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ARIZONA CORP COMMISSION  
DOCKET CONTROL

**Transcript Exhibit(s)**

Docket #(s): T-02724A-13-0159

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Exhibit #: A1-A3, S1

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Arizona Corporation Commission  
**DOCKETED**

APR - 9 2013

DOCKETED BY	<u>MR</u>
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**ORIGINAL**

**NEW APPLICATION**

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS Arizona Corporation Commission

**DOCKETED**

GARY PIERCE, Chairman

PAUL NEWMAN

SANDRA D. KENNEDY

BOB STUMP

BRENDA BURNS

DEC - 7 2012

DOCKETED BY

*nr*

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AZ CORP COMMISSION

DOCKET CONTROL

2012 DEC 7 PM 2 13

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

**EXHIBIT**

*A-1*  
**ADMITTED**

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 The USF/ICC Order transitions the outdated federal universal service programs and most  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.<sup>1</sup> 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.<sup>2</sup>

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.

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<sup>1</sup> 41 C.F.R § 54.318.

<sup>2</sup> 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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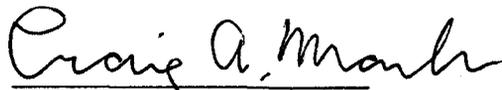


Craig A. Marks  
Craig A. Marks, PLC  
10645 N. Tatum Blvd., Ste. 200-676  
Phoenix, Arizona 85028  
(480) 367-1956 (Direct)  
(480) 367-1956 (Fax)  
[Craig.Marks@azbar.org](mailto:Craig.Marks@azbar.org)  
Attorney for Table Top Telephone Company, Inc.

**Original and 13 copies filed**  
on December 7, 2012, with:

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

By:

  
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

## Index

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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	ADJUSTMENTS	Ref	ADJUSTED 2011 RESULTS	INTERSTATE	INTRASTATE
	(a)	(b)	(c)	(d)	(e)	(f)
1 Local	1,356,579	(3,211)	#9	1,353,368	-	1,353,368
2 Universal Service Fund (USF-HCI) and Safety Net Additive (SNA)	2,290,806	(5,435)	#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
<b>6 Total Operating Revenues</b>	<b>9,669,435</b>	<b>(121,115)</b>		<b>9,548,320</b>	<b>5,006,484</b>	<b>4,541,836</b>
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	(5,089)	#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
<b>14 OPERATING RETURN BEFORE TAXES</b>	<b>1,802,962</b>	<b>(81,910)</b>		<b>1,721,052</b>	<b>899,025</b>	<b>822,027</b>
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
<b>18 Total Expenses and Income Taxes</b>	<b>8,407,991</b>	<b>83,076</b>		<b>8,491,067</b>	<b>4,462,836</b>	<b>4,028,231</b>
<b>19 Net Operating Income</b>	<b>1,261,444</b>	<b>(204,191)</b>		<b>1,057,253</b>	<b>543,648</b>	<b>513,605</b>
<b>20 Total Year-End Rate Base</b>	<b>22,565,967</b>			<b>22,565,967</b>	<b>9,883,077</b>	<b>12,682,890</b>
<b>21 Return on Rate Base (Ln 19/Ln 20)</b>						<b>4.05%</b>
<b>22 Estimated Revenue from Local Rate Increase</b>						<b>9,817</b>
<b>23 State Income Taxes (SIT) (6.968%)</b>						<b>684</b>
<b>24 Federal Income Taxes (FIT) (35%)</b>						<b>3,197</b>
<b>25 Increase in Net Operating Income</b>						<b>5,936</b>
<b>26 Net Operating Income After Increase (Ln 19 + Ln 25)</b>						<b>519,542</b>
<b>27 Return on Rate Base After Increase (Ln 26 / Ln20)</b>						<b>4.10%</b>

**ASSUMPTIONS**

Used 2011 Cost Study run dated 6/19/12 for Part 36 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	Access Revenue	Interstate
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
<b>Total Base of Eligible Recovery</b>	<b>1,411,957</b>	<b>(70,598)</b>			

## 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
<b>Rate Base</b>	<b>22,565,967</b>	<b>9,883,077</b>	<b>12,682,890</b>

## Table Top Telephony Company, Inc.

### CALCULATION OF CASH WORKING CAPITAL (CWC)

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	5,634,694	
Cash Working Capital Factor	0.041096	15/365
Cash Working Capital Base	231,563	
Minimum Cash Balance	-	
Working Cash Allowance	-	
Total Cash Working Capital	231,563	

**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) Revenues		(I) Proposed Change		(J) Percent
					Zone Charge	Revenues	Zone Charge	Revenues	Revenue	Percent			
<b>Basic Service</b>													
Residence Within the Base Rate Area (R1)	1,818	\$ 13.55	\$ -	\$ 295,607	\$ 14.00	\$ -	\$ 305,424	\$ 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%				
<b>Estimated Revenue from Local Rate Increase</b>								<u>\$ 9,817</u>					

**Notes:**

\* Average units (7/11-6/12) are used to capture seasonal fluctuations.  
\*\* No Reduction Made for Line Loss

**Residential Lines**

Year	Type	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
<b>2011 Total</b>		<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						
<b>2012 Total</b>		<u>2,564</u>	<u>2,571</u>	<u>2,560</u>	<u>2,522</u>	<u>2,506</u>	<u>2,487</u>						

TELEPHONE SERVICES

TEL#		QTY	AMOUNT	TOTAL
[REDACTED]	ACCESS RECOVERY CHG-SINGLE LIN	1	.50	
	RES ACCESS	1	13.55	
	INSIDE WIRE PROTECTION	1	2.00	
	911TX	1	.20	
	END USER CHARGE - SINGLE LINE	1	6.50	
	FEDERAL TAXES		.63	
	STATE TAXES		1.02	
	COUNTY		.08	
TOTAL - MONTHLY SERVICES				\$24.48
TELEPHONE SERVICES				\$24.48

