

ORIGINAL

NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION COMMISSION

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2013 DEC -9 P 12:28

AZ CORP COMMISSION  
DOCKET CONTROL

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-13-0428

APPLICATION

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 its investment and requests that its residential rates be increased as necessary to compensate  
5 for 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 The USF/ICC Order transitions the outdated federal universal service programs and most  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."

Arizona Corporation Commission

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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           SCC is a small rate-of-return regulated Incumbent Local Exchange Carrier (“ILEC”). Of  
5 particular importance to SCC and other rural ILECs, the USF/ICC Order adds new rules that will  
6 reduce federal high-cost loop support to carriers by the amount their flat-rate residential local  
7 service rates fall below a specified annual urban rate floor.<sup>1</sup> The rate floor includes, if any, state  
8 subscriber line charges, state universal service fees, and mandatory extended area service  
9 charges. The FCC’s order established local residential rate floors of \$10.00 as of June 1, 2012,  
10 and \$14.00 as of June 1, 2013, with the floor thereafter being determined annually by the FCC’s  
11 Wireline Competition Bureau, based on a nationwide average.<sup>2</sup>

12           The Wireline Competition Bureau has not yet determined the rate floor to be in effect for  
13 June 1, 2014. The nationwide residential average rate was \$15.62 in 2008. Estimates for the  
14 2013 nationwide residential average rate range from \$17.00 to \$18.50, so the 2014 rate floor will  
15 certainly be substantially higher than 2013’s \$14.00 rate floor.

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

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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 Low customer density makes SCC dependent on high-cost federal support mechanisms.  
2 It is important that the company be allowed to increase local rates to the FCC-determined annual  
3 rate floors in order to maintain its existing federal support.

4 The Wireline Competition Bureau is not expected to set the 2014 rate floor until the end  
5 of this quarter or the first quarter of 2014. If the rate floor is not set until 2014, it could be  
6 difficult for the Commission to timely review an application and authorize new rates for SCC by  
7 June 1, 2014. This would cause SCC to lose federal high-cost loop support dollar-for-dollar by  
8 the amount the new rate floor exceeds current \$14 residential rates.

9 To prevent the loss of federal support, SCC requests that the Commission approve a local  
10 residential rate increase of up to \$19.00. The actual rate implemented would be set at the lower  
11 of the approved 2014 residential rate floor and \$19.00. SCC will file the new FCC rate floor as  
12 soon as it is available.

## 13 **II. SOUTH CENTRAL COMMUNICATIONS**

14 SCC is a non-profit corporation duly organized and existing under and by virtue of the  
15 laws of the State of Utah. SCC is authorized to engage in and is now engaged in the conduct of a  
16 general communications business within the State of Arizona.

## 17 **III. SUMMARY OF REQUEST**

18 This application is made pursuant to the provisions of A.R.S. §§ 40-250 and 40-367, and  
19 Commission Rule R14-2-103. The Commission last considered SCC's rates in Docket No. T-  
20 01923A-13-0229, which resulted in Commission Decision 74205 issued on December 3, 2013.  
21 Decision No. 74205 authorized SCC to raise its residential service to \$14.00/month, effective  
22 December 1, 2013. As discussed above, these rates are substantially below the expected federal  
23 rate floor that will go into effect on June 1, 2014.

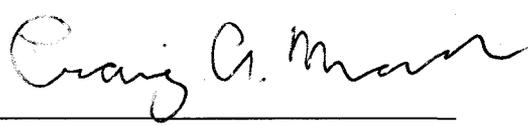
24 SCC is aware that many parties, including the Commission, have appