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2013 APR -9 P 2:29

AZ CORP COMMISSION
DOCKET CONTROL

Transcript Exhibit(s)

Docket #(s): TORRITA-12-0181

Exhibit #: AL1231

Arizona Corporation Commission
DOCKETED

APR - 9 2013

DOCKETED BY	MR
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ORIGINAL

NEW APPLICATION

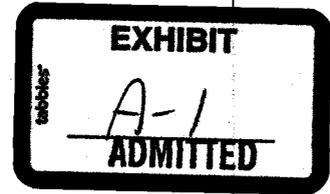
BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

2012 DEC -4 A 11: 27

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL



IN THE MATTER OF THE APPLICATION OF
COPPER VALLEY TELEPHONE, 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-02727A-12-0484

Arizona Corporation Commission
DOCKETED

DEC - 4 2012

DOCKETED BY [Signature]

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 The USF/ICC Order transitions the outdated federal universal service programs and most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

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

¹ 41 C.F.R § 54.318.

² USF/ICC Order paragraph 236 states the most recently available nationwide average local rate from 2008 was \$15.62.

1 **II. COPPER VALLEY TELEPHONE**

2 Copper Valley Telephone, Inc. is a corporation duly organized and existing under and by
3 virtue of the laws of the State of Arizona. Copper 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 Copper Valley Telephone's local residential one-party rates are \$12.40/month. These
10 rates are below the federal \$14/month rate floor that will go into effect on June 1, 2013. The rate
11 floor for 2014 and thereafter will be determined by an annual FCC survey.

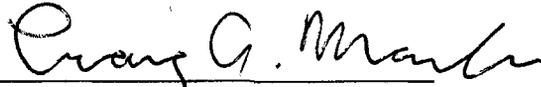
12 Copper Valley Telephone is aware that many parties, including the Commission, have
13 appealed the USF/ICC Order. However, in the meantime, Copper Valley Telephone and other
14 rural ILECS must comply with all provisions of the USF/ICC Order and will remain subject to
15 the increased local residential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

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

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

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

4 Respectfully submitted on December 4, 2012.

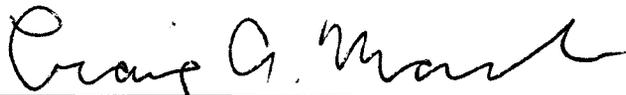
5
6 

7
8 Craig A. Marks
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14 Craig.Marks@azbar.org
15 Attorney for Copper Valley Telephone, 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

Copper Valley Telephone Company

Streamlined filing to support residential rate increase due to FCC

floor implementation and resulting HCL loss.

November 27, 2012

Copper Valley Telephone Company

November 27, 2012

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Copper Valley Telephone Company

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	892,194	(3,857) #3		888,337	-	888,337
2 Universal Service Fund (USF-HCI) and Safety Net Additive (SNA)	1,851,822	(34,772) #2		1,817,050	-	1,817,050
3 Access Revenues	2,955,519	219,540 #1.3		3,175,059	2,821,315	353,744
4 Billing & Collecting	313			313	-	313
5 Other Misc., Uncollectibles	64,469			64,469	-	64,469
6 Total Operating Revenues	5,764,317	180,911		5,945,228	2,821,315	3,123,913
7 Plant Specific Expenses	950,524	(3,689) #4		946,835	347,795	599,040
8 Plant Nonspecific Expenses	458,303	(22,780) #4.8		435,523	171,864	263,659
9 Depreciation & Amortization Expenses	1,728,057	(39,854) #5.6,7,8,10		1,688,203	603,315	1,084,888
10 Customer Operations Expenses	601,140			601,140	232,975	368,164
11 Corporate Operations Expenses	581,878	(2,384) #11		579,494	229,282	350,212
12 Other Operating Taxes and (Income)	295,757	770 #4.11		297,527	85,558	201,969
13 Nonregulated Adjustment						
14 Total Operating Expenses	4,616,659	(67,937)		4,548,722	1,640,789	2,867,932
15 OPERATING RETURN BEFORE TAXES	1,147,658	248,848		1,396,506	1,140,526	255,981
16 State Income Taxes (SIT) (6.97%)	44,218	-		44,218	16,222	27,995
17 Federal Income Taxes (FIT) (3.9%)	241,311	-		241,311	86,528	152,783
18 Total Operating Income Taxes	285,529	-		285,529	104,750	180,779
19 Total Expenses and Income Taxes	4,902,188			4,834,251	1,785,539	3,048,711
20 Net Operating Income	562,129	248,848		1,110,977	1,035,776	75,202
21 Total Year-End Rate Base	13,324,258	-		13,324,258	4,421,898	8,902,319
22 Return on Rate Base (Ln 20 / Ln 21)						0.84%
23 Estimated Revenue from Local Rate Increase						42,234
24 State Income Taxes (SIT) (6.97%)						2,944
25 Federal Income Taxes (FIT) (3.5%)						13,751
26 Increase in Net Operating Income						25,538
27 Net Operating Income After Increase (Ln 20 + Ln 26)						100,741
28 Return on Rate Base After Increase (Ln27 / Ln21)						1.13%

