Credit
1.	5082	Access Revenues		429,559
	9999	Balancing Account	429,559	
		To remove prior period NECA interstate adjustments.		
2.	5082	Universal Service Fund	78,898	
	9999	Balancing Account		78,898
		To adjust for HCL and SN projected change for 2012. Does not include impact of floor.		
3.	5001	Local Revenues	1,331	
	5082	Access Revenues	71,903	
	5084	Access Revenues	8,961	
	6540	Plant Nonspecific Exp		571
	9999	Balancing Account		81,624
		Year 1 FCC Order ICC intrastate and interstate revenue and expense 5% reductions.		
4.	9999	Balancing Account	11,131	
	6232	Circuit Equipment Expense		5,592
	6423	Buried Cable Expense		1,010
	6531	Power Expense		646
	6532	Network Admin Expense		198
	6533	Testing Expense		284
	7240	Operating Taxes - Ad Valorem		3,401
		To remove costs associated with non-reg fiber leases		
5.	6540	Access Expense		2,848
	6540	Access Expense - Recip Comp		11,463
	9999	Balancing Account	14,311	
		To adjust the USF contributions to the EC 1050 3(c)2.		

Valley Telephone Cooperative, Inc. AZ
Adjustments to Revenues and Expenses

Ref	Account	Description	Debit	Credit
6.	9999	Balancing Account	3,466	
	6561-2423	Depr Exp - Buried Cable To remove costs associated with Qwest Leased Fiber		3,466
7.	9999	Balancing Account	29,096	
	6561-2232	Depr Exp - Circuit Equipment		24,909
	6561-2423	Depr Exp - Buried Cable To remove costs associated with OC12 Fiber Lease		4,187
8.	9999	Balancing Account	24,390	
	6561-2423	Depr Exp - Buried Cable To remove costs associated with Dark Fiber Lease -GIG E Network		24,390
9.	9999	Balancing Account	11,516	
	6561-2121	Depr. Exp - Buildings		19
	6561-2124	Depr. Exp - General Purpose Computers		175
	6561-2212	Depr. Exp - Digital Switching		3,399
	6561-2231	Depr. Exp - Other Radio Equipment		10
	6561-2232	Depr. Exp - Circuit Equipment		5,720
	6561-2411	Depr. Exp - Poles		1
	6561-2421	Depr. Exp - Aerial Cable		20
	6561-2422	Depr. Exp - Underground		797
	6561-2423	Depr. Exp - Buried Cable		656
	6561-2441	Depr. Exp - Conduit Systems To reclassify AFUDC		719
10.	3100-2324	Depr. Reserve COE Circuit Equipm	14,634	
	9999	Balancing Account	15,749	
	2232	COE Circuit Equipment		27,874
	6561-2232	Depr. Exp - Circuit Equipment To remove costs associated with Occam 6440 Blades		2,509
11.	9999	Balancing Account	568	
	6561-2232	Depr. Exp - Circuit Equipment		475
	6561-2423	Depr. Exp - Buried Cable To remove expenses associated with OC3 Fiber Lease		93
12.	9999	Balancing Account	5,732	
	6561-2423	Depr. Exp - Buried Cable To remove expense associated with Arriba Fiber Lease		5,732

Valley Telephone Cooperative, Inc. AZ
 Year 1 Estimated ICC Impact of FCC Order

Base Line of Eligible Recovery:

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

Total	5% Reduction	Access Revenue	Interstate Access
1,438,051	(71,903)	Access Revenue	Interstate Access
179,224	(8,961)	Local Revenue	Intrastrate Local
26,617	(1,331)	Plant Non-Specific	Intrastrate Local
(11,415)	571		
<u>1,632,477</u>	<u>(81,624)</u>		
	AJE #3		

Valley Telephone Cooperative, Inc. AZ
Rate Base
As of December 31, 2011

	Adjusted		
	Total Company	INTERSTATE	INTRASTATE
Plant in Service	\$ 60,621,868	\$ 23,839,582	\$ 36,782,285
Accumulated Depreciation	(29,680,813)	(11,609,635)	(18,071,178)
Net Plant in Service	\$ 30,941,055	\$ 12,229,947	\$ 18,711,107
Plant Under Construction	295,207	116,090	179,117
Material & Supplies	510,485	158,118	352,367
Deferred Income Taxes	-	-	-
Customer Deposits	(11,947)	(4,698)	(7,249)
Other Long Term Liabilities	(1,231,887)	(526,572)	(705,315)
Cash Working Capital	215,370	91,999	123,371
Rate Base	<u>\$ 30,718,283</u>	<u>\$ 12,064,884</u>	<u>\$ 18,653,398</u>

