

ORIGINAL

NEW APPLICATION



0000146279

BEFORE THE ARIZONA CORPORATION COMMISSION
Arizona Corporation Commission

COMMISSIONERS

DOCKETED

BOB STUMP, Chairman
GARY PIERCE
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SUSAN BITTER SMITH

JUL - 1 2013

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2013 JUL 1 AM 11 42

IN THE MATTER OF THE APPLICATION OF SOUTH CENTRAL UTAH TELEPHONE ASSOCIATION, INC., A UTAH NON-PROFIT 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-01923A-13-0229

APPLICATION FOR EXPEDITED RATE INCREASE

1 South Central Utah Telephone Association, Inc., a non-profit Utah corporation, doing
2 business as South Central Communications ("SCC"), hereby applies pursuant to A.R.S. § 40-250
3 and the Commission's Rule R 14-2-103 for a determination of SCC's earnings and the fair value
4 of the company and requests that its residential rates be increased as necessary to compensate for
5 the rate impacts of the Federal Communication Commission's November 18, 2011, USF/ICC
6 Transformation Order ("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 The USF/ICC Order transitions the outdated federal universal service programs and most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 SCC is a small rate-of-return regulated Incumbent Local Exchange Carrier (“ILEC”). Of
4 particular importance to SCC and other rural ILECs, the USF/ICC Order adds new rules that will
5 reduce federal high-cost loop support to carriers by the amount their flat-rate residential local
6 service rates fall below a specified annual urban rate floor.¹ The rate floor includes, if any, state
7 subscriber line charges, state universal service fees, and mandatory extended area service
8 charges. The FCC’s order establishes local residential rate floors of \$10.00 as of June 1, 2012,
9 and \$14.00 as of June 1, 2013, with the floor thereafter being determined annually by the FCC’s
10 Wireline Competition Bureau, based on a nationwide average.²

11 Federal and state support funding are vital to a robust telecommunications network in
12 high cost areas. To maintain federal loop support, SCC and other rural ILECs must increase
13 local rates to the FCC-mandated residential rate floors. Otherwise, the amount of federal support
14 funds will be reduced dollar-for-dollar for each customer by the difference between the existing
15 local rate and the new rate floor. If local rates are not increased, the new FCC rules will reduce
16 funds coming to the state of Arizona and negatively impact customers living in high-cost areas in
17 the state.

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

22 **II. SCC**

23 South Central Utah Telephone Association, Inc. is a non-profit corporation duly
24 organized and existing under and by virtue of the laws of the State of Utah and authorized to

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 conduct a general communications business within the State of Arizona. SCC is an Arizona
2 public service corporation within the meaning of Article XV, Section 2, of the Arizona
3 Constitution.

4 South Central Utah Telephone Association, Inc. is a member-owned telecommunications
5 cooperative, doing business as South Central Communications ("SCC"). In addition to its
6 customers in Utah, SCC provided service in 2012 to an average of 307 residential customers in
7 and around Colorado City, Arizona, and 372 residential customers in and around Fredonia,
8 Arizona.³

9 **III. SUMMARY OF REQUEST**

10 This application is made pursuant to the provisions of A.R.S. §§ 40-250 and 40-367, and
11 Commission Rule R14-2-103.

12 In its Colorado City rate area, SCC's local residential rates are currently \$11.00/month.
13 In its Fredonia rate area, SCC's local residential rates are currently \$13.18/month. The rates for
14 customers within these rate areas are below the federal \$14/month rate floor that went into effect
15 on June 1, 2013. The rate floor for 2014 and thereafter will be determined by an annual FCC
16 survey.

17 SCC is aware that many parties, including the Commission, have appealed the USF/ICC
18 Order. However, in the meantime, SCC and other rural ILECS must comply with all provisions
19 of the USF/ICC Order and will remain subject to the increased local residential rate floors and
20 the corresponding losses of federal support funds.

21 SCC's loss of federal support funds would be particularly difficult to bear. As the
22 attached schedules demonstrate, SCC's return on investment is already low. Losing federal
23 support funds would only drive earnings lower.

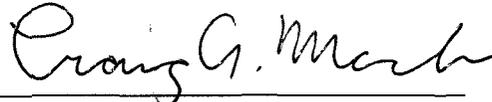
24 In connection with this application, SCC attaches Exhibit A which include a schedule of
25 the specific rate changes requested and the impact of the revenue generated on the company's

³ Business customers will not be affected by this rate request.

1 financial position. SCC asks that the Commission determine the fair value of the company for
2 ratemaking purposes and stipulates to use original cost less depreciation for those purposes.
3 Because the next opportunity to affect federal support funds is December 1, 2013, SCC further
4 asks that the Commission set new rates at the \$14.00 floor to be effective no later than December
5 1, 2013.

6 To facilitate processing of this application, SCC asks that the Commission waive any
7 provisions of Commission Rule R14-2-103 not required by the Arizona Constitution and laws.

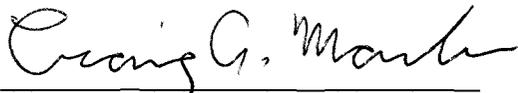
8 Respectfully submitted on July 1, 2013.

