

ORIGINAL



0000148591

MEMORANDUM  
RECEIVED

TO: Docket Control

FROM: Steven M. Olea  
Director  
Utilities Division

2013 SEP 27 P 2:58

AZ CORP COMMISSION  
DOCKET CONTROL

Date: September 27, 2013

RE: IN THE MATTER OF THE APPLICATION OF SOUTH CENTRAL UTAH TELEPHONE ASSOCIATION, 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-01923A-13-0229)

Attached is the Staff Report for South Central Utah Telephone Association dba South Central Communications' ("SCC" or "Applicant") 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 South Central Utah Telephone Association's request to increase its monthly residential local exchange service rate from \$11.00 to \$14.00 for customers in SCC's Colorado City base rate area, and from \$13.18 to \$14.00 for customers in SCC's Fredonia base rate area, effective December 1, 2013.

SMO:PJG:red\MAS

Originator: Pamela J. Genung

Attachment: Original and Thirteen copies

Arizona Corporation Commission

DOCKETED

SEP 27 2013

DOCKETED BY

SERVICE LIST FOR: SOUTH CENTRAL UTAH TELEPHONE ASSOCIATION, INC.  
DOCKET NO. T-01923A-13-0229

Mr. Craig A. Marks  
Craig A. Marks PLC  
10645 North Tatum Blvd, Suite 200-676  
Phoenix, Arizona 85028

Ms. Janice Alward  
Chief Counsel, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Mr. Steven M. Olea  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ms. Lyn Farmer  
Chief Administrative Law Judge, Hearing Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

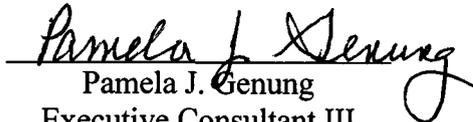
SOUTH CENTRAL UTAH TELEPHONE ASSOCIATION, INC.  
DOCKET NO. T-01923A-13-0229

IN THE MATTER OF THE APPLICATION OF SOUTH CENTRAL UTAH TELEPHONE ASSOCIATION, 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

SEPTEMBER 27, 2013

## STAFF ACKNOWLEDGMENT

The Staff Report for South Central Utah Telephone Association, Inc. dba South Central Communications, Docket No. T-01923A-13-0229, was prepared by the Staff member shown below.

  
Pamela J. Genung  
Executive Consultant III

**EXECUTIVE SUMMARY**  
**SOUTH CENTRAL UTAH TELEPHONE ASSOCIATION INC.**  
**DBA SOUTH CENTRAL COMMUNICATIONS**  
**DOCKET NO. T-01923A-13-0229**

On July 1, 2013, South Central Utah Telephone Association, Inc., dba South Central Communications (“SCC” 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 as necessary to compensate for the rate impacts of the Federal Communication Commission’s (“FCC’s”) November 18, 2011, USF/ICC Transformation Order (“USF/ICC Order”) pursuant to Arizona Revised Statute (“A.R.S.”) § 40-250 and the Arizona Corporation Commission’s (“Commission”) rules, Arizona Administrative Code (“A.A.C.”) R14-2-103.

Staff recommends that the SCC monthly residence local exchange rate increase from \$11.00 to \$14.00 for customers in SCC’s Colorado City base rate area, and from \$13.18 to \$14.00 for customers in SCC’s Fredonia base rate area, 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 SCC 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.

# TABLE OF CONTENTS

	<b>Page</b>
<b>INTRODUCTION</b> .....	<b>1</b>
<b>BACKGROUND</b> .....	<b>1</b>
<b>CONSUMER SERVICES</b> .....	<b>2</b>
<b>PUBLIC NOTICE</b> .....	<b>2</b>
<b>COMPLIANCE</b> .....	<b>2</b>
<b>OPERATING INCOME STATEMENT</b> .....	<b>2</b>
<i>OPERATING REVENUE AND EXPENSES</i> .....	<i>2</i>
<i>OPERATING INCOME</i> .....	<i>3</i>
<b>RATE BASE</b> .....	<b>3</b>
<b>CUSTOMER BASE</b> .....	<b>4</b>
<b>REVENUE REQUIREMENT</b> .....	<b>4</b>
<b>RATE DESIGN</b> .....	<b>4</b>
<b>STAFF ANALYSIS</b> .....	<b>4</b>
<b>STAFF'S RECOMMENDATIONS</b> .....	<b>4</b>

## **INTRODUCTION**

On July 1, 2013, South Central Utah Telephone Association, Inc., dba South Central Communications (“SCC” 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 as necessary to compensate for the rate impacts of the Federal Communication Commission’s (“FCC’s”) November 18, 2011, USF/ICC Transformation Order (“USF/ICC Order”) pursuant to Arizona Revised Statute (“A.R.S.”) § 40-250 and the Arizona Corporation Commission’s (“Commission”) rules, 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. SCC submitted a streamlined filing containing the following five exhibits to support the requested increase in residential rates:

- Regulated 2012 Results of Operations Twelve Months Ending December 31, 2012
- 2012 Rate Base
- Calculation of Cash Working Capital
- Proposed Rate Design
- Estimated ICC Impact of FCC Order

On August 14, 2013, the Applicant filed a Motion for Procedural Order.

