

OPEN MEETING ITEM



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COMMISSIONERS
BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH



ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

DATE: November 5, 2013
DOCKET NO.: T-01923A-13-0229

Arizona Corporation Commission
DOCKETED
NOV 05 2013

TO ALL PARTIES:

DOCKETED BY

Enclosed please find the recommendation of Administrative Law Judge Teena Jibilian. The recommendation has been filed in the form of an Opinion and Order on:

SOUTH CENTRAL UTAH TELEPHONE ASSOCIATION, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

NOVEMBER 7, 2013

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

TO BE DETERMINED

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

JODI JERICHI
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SBernal@azcc.gov.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 BOB STUMP - Chairman
4 GARY PIERCE
5 BRENDA BURNS
6 BOB BURNS
7 SUSAN BITTER SMITH

8 IN THE MATTER OF THE APPLICATION OF
9 SOUTH CENTRAL UTAH TELEPHONE
10 ASSOCIATION, INC., A UTAH NON-PROFIT
11 CORPORATION, FOR A HEARING TO
12 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

DECISION NO. _____

OPINION AND ORDER

13 DATE OF HEARING: October 7, 2013
14 PLACE OF HEARING: Phoenix, Arizona
15 ADMINISTRATIVE LAW JUDGE: Teena Jibilian
16 APPEARANCES: Mr. Craig A. Marks, CRAIG A. MARKS, PLC, on
17 behalf of Applicant; and
18 Ms. Maureen A. Scott, Senior Staff Counsel, and Mr.
19 Charles O. Hains, Staff Attorney, Legal Division, on
behalf of the Utilities Division of the Arizona
Corporation Commission.

20 **BY THE COMMISSION:**

21 On July 1, 2013, South Central Utah Telephone Association, Inc., dba South Central
22 Communications ("SCC" or "Company") filed with the Arizona Corporation Commission
23 ("Commission") the above-captioned application. The application states that it was filed pursuant to
24 A.R.S. § 40-250 and Arizona Administrative Code R14-2-103, to compensate for the rate impacts of

25 ...
26 ...
27 ...
28 ...

1 the Federal Communication Commission’s (“FCC’s”) November 18, 2011 Universal Service
2 Fund/Inter-carrier Compensation (“USF/ICC”) Transformation Order (“USF/ICC Transformation
3 Order”).¹

4 * * * * *

5 Having considered the entire record herein and being fully advised in the premises, the
6 Commission finds, concludes, and orders that:

7 **FINDINGS OF FACT**

8 **Procedural History**

- 9 1. On July 1, 2013, SCC filed the rate application with the Commission.
- 10 2. On August 14, 2013, SCC filed a Motion for Procedural Order.
- 11 3. On August 15, 2013, a Rate Case Procedural Order was issued, setting the matter for
12 hearing and establishing associated procedural deadlines, including the mailing of notice of the
13 application and hearing to all of SCC’s customers.
- 14 4. On September 9, 2013, SCC filed an Affidavit indicating that notice of the application
15 and hearing was sent to all of SCC’s Arizona residential customers on August 22, 2013.
- 16 5. No requests for intervention or written public comments were filed.
- 17 6. On September 27, 2013, Staff filed its Staff Report recommending approval of the
18 application, for an increase in SCC’s monthly residential local exchange service rate from \$11.00 to
19 \$14.00 for customers in SCC’s Colorado City base rate area, and from \$13.18 to \$14.00 for
20 customers in SCC’s Fredonia base rate area, effective December 1, 2013.
- 21 7. On October 3, 2013, Staff filed the Testimony Summary of its witness.
- 22 8. On October 7, 2013, a hearing on the application was convened before a duly
23 authorized Administrative Law Judge of the Commission. SCC and Staff appeared through counsel,
24 presented testimony and evidence through witnesses, and were provided an opportunity to cross
25 examine witnesses. No members of the public appeared to provide public comment.

26 ...

27 _____
28 ¹ FCC 11-161, *Connect America Fund, WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking*, 26 FCC Rcd 17663 (November 18, 2011); *pets. for review pending (10th Cir. filed Dec. 8, 2011)*.

1 9. Following the parties' submission of evidence, the matter was taken under advisement
2 pending the submission of a Recommended Opinion and Order.