ASSUMPTIONS

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

Valley Telephone Cooperative, Inc. AZ

CALCULATION OF CASH WORKING CAPITAL (CWC)

CASH OPERATING EXPENSES	Total Company	INTERSTATE	INTRASTATE
Total Operating Expenses	\$ 7,607,883	\$ 3,288,971	\$ 4,318,913
Less Depreciation & Amortization	3,127,914	1,349,788	1,778,126
Fixed Charges	758,267	298,660	459,607
Interest on Customer Deposits	667	264	403
Other Nonoperating Expenses - Contributions	1,200	534	666
Cash Operating Federal Income Taxes	-	-	-
Cash Operating State & Local Taxes	-	-	-
Total Cash Operating Expenses	\$ 5,240,103	\$ 2,238,641	\$ 3,001,463
% LAG (15 days)	4.11%	4.11%	4.11%
TOTAL CASH WORKING CAPITAL	<u>\$ 215,347</u>	<u>\$ 91,999</u>	<u>\$ 123,348</u>

Valley Telephone Cooperative, Inc. AZ
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	Change Percent
Basic Service	1,748	\$ 13.75	\$ 288,448	\$ 14.00	\$ 293,692	\$ 5,245	1.82%
Residence One-Party						\$ 5,245	
Estimated Revenue from Local Rate Increase						<u>\$ 5,245</u>	

Notes:
No reduction made for line loss.

Year	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009 Total		2,164	2,161	2,151	2,137	2,129	2,125	2,107	2,091	2,083	2,082	2,072	2,057
2010 Total		2,045	2,027	2,020	2,013	1,997	1,964	1,950	1,941	1,932	1,922	1,925	1,924
2011 Total		1,906	1,896	1,883	1,866	1,858	1,837	1,828	1,817	1,806	1,803	1,787	1,780
2012 Total		1,771	1,796	1,758	1,740	1,721	1,703						

Residential Lines



Valley Telephone Cooperative, Inc.
 Copper Valley Telephone, Inc.
 Valley Telecommunications, Co
 Valley Connections, LLC

P.O. Box 970 Willcox, AZ 85644

Address Service Requested

Check here for change of address (see reverse for details)



Remittance Section

Customer # [REDACTED]
 Main Bill-To Account # [REDACTED]
 Billing Date 03/20/2013
 Past Due After 04/10/2013
 Total Amount Due: \$32.85

Amount Enclosed \$ _____

Make checks payable to: Valley Telecom Group

VALLEY TELECOM GROUP
 P.O. BOX 1133
 WILLCOX, AZ 85644-1133



Please return above portion with your payment to ensure proper credit. Do not enclose correspondence.

Account Summary

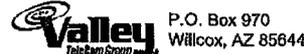
Customer # [REDACTED]
 Main Bill-To Account # [REDACTED]
 Billing Date: 03/20/2013
 Past Due After: 04/10/2013

Charge Summary

Previous Charges	
Previous Bill	54.45
Payments Received	54.45
Adjustments	0.00
Balance Forward	0.00
Current Charges	
Telephone Service	32.85
Total Current Charges	32.85
Total Amount Due	\$32.85

Any past due balances are subject to a 1.5% late payment fee.

On-Line Bill Payment Available At
www.vtc.net



Important Messages

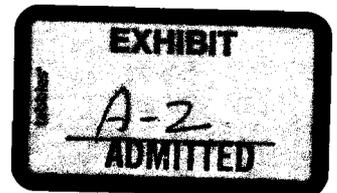
2013 Director Election Reminder

The slate of incumbent candidates for the 2013 Valley Telephone Cooperative, Inc. Board of Directors election will be:

- George May - District 1 - Portal, AZ
- David Thompson - District 2 - Sunizona, AZ
- Joe Chapin - District 3 - Bonita, AZ

You will receive a notice booklet and ballot in the month of April. Vote for candidates using the mail in ballot, which must be returned by **April 29, 2013**.

If you have any questions, please contact a Valley Telephone Cooperative Customer Service Representative at 1-800-421-5711.



For Billing Questions call: 1-800-421-5711
 For Telephone Repair call: 611 or 1-800-400-1273
 For Data and Cable call: 1-877-882-6386



Valley Telephone Cooperative, Inc.
 Copper Valley Telephone, Inc.
 Valley Telecommunications, Co
 Valley Connections, LLC.