On August 15, 2013, the Hearing Division filed a Rate Case Procedural Order setting a Hearing, associated procedural deadlines, and directions for providing public notice of the Application and the Hearing.

## **BACKGROUND**

SCC is a non-profit corporation duly organized and existing under and by virtue of the laws of the State of Utah. SCC is authorized to conduct a general communications business within the State of Arizona. SCC 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 residential local service rates fall below a specified annual 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, SCC and other rural ILECs must increase single line 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 local rate and the new rate floor. If single line local rates are not increased, the new FCC rules will reduce FHCLS for SCC and other applicable ILECs.

The Commission last considered SCC's rates in Docket No. U-1923-88-325, which resulted in Commission Decision No. 56744, dated December 20, 1989.

## **CONSUMER SERVICES**

On July 18, 2013, the Records Section of the Corporations Division responded that SCC is in Good Standing. A review of Consumer Services database revealed that no complaints, inquiries and opinions were received pertaining to SCC for the period January 1, 2010 through August 22, 2013.

## **PUBLIC NOTICE**

On September 9, 2013, SCC filed an affidavit of Customer Notice indicating that notice was sent on August 22, 2013, to all of SCC's Arizona residential customers.

## **COMPLIANCE**

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

## **OPERATING INCOME STATEMENT**

SCC submitted Regulated 2012 Results of Operations for Twelve Months Ending December 31, 2012 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, SCC Total Intrastate Operating Revenues for the Twelve Months Ending December 31, 2012, were \$511,483. Subcategories of Total Intrastate Operating Revenues are noted below:

Local	\$278,898
Intrastate	\$209,173
Miscellaneous	\$4,386
Uncollectible	\$19,026

The Applicant also stated that its Total Intrastate Operating Expenses for the Twelve Months Ending December 31, 2012, were \$368,223. Subcategories of Total Intrastate Operating Expenses are noted below:

Plant Specific Operations	\$74,148
Plant Non-specific Operations	\$6,131
Depreciation	\$143,931
Marketing	\$15,776
Customer Operations	\$53,410
Corporate Operations	\$74,827

*Operating Income*

As provided by the Applicant, SCC Total Intrastate Operating Income for the Twelve Months Ending December 31, 2012, was \$143,260 before taxes and \$80,192 after taxes.

**RATE BASE**

According to SCC, the combined Interstate and Intrastate rate base is \$1,584,705, as stated in the table below:

**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>	<u>6,154,077</u>	<u>3,190,187</u>	<u>2,963,890</u>
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	<u>32,573</u>	<u>15,004</u>	<u>17,569</u>
<b>Rate Base</b>	<b>1,584,705</b>	<b>412,763</b>	<b>1,171,942</b>

## **CUSTOMER BASE**

SCC reported 653 residential lines and 345 business lines in its Utilities Annual Report received April 22, 2013.

## **REVENUE REQUIREMENT**

As stated above, the Applicant's filing was based on streamlined requirements to meet the FCC's deadline for federal USF funding. Therefore, the Applicant's filing does not contemplate rate adjustments based on a typical 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 \$3.00 for customers in its Colorado City base rate area, and by \$0.82 for customers in its Fredonia base rate area. The Applicant's filing only contemplates changes to residential 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 residential local exchange service rates to \$14.00.

## **STAFF ANALYSIS**

Staff did not perform a regulatory audit of the information submitted by SCC. 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 ("FVRB"). The Applicant states that its intrastate rate base is \$1,171,942. The Applicant provided information that indicates that its Total Intrastate Operating Revenue for the Twelve Months Ending December 31, 2012 was \$511,483. According to the Applicant, the annual revenue effect of the increase in local telephone service rates to \$14.00 is \$14,698.<sup>1</sup> Compared to the Applicant's total revenues, any revenue impact from this rate increase would be small and any impact on the Applicant's FVRB would be de minimus. SCC's Return on Rate Base would increase from 6.27 percent to 7.53 percent.

## **STAFF'S RECOMMENDATIONS**

Staff recommends that the SCC monthly residential local exchange rate increase from the residential local service rate, of \$11.00 to \$14.00 for customers in SCC's Colorado City base rate

---

<sup>1</sup> Based on 679 one-party average residence lines.

area, and from \$13.18 to \$14.00 for customers in SCC's Fredonia base rate area, beginning December 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 Federal Universal Service Fund ("FUSF") funds that may flow to SCC 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.