ASSUMPTIONS
 Used 2011 Copper Valley Only Cost Study ran 7/31/2012 for Part 36 separation
 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
 Federal & State Income Taxes reflect 2011 actual

Copper Valley Telephone Company
Adjustments to Revenues and Expenses

Ref	Account	Description	Debit	Credit
1.	5082	Access Revenues		257,224
	9999	Balancing Account	257,224	
		To remove prior period NECA interstate adjustments.		
2.	5082	Universal Service Fund	34,772	
	9999	Balancing Account		34,772
		To adjust for HCL and SN projected change for 2012. Does not include impact of floor.		
3.	5001	Local Revenues	3,857	
	5082	Access Revenues	31,689	
	5084	Access Revenues	5,995	
	6540	Plant Nonspecific Exp		1,421
	9999			40,120
		Year 1 FCC Order ICC intrastate and interstate revenue and expense 5% reductions.		
4.	9999	Balancing Account	5,899	
	6232	Circuit Equipment Expense		2,972
	6423	Buried Cable Expense		717
	6531	Power Expense		221
	6532	Network Admin Expense		156
	6533	Testing Expense		219
	7240	Operating Taxes - Ad Valorem		1,614
		To remove costs associated with non-reg fiber leases		
5.	9999	Balancing Account	7,095	
	6561-2423	Depr Exp - Buried Cable		7,095
		To remove costs associated with Qwest Leased Fiber		

Copper Valley Telephone Company
Adjustments to Revenues and Expenses

Ref	Account	Description	Debit	Credit
6.	9999	Balancing Account	7,922	
	6561-2232	Depr Exp - Circuit Equipment		5,593
	6561-2423	Depr Exp - Buried Cable		2,329
		To remove costs associated with OC12 Fiber Lease		
7.	9999	Balancing Account	18,479	
	6561-2423	Depr Exp - Buried Cable		18,479
		To remove costs associated with Dark Fiber Lease - GIGE Network		
8.	9999	Balancing Account	22,184	
	6540	Access Expense- Recip Comp - Local	26,159	
	6540	Access Expense- Recip Comp - I/S		26,159
	6540	Access Expense		22,184
		To adjust the USF contributions to the EC 1050 3(c)2.		
9.	9999	Balancing Account	6,022	
	6561-2121	Depr. Exp - Buildings		22
	6561-2124	Depr. Exp - General Computers		-
	6561-2212	Depr. Exp - Digital Switching		1,461
	6561-2232	Depr. Exp - Circuit Equipment		3,376
	6561-2411	Depr. Exp.- Poles		11
	6561-2421	Depr. Exp. - Aerial Cable		445
	6561-2422	Depr. Exp - Underground		51
	6561-2423	Depr. Exp - Buried Cable		522
	6561-2441	Depr. Exp - Conduit Systems		70
		To reclassify AFUDC - Dep Exp		
10.	9999	Balancing Account	8,415	
	3100-2121	Acc Dep Tower	2,000	
	2121	Tower		10,000
	2111	Land		15
	6560-2121	Dep Exp Tower		400
		To remove plant associated with Tower and Land leases		
11.	7200	Other Taxes - I/S	2,384	
	6722	Operating Taxes - Other		2,384
		To directly assign FCC Regulatory Fees-CVTC		

Copper Valley Telephone Company
Year 1 Estimated ICC Impact of FCC Order

Base Line of Eligible Recovery:

Interstate SWA (Includes LSS)					
Intrastate Terminating Access					
Recip Comp Revenue					
Recip Comp Expense					
Total Base of Eligible Recovery					
	Total	5% Reduction			
	633,770	(31,689)	Access Revenue	Interstate	
	119,895	(5,995)	Access Revenue	Intrastate Access	
	77,141	(3,857)	Local Revenue	Intrastate Local	
	(28,415)	1,421	Plant Non-Specific	Intrastate Local	
	802,391	(40,120)			
					AJE #3