Customer Number:
 Billing Date:

██████████
 03/20/2013

Long Distance Carriers

(520) 826-5264	Valley Connections, LLC	Inter	1-800-421-5711
(520) 826-5264	Valley Connections, LLC	Intra	1-800-421-5711

Current Charges

Billed on behalf of Valley Telephone Cooperative, Inc.

Recurring Charges

Telephone Service	13.75
Fed Subscriber Line Chg	6.50
Wire Maint Single Service	1.95
Access Recovery Charge	0.50
AZ 911 Excdse Tax	0.20
AZ Universal Service Fund	0.01
Call Name & Number Block	0.00
900 Toll Restriction	0.00
Non-Published	0.00

Long Distance Charges

One Rate 5 Cents	5.95
------------------	------

Taxes, Fees & Surcharges

Federal Tax	0.63
Federal Univ Service Fund	1.13
State/Cochise Cnty Tax	1.12
AZ Telephonic Device	0.15
Federal Univ Service Fund	0.96

Total Telephone Service ██████████ **\$32.85**

Long Distance Detail ██████████

Valley Connections, LLC
 For questions call: 1-800-421-5711

Date	Time	To Number	City	St	Min	Sec	Type	Amt
							One Rate 5 Cents J	\$5.95 X

Special Messages

As a valued customer, we would like to inform you of the rules regarding the disconnection of your local telephone service.

Failure to pay local charges may result in the disconnection of your local telephone service.

Failure to pay toll charges may result in the disconnection of your local telephone service. Failure to pay Pay-Per-Call charges will not result in the disconnection of your local telephone service.

The Valley TeleCom Group monthly board meeting will be held on Wednesday, March 27, 2013. There is a "call to member" during every board meeting at approximately 9:30 a.m. If you are interested in attending the board meeting, please contact Renae Kersey, Executive Assistant, at 1-800-421-5711.

ORIGINAL



MEMORANDUM RECEIVED

2013 MAR 14 A 8:54

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

A handwritten signature in black ink, consisting of several overlapping, slanted lines.

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

DATE: March 14, 2013

RE: IN THE MATTER OF THE APPLICATION OF VALLEY TELEPHONE COOPERATIVE, 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-01847A-12-0485)

Attached is the Staff Report for Valley Telephone Cooperative, Inc.'s application to increase residential rates as necessary 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 Valley Telephone Cooperative, Inc.'s request to increase its monthly residential local exchange service rate from \$13.75 to \$14.00, effective June 1, 2013.

SMO:AFF:sms/CHH

Originator: Armando Fimbres

Arizona Corporation Commission

DOCKETED

MAR 14 2013

DOCKETED BY Handwritten initials in black ink, possibly "JLM", written over a rectangular stamp area.

**SERVICE LIST FOR: VALLEY TELEPHONE COOPERATIVE, INC.
DOCKET NO.: T-01847A-12-0485**

**Mr. Craig A. Marks
CRAIG A. MARKS PLC
10645 N. Tatum Boulevard, Suite 200-676
Phoenix, Arizona 85028
Attorney for Valley Telephone Cooperative, Inc.**

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

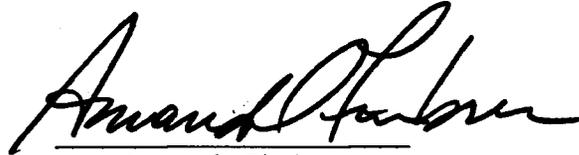
**VALLEY TELEPHONE COOPERATIVE, INC.
DOCKET NO. T-01847A-12-0485**

**IN THE MATTER OF THE APPLICATION OF VALLEY TELEPHONE COOPERATIVE,
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**

MARCH 14, 2013

STAFF ACKNOWLEDGMENT

The Staff Report for Valley Telephone Cooperative, Inc. (Docket No. T-01847A-12-0485) 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 the name.

Armando Fimbres
Executive Consultant III

**EXECUTIVE SUMMARY OF
VALLEY TELEPHONE COOPERATIVE, INC.
DOCKET NO. T-01847A-12-0485**

On December 4, 2012, Valley Telephone Cooperative, Inc. ("Valley 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 Valley Telephone monthly residence local exchange rate increase from the residential local service rate of \$13.75 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 Valley 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 4, 2012, Valley Telephone Cooperative, Inc. (“Valley 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. Valley Telephone submitted, as recommended by Staff, a streamlined filing in which Valley Telephone submitted the following six exhibits to support the requested increase in residential rates:

- Adjusted 2011 Results
- Adjustments
- Year 1 FCC Order ICC Impact
- Rate Base
- Working Capital
- Rate Design.