3 **SCC**

4 10. SCC is an Arizona public service corporation, organized as a non-profit corporation
5 domiciled in the State of Utah, engaged in the business of providing telephone utility service to the
6 public in Colorado City, Arizona, Fredonia, Arizona, and the State of Utah. In its Utilities Annual
7 Report filed with the Commission on April 22, 2013, SCC reported 653 residential lines and 345
8 business lines in the State of Arizona.

9 11. SCC is a rate of return incumbent local exchange carrier ("ILEC") eligible to receive
10 federal high-cost loop support ("FHCLS").

11 12. SCC is currently charging rates in Arizona set by Commission Decision No. 56744
12 (December 20, 1989).

13 **FCC USF/ICC Order**

14 13. On November 18, 2011, the FCC issued the USF/ICC Order. The USF/ICC Order
15 provides for a transition from former federal universal service programs and most intercarrier
16 compensation systems into a new Connect America Fund ("CAF"). In its USF/ICC Order, the FCC
17 states that by July 1, 2020, intercarrier compensation rates for rate of return companies will be
18 reduced to zero. The recovery from the CAF will phase out over time at 5 percent annually.

19 14. The USF/ICC Order adds new rules that will reduce FHCLS to carriers by the amount
20 their flat-rate residential local service rates fall below a specified local service rate floor. The rate
21 floor includes state subscriber line charges, state universal service fees, and mandatory extended area
22 service charges, if any are assessed. The USF/ICC Order establishes those rate floors at \$14.00 as of
23 June 1, 2013, with the floor thereafter being determined annually by the FCC's Wireline Competition
24 Bureau.

25 As a recipient of FHCLS, SCC is affected by the FCC USF/ICC Order. Under the USF/ICC Order,
26 to continue receiving FHCLS, rural ILECs such as SCC must increase their residential local rates to
27 the FCC-mandated residential rate floors. Otherwise, the amount of FHCLS
28

1 funds received will be reduced dollar-for-dollar for each customer by the difference between the
2 existing local rate and the new rate floor.

3 **Application**

4 15. The Company's current rates for its Arizona customers are below the \$14.00/month
5 rate floor effective June 1, 2013, mandated by the USF/ICC Order to allow it to continue receiving
6 FHCLS. The application requests that SCC be authorized to raise its monthly residential local
7 exchange service rate from \$11.00 to the \$14.00 rate floor for customers in SCC's Colorado City
8 base rate area, and from \$13.18 to the \$14.00 rate floor in SCC's Fredonia base rate area. The
9 application requests expedited consideration of its application, with new rates to go into effect no
10 later than December 1, 2013.

11 16. SCC submitted the application, after consulting with Staff, in a "streamlined" form
12 that does not contemplate rate adjustments based on a typical revenue requirement analysis. The
13 application and accompanying exhibits in support of SCC's requested increase in residential rates are
14 based on the twelve months ending December 31, 2012.

15 17. For the twelve months ending December 31, 2012, SCC's filing indicates total
16 Intrastate Operating Revenues of \$511,483, and total Intrastate Operating Expenses of \$368,223, for
17 total Intrastate Operating Income of \$143,260 before taxes, and \$80,192 after taxes.

18 18. The filing indicates a total Arizona original cost less depreciation ("OCRB") of
19 \$1,584,705, of which \$412,763 is interstate, and \$1,171,942 is intrastate.

20 **Staff Analysis and Recommendations**

21 19. Staff states that it reviewed the application and the federal rule changes that prompted
22 its filing. Staff states that it concluded that the costs appear reasonable and appropriate under the
23 unique circumstances of this case, but that its recommendation should not be viewed as precedent for
24 the processing of future rate case applications.

25 20. Staff states that for the purposes of this proceeding, SCC stipulated to the use of
26 OCRB as the basis for a determination of its fair value rate base ("FVRB").

27 21. Staff reviewed and analyzed the filing, but did not perform a regulatory audit. Staff
28 does not recommend that SCC's rates be set based on a revenue requirement analysis.

1 22. Staff states that the annual revenue effect of SCC's requested increase in local
2 telephone service rates to \$14.00 would be \$14,698. Staff states that compared to SCC's total
3 revenues, any revenue impact from this rate increase would be small, and any impact on SCC's fair
4 value rate of return would be de minimus. Staff states that with SCC's requested increase, SCC's
5 return on FVRB would increase from 6.27 percent to 7.53 percent.