Copper Valley Telephone Company

Rate Base

As of December 31, 2011

	Adjusted		
	Total Company	INTERSTATE	INTRASTATE
Plant in Service	\$ 29,527,075	\$ 9,321,448	\$ 20,205,627
Accumulated Depreciation	(14,428,904)	(4,344,532)	(10,084,372)
Net Plant in Service	\$ 15,098,171	\$ 4,976,916	\$ 10,121,255
Plant Under Construction	186,665	58,929	127,736
Material & Supplies	-	-	-
Deferred Income Taxes	(2,084,595)	(661,052)	(1,423,543)
Customer Deposits	(19,335)	(6,104)	(13,231)
Cash Working Capital	143,352	53,249	90,102
Rate Base	<u>\$ 13,324,258</u>	<u>\$ 4,421,938</u>	<u>\$ 8,902,319</u>

ASSUMPTIONS

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

Copper Valley Telephone Company

CALCULATION OF CASH WORKING CAPITAL (CWC)

CASH OPERATING EXPENSES	<u>Total Company</u>	<u>INTERSTATE</u>	<u>INTRASTATE</u>
Total Operating Expenses	\$ 4,548,722	\$ 1,680,789	\$ 2,867,932
Less Depreciation & Amortization	1,688,203	603,315	1,084,888
Fixed Charges	338,924	112,325	226,599
Interest on Customer Deposits	1,603	531	1,072
Other Nonoperating Expenses - Contributions	1,650	653	997
Cash Operating Federal Income Taxes	241,311	88,528	152,783
Cash Operating State & Local Taxes	<u>44,218</u>	<u>16,222</u>	<u>27,996</u>
Total Cash Operating Expenses	\$ 3,488,225	\$ 1,295,733	\$ 2,192,491
% LAG (15 days)	4.11%	4.11%	4.11%
TOTAL CASH WORKING CAPITAL	<u>\$ 143,352</u>	<u>\$ 53,249</u>	<u>\$ 90,102</u>

Copper Valley Telephone Company
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	Proposed Change Percent
Basic Service	2,200	\$ 12.40	\$ 327,310	\$ 14.00	\$ 369,544	\$ 42,234	12.90%
Residence One-Party						\$ 42,234	
Estimated Revenue from Local Rate Increase						<u>\$ 42,234</u>	

Notes:
No reduction made for line loss.

Residential Lines		Year	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009	Total			3,079	3,036	2,963	2,912	2,903	2,863	2,852	2,827	2,768	2,766	2,727	2,679
2010	Total			2,687	2,682	2,658	2,642	2,633	2,599	2,568	2,578	2,565	2,550	2,527	2,508
2011	Total			2,481	2,483	2,482	2,474	2,439	2,401	2,388	2,361	2,349	2,337	2,309	2,281
2012	Total			2,265	2,254	2,209	2,191	2,155	2,124						



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)

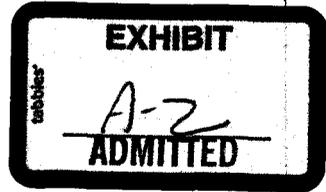


Remittance Section

Main Bill-To Account # [Redacted]
 Billing Date 03/15/2013
 Past Due After 04/05/2013
 Total Amount Due: \$31.37

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: 03/15/2013
 Past Due After: 04/05/2013

Charge Summary

Previous Charges	
Previous Bill	31.37
Payments Received	31.37
Adjustments	0.00
Balance Forward	0.00
Current Charges	
Telephone Service	31.37
Total Current Charges	31.37
Total Amount Due	\$31.37

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

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



Important Messages

Pay Your Bill Online!

With the cost of stamps rising and with delivery being cancelled for Saturdays, we have a sure fire way to make sure your bill gets paid on time. Use our online bill pay!

With online bill pay, your payment will never be late due to the mail not arriving on time. Plus you'll save the cost of postage. And it couldn't be more convenient.

You can sign up for FREE. Just go to our web site at www.vtc.net and click on the "online bill pay" link at the top of the home page. It takes just a few minutes to sign up. Do it today!



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:

[REDACTED]
 03/15/2013

Long Distance Carriers

(520) 642-3426	AT&T	Inter	1-800-222-0300
(520) 642-3426	AT&T	Intra	1-800-222-0300

Current Charges

Billed on behalf of Copper Valley Telephone, Inc.

Recurring Charges

Telephone Service	12.40
Fed Subscriber Line Chg	6.50
Caller ID Name & Number	5.50
Wire Maint Single Service	1.95
Extended Area Service	0.78
Access Recovery Charge	0.50
AZ 911 Excise Tax	0.20
AZ Universal Service Fund	0.01
Restrict 900,960,976,676	0.00
<i>Taxes, Fees & Surcharges</i>	
Federal Tax	0.78
State/Cochise Cnty Tax	1.47
Federal Univ Service Fund	1.13
AZ Telephonic Device	0.15

Total Telephone Service [REDACTED] **\$31.37**

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.