Background

Valley Telephone is a corporation duly organized and existing under and by virtue of the laws of the State of Arizona. Valley Telephone is authorized to engage in and is engaged in the conduct of a general communications business within the State of Arizona. Valley Telephone’s rates remain as set at the time of its formation and designation as an Arizona carrier.¹ Valley 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

¹ Valley Telephone Cooperative, Inc. was established in 1962.

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, Valley 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 Valley Telephone and other applicable ILECs. Valley Telephone's current weighted average residential local service rate of \$13.75 is above the \$10.00 rate floor. Therefore, with this application, Valley 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 12, 2012, the Commission's Corporations Division responded that Valley Telephone is in Good Standing. A review of Consumer Services database revealed that four complaints, inquiries and opinions were received pertaining to Valley Telephone for the period January 1, 2009-December 12, 2012. All four issues were addressed successfully and in a timely manner. The files are closed.

Compliance

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

Operating Income Statement

Valley 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, Valley Telephone Total Intrastate Operating Revenues for 2011 were \$4,533,525. Subcategories of Total Intrastate Operating Revenues are noted below:

Local	\$582,479
USF-HCL2 & Safety Net	\$3,478,458
Access Revenues	\$399,506
Other	\$73,082

The Company also provided information that stated that its Total Intrastate Operating Expenses for 2011 were \$4,318,913. Subcategories of Total Intrastate Operating Expenses are noted below:

Plant Expenses	\$ 1,141,014
Depreciation & Amortization	\$1,778,126
Customer Operations	\$341,755
Corporate Operations	\$702,110
Other	\$355,908

Operating Income

As provided by the Applicant, Valley Telephone Total Intrastate Operating Income for 2011 was \$214,612 before taxes and \$214,612 after taxes.

Rate Base

According to Valley Telephone, its rate base is \$30,718,283, as stated in the table below:

² Universal Service Fund – High Cost Fund

Valley Telephone
Rate Base
As of December 31, 2011

	Total Company	INTERSTATE	INTRASTATE
Plant in Service	\$ 60,621,868	\$ 23,839,582	\$ 20,782,285
Accumulated Depreciation	(29,680,813)	(11,609,635)	(18,071,178)
Net Plant in Service	\$ 30,941,055	\$ 12,229,947	\$ 18,711,107
Plant Under Construction	295,207	116,090	179,117
Material & Supplies	510,485	158,118	352,368
Deferred Income Taxes	0	0	0
Customer Deposits	(11,947)	(4,698)	(7,249)
Other Long Term Liabilitis	(1,231,887)	(526,572)	705,315)
Cash Working Capital	215,370	91,999	123,371
Rate Base	\$ 30,718,283	\$ 12,064,884	\$ 18,653,398

Customer Base

Valley Telephone reported 1,780 residential lines and 464 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 \$0.25. The Applicant's filing only contemplates changes to residence local exchange rates to compensate for the rate 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.

Staff Analysis

Staff did not perform a regulatory audit of the information submitted by Valley 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 \$18,653,398. The Applicant provided information that indicates that its Total Intrastate Operating Revenue for 2011 was \$4,533,525. According to the Applicant, the annual revenue effect of the increase in local telephone service rates to \$14.00 is \$5,245. 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 de minimus.

Staff's Recommendations

Staff recommends that the Valley Telephone monthly residence local exchange rate increase from the residential local service rate of \$13.75 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 Valley 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.



As filed in Valley Telephone 12-0485 staff report on 3/14/13

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Proposed change to Valley Telephone 12-0485 staff report

INSERT on Page 1

Valley Telephone is a corporation duly organized and existing under and by virtue of the laws of the State of Arizona. Valley Telephone is authorized to engage in and is engaged in the conduct of a general communications business within the State of Arizona. Valley Telephone's rates were originally set at the time of its formation in 1962 and reset to \$12.00 in August 1970. In mid to late 1990s, the base residential rate of \$12.00 was combined with the Touch Tone service charge, resulting in the present base rate of \$13.75. Valley Telephone is a small rate-of-return ("RoR") regulated incumbent local exchange carrier ("ILEC").

¹ Valley Telephone Cooperative, Inc. was established in 1962.