FOR: [REDACTED] - TOTAL MONTHLY CHARGE

TELEPHONE SERVICES

TEL#		AMOUNT	TOTAL
[REDACTED]	TDD TAX	.15	
	FED UNIV SERV FUND	1.13	
	ARIZONA UNIV SERV FUND	.02	
TOTAL - OTHER CHARGES/CREDITS			\$1.30
TELEPHONE SERVICES			\$1.30

FOR: [REDACTED] - TOTAL OTHER CHARGES

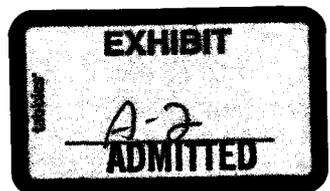
ARE OUTDOOR PROJECTS ON YOUR MIND? PLEASE CALL 8-1-1 TWO BUSINESS DAYS BEFORE YOU DIG TO LOCATE BURIED UTILITY FACILITIES! IT COULD SAVE YOU HUNDREDS OF DOLLARS AND COULD POSSIBLY SAVE YOUR LIFE! IT'S THE LAW AND IT'S FREE. CALL 8-1-1 OR VISIT WWW.CALL811.COM FOR MORE INFORMATION.

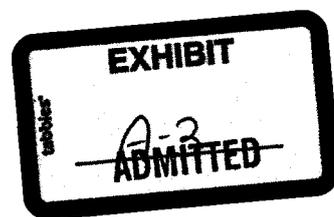
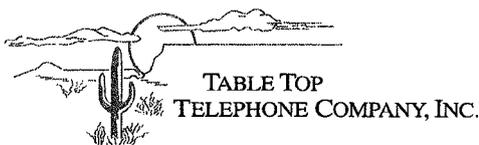
YOUR LOCAL EXCHANGE PROVIDER IS: TABLE TOP TELEPHONE COMPANY TEL. #: [REDACTED]

YOUR INTRALATA AND INTERLATA CARRIER/PROVIDER(S) ARE AS FOLLOWS:

YOUR TEL. # INTERLATA CARRIER/PROVIDER & TEL. # INTRALATA CARRIER/PROVIDER & TEL. #

[REDACTED]





March 25, 2013

Arizona Corporation Commission  
Consumer Services Section  
1200 West Washington  
Phoenix, AZ 85007

Re: ACC Opinion No. 2013-109582

Dear Sirs:

Table Top Telephone Company, Inc. (Table Top Telephone) has completed its investigation of informal complaint No. 2013 – 109582 filed by Dr. Al Poskanzer, and respectfully submits the following response:

Dr. Poskanzer has subscribed to local telephone services provided by Table Top Telephone since December 30, 2010. On October 8, 2012, Dr. Poskanzer notified Table Top Telephone of a concern regarding incoming calls from exchanges outside Table Top Telephone's local exchange not completing to his local number. At that time Table Top Telephone personnel explained to Dr. Poskanzer that industry reports have indicated that customers of long distance service providers from around the country had been experiencing intermittent call completion issues related to a phenomenon known as least-cost-routing, and that the non-completed calls might be related to this concern. Company personnel suggested to Dr. Poskanzer it would be beneficial to notify the calling parties and recommend that they report this issue to their service providers since the originating carriers have responsibility for these failed calls. Company personnel also provided Dr. Poskanzer with information on how to contact the FCC to report call routing problems, and he seemed satisfied with the information provided by the Company.

Furthermore, Table Top Telephone asked Dr. Poskanzer for information on the originating phone numbers and approximate times the calls were placed for the purpose of using this information to verify call records and to work with other carriers on the reported call-delivery concern. Table Top Telephone investigated this matter to the fullest extent possible, both internally and in conjunction with representatives from CenturyLink. For the phone numbers and call record dates provided by Mr. Poskanzer, our findings confirmed the calls in question did not reach the Table Top Telephone network.

Dr. Poskanzer notes in his letter that the telephone system technology is mature and that call completion concerns should not exist. Table Top Telephone uses only high-quality, proven technologies to connect to CenturyLink's tandem.

600 North Second Avenue  
Ajo, Arizona 85321  
(t) 520.387.5600  
(f) 520.387.5602  
[www.tabletoptelephone.com](http://www.tabletoptelephone.com)

Arizona Corporation Commission  
March 25, 2013  
Page 2

Furthermore, Table Top Telephone has worked with multiple customers on call routing concerns over the past few years and continues to investigate each concern reported to the fullest extent possible. Table Top Telephone will continue to express the willingness to perform test calls with these originating carriers in an attempt to resolve any similar call routing situations.

Also, Dr. Poskanzer noted that Table Top Telephone has exclusivity to services provided in the area. Company representatives have verified that Cable One offers telephone and internet services within the area noted.

Should you have any questions or require any additional information, please contact Lisa Rossi, Customer Service Manager, at 520-387-6457.

Respectfully,

A handwritten signature in black ink, appearing to read "Matthew J. Boos", written in a cursive style.

Matthew J. Boos  
General Manager

Cc: Dr. Al Poskanzer

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 A rectangular stamp with a black border. It contains the text "DOCKETED BY" on the left and a handwritten signature "JSM" on the right.

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

**Mr. Craig A. Marks  
CRAIG A. MARKS PLC  
10645 N. Tatum Boulevard, Suite 200-676  
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 USE/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 <sup>1</sup> & 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.

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<sup>1</sup> 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:<sup>2</sup>

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.

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<sup>2</sup> 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.