ORIGINAL



MEMORANDUM

2013 MAR 14 A 8:54

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 COPPER VALLEY TELEPHONE, 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. (DOCKET NO. T-02727A-12-0484)

Attached is the Staff Report for Copper Valley Telephone, 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 USE/ICC") Transformation Order.

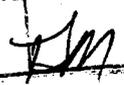
Staff recommends approval of Copper Valley Telephone, Inc.'s request to increase its monthly residential local exchange service rate from \$12.40 to \$14.00, effective June 1, 2013.

SMO:AFF:kdh

Originator: Armando Fimbres

Arizona Corporation Commission
DOCKETED

MAR 14 2013

DOCKETED BY 

SERVICE LIST FOR: COPPER VALLEY TELEPHONE, INC.
DOCKET NO.: T-02727A-12-0484

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

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**COPPER VALLEY TELEPHONE, INC.
DOCKET NO. T-02727A-12-0484**

**IN THE MATTER OF THE APPLICATION OF COPPER VALLEY TELEPHONE, 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 Copper Valley Telephone, Inc. (Docket No. T-02727A-12-0484) 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
COPPER VALLEY TELEPHONE, INC.
DOCKET NO. T-02727A-12-0484**

On December 4, 2012, Copper Valley Telephone, Inc. ("Copper 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 Copper Valley Telephone monthly residence local exchange rate increase from the residential local service rate of \$12.40 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 Copper 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, Copper Valley Telephone, Inc. ("Copper 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. Copper Valley Telephone submitted, as recommended by Staff, a streamlined filing in which Copper 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

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

¹ The Copper Valley Telephone initially provided service in exchange it purchased from U S West Communications on April 15, 1995.

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, Copper 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 Copper Valley Telephone and other applicable ILECs. Copper Valley Telephone's current weighted average residential local service rate of \$12.40 is above the \$10.00 rate floor. Therefore, with this application, Copper 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 Records Section of the Corporation Division responded that Copper Valley Telephone is in Good Standing. A review of Consumer Services database revealed that four complaints, inquiries and opinions were received pertaining to Copper Valley Telephone for the period January 1, 2009-December 12, 2012.

Compliance

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

Operating Income Statement

Copper 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, Copper Valley Telephone Total Intrastate Operating Revenues for 2011 were \$3,123,913. Subcategories of Total Intrastate Operating Revenues are noted below:

Local	\$888,337
USF-HCL ² & Safety Net	\$1,817,050
Access Revenues	\$353,744
Other	\$64,782

The Company also provided information that stated that its Total Intrastate Operating Expenses for 2011 were \$2,867,932. Subcategories of Total Intrastate Operating Expenses are noted below:

Plant Expenses	\$862,699
Depreciation & Amortization	\$1,084,888
Customer Operations	\$368,164
Corporate Operations	\$350,212
Other	\$201,969

Operating Income

As provided by the Applicant, Copper Valley Telephone Total Intrastate Operating Income for 2011 was \$255,981 before taxes and \$75,202 after taxes.

Rate Base

According to Copper Valley Telephone, its rate base is \$13,324,258, as stated in the table below:

² Universal Service Fund – High Cost Fund

**Copper Valley Telephone
Company
Rate Base
As of December 31, 2011**

	Total Company	INTERSTATE	INTRASTATE
Plant in Service	\$ 29,527,075	\$ 9,321,448	\$ 20,205,627
Accumulated Depreciation	(14,428,904)	(4,344,532)	(10,084,372)
Net Plant in Service	\$ 15,098,171	\$ 4,976,916	\$ 10,121,255
Plant Under Construction	186,665	58,929	127,736
Material & Supplies	0	0	0
Deferred Income Taxes	(2,084,595)	(661,052)	(1,423,543)
Customer Deposits	(19,335)	(6,104)	(13,231)
Cash Working Capital	143,352	53,249	90,102
Rate Base	\$ 13,324,258	\$ 4,421,938	\$ 8,902,319

Customer Base

Copper Valley Telephone reported 2,168 residential lines and 685 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 weighted average residential local exchange service rate by \$1.60. 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 Copper 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 \$8,902,319. The Applicant provided information that indicates that its Total Intrastate Operating Revenue for 2011 was \$3,123,913. According to the Applicant, the annual revenue effect of the increase in local telephone service rates to \$14.00 is \$42,234. Compared to the Applicant's total revenues, any revenue impact from this rate increase would be small and any impact on the Applicant's fair value rate of return would be de minimus.

Staff's Recommendations

Staff recommends that the Copper Valley Telephone monthly residence local exchange rate increase from the residential local service rate of \$12.40 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 Copper 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.