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Original and 13 copies filed
on July 1, 2013, with:

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

By: 
Craig A. Marks

South Central Utah Telephone Association, Inc.

as of December 31, 2012

Exhibit A

REGULATED 2012 RESULTS OF OPERATIONS
REFLECTS CHANGES EFFECTIVE WITH ARC AND CAF IMPLEMENTATION - YEAR 1

	2012 TOTAL TELEPHONE OPERATIONS			ADJUSTED 2012 RESULTS		
	OPERATIONS (a)	ADJUSTMENTS (b)	Ref (c)	INTERSTATE (d)	INTRASTATE (e)	(f)
<u>OPERATING REVENUES</u>						
1	Local	\$ 278,898		\$ 278,898		\$ 278,898
2	Interstate	804,017	(54,217) *	749,799	749,799	-
3	Intrastate	209,173		209,173		209,173
4	Message Toll	-		-		-
5	Miscellaneous	4,386		4,386		4,386
6	Uncollectible	19,026		19,026		19,026
7		<u>\$ 1,315,499</u>	<u>\$ (54,217)</u>	<u>\$ -</u>	<u>\$ 1,261,282</u>	<u>\$ 511,483</u>
<u>OPERATING EXPENSES</u>						
8	Plant Specific Operations	\$ 140,087		\$ 140,087	65,939	\$ 74,148
9	Plant Non-specific Operations	11,620		11,620	5,489	6,131
10	Depreciation	298,852		298,852	154,921	143,931
11	Marketing	23,600		23,600	7,823	15,776
12	Customer Operations	79,896		79,896	26,486	53,410
13	Corporate Operations	138,593		138,593	63,767	74,827
14		<u>\$ 692,647</u>	<u>\$ -</u>	<u>\$ 692,647</u>	<u>\$ 324,424</u>	<u>\$ 368,223</u>
15	<u>OPERATING INCOME</u>	<u>\$ 622,853</u>	<u>\$ (54,217)</u>	<u>\$ -</u>	<u>\$ 425,376</u>	<u>\$ 143,260</u>
16	<u>OPERATING TAXES</u>	122,450		122,450	59,382	63,068
17	<u>NET OPERATING INCOME</u>	<u>\$ 500,403</u>	<u>\$ (54,217)</u>	<u>\$ -</u>	<u>\$ 365,994</u>	<u>\$ 80,192</u>
<u>NON-OPERATING INCOME</u>						
18	Interest Income	\$ 4,355		4,355	1,413	\$ 2,942
19	Interest on Funded Debt	(15,470)		(15,470)	(5,019)	(10,452)
20	CoBank dividends	-		-		-
21	Other	1,535		1,535	706	829
22		<u>\$ (9,580)</u>	<u>\$ -</u>	<u>\$ (9,580)</u>	<u>\$ (2,900)</u>	<u>\$ (6,680)</u>
23	<u>NET OPERATING INCOME</u>	<u>\$ 490,823</u>	<u>\$ (54,217)</u>	<u>\$ -</u>	<u>\$ 363,094</u>	<u>\$ 73,511</u>
24	Total Year-End Rate Base	1,584,705			412,763	1,171,942
25	Return on Rate Base (Ln 23/Ln24)					6.27%
26	Estimated Revenue from Local Rate Increase					\$ 14,698
27	Net Operating Income After Increase (Ln 23 + Ln 26)					\$ 88,210
28	Return on Rate Base After Increase (Ln 27/Ln 24)					7.53%

ASSUMPTIONS

Audited 2012 financial statements
Used 2011 cost study factors (latest available factors)

Ref Notes

* Prior period adjustments as per NECA 3050

South Central Utah Telephone Association, Inc.

2012 Rate Base

	Total Company	Interstate	Intrastate
Plant In Service	7,538,550	3,509,851	4,028,699
<i>Accumulated Depreciation</i>	6,154,077	3,190,187	2,963,890
Net Plant in Service	1,384,473	319,663	1,064,809
Plant Under Construction	417	197	220
Material & Supplies	-	-	-
Deferred Income Taxes	-	-	-
Other Long Term Liabilities	162,392	75,608	86,784
Customer Deposits	4,850	2,291	2,559
Cash Working Capital	32,573	15,004	17,569
Rate Base	1,584,705	412,763	1,171,942

South Central Utah Telephone Association, Inc.

CALCULATION OF CASH WORKING CAPITAL (CWC)

Plant Specific Operations Expense	140,087	
Plant Non-Specific Operations Expense Excluding Depreciation and Amortization	11,620	
Customer Operations Expense	103,495	
Corporate Operations Expense	138,593	
Contributions	-	
Interest on Customer Deposits	-	
Operating Taxes	122,450	
Interest Expense - Operating	15,470	
Total Annual Expense	531,715	
Cash Working Capital Factor	0.06126	22.36/365
Cash Working Capital Base	32,573	
Minimum Cash Balance	-	
Working Cash Allowance	-	
Total Cash Working Capital	32,573	

South Central Utah Telephone Association, Inc.

Estimated ICC Impact of FCC Order

Base Line of Eligible Recovery:

	Total	Estimated Revenue Reduction		
Interstate SWA (Includes LSS)	83,010	4,151	Access Revenue	Interstate
Intrastate Terminating Access	57,774	2,889	Access Revenue	Intrastate Access
Recip Comp Revenue	0	0	Local Revenue	Intrastate Local
Recip Comp Expense	0	0	Plant Non-Specific	Intrastate Local
Total Base of Eligible Recovery	<u>140,784</u>	<u>7,039</u>		