6 23. Staff recommends that SCC's monthly residence local exchange rate for both its
7 Colorado City and Fredonia base rate areas be increased to \$14.00, beginning December 1, 2013, to
8 address the impact of the USF/ICC Transformation Order. Staff states that it believes the requested
9 increase is just, fair, and reasonable for the following reasons:

10 (a) The increase is necessitated by the FCC's November 18, 2011 USF/ICC Order;

11 (b) The increase is necessary to preserve the entirety of the Federal Universal
12 Service Fund ("FUSF") funding that may flow to SCC pursuant to the FCC's
13 rules;

13 (c) The increase will minimize/reduce the amount of future rate increase; and

14 (d) The increase will allow SCC to receive matching funds from the FUSF.

15 24. The Staff Report states that on July 18, 2013, the Records Section of the Corporations
16 Division responded that SCC is in Good Standing, and a review of the Consumer Services database
17 revealed that no complaints, inquiries and opinions were received pertaining to SCC for the period
18 January 1, 2010 through August 22, 2013.

19 25. Staff states that a check of the Utilities Division Compliance Section database showed
20 that SCC is in compliance with all items.

21 **Conclusions**

22 26. According to the evidence presented, the rate increase request will have a de minimus
23 effect on SCC's return on FVRB.

24 27. Staff's recommendations are reasonable and should be adopted.

25 28. Under the particular circumstances of this proceeding, SCC's rates for residential local
26 exchange service for customers in SCC's Colorado City base rate area should increase from the
27 currently tariffed rate of \$11.00 to \$14.00, and rates for residential local exchange service for
28

1 customers in SCC's Fredonia base rate area should increase from the currently tariffed rate of \$13.28
2 to \$14.00, in order to assure continued FUSF support for SCC's services.

3 **CONCLUSIONS OF LAW**

4 1. SCC is a public service corporation within the meaning of Article 15 of the Arizona
5 Constitution and A.R.S. §§ 40-250 and 40-251.

6 2. The Commission has jurisdiction over the Company and over the subject matter of this
7 proceeding.

8 3. The Company provided notice of this proceeding in accordance with law.

9 4. The Company's Arizona Intrastate FVRB as of December 31, 2012, is \$1,584,705.

10 5. Under the particular circumstances of this proceeding, a rate of return analysis is not
11 useful.

12 6. Under the particular circumstances of this proceeding, it is appropriate to increase
13 SCC's rates for residential local service for customers in SCC's Colorado City base rate area from the
14 currently tariffed rate of \$11.00 to \$14.00, and rates for residential local service for customers in
15 SCC's Fredonia base rate area from the currently tariffed rate of \$13.28 to \$14.00, in order to assure
16 continued FUSF support for SCC's services.

17 7. The rates and charges authorized herein are just and reasonable and promote the public
18 interest.

19 8. The Company should be directed to file revised tariffs showing the rates authorized
20 herein.

21 **ORDER**

22 IT IS THEREFORE ORDERED that South Central Utah Telephone Association, Inc. shall
23 increase its rates and charges in accordance with the Findings of Fact herein.

24 IT IS FURTHER ORDERED that such new rates and charges shall be effective for South
25 Central Utah Telephone Association's billings on or after December 1, 2013.

26 IT IS THEREFORE ORDERED that South Central Utah Telephone Association, Inc. shall
27 notify its affected customers of the rates approved herein in its next regularly scheduled billing.

28 ...

1 IT IS FURTHER ORDERED that South Central Utah Telephone Association, Inc. is
2 authorized and directed to file, on or before December 1, 2013, revised schedules of rates and charges
3 consistent with the Findings of Fact and Conclusions of Law contained herein.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
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7

8 CHAIRMAN _____ COMMISSIONER

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10 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER

11
12 IN WITNESS WHEREOF, I, JODI JERICH, Executive
13 Director of the Arizona Corporation Commission, have
14 hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this _____ day of _____ 2013.

16 JODI JERICH
17 EXECUTIVE DIRECTOR

18 DISSENT _____

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20 DISSENT _____
21 TJ:tv

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1 SERVICE LIST FOR: SOUTH CENTRAL UTAH TELEPHONE
ASSOCIATION, INC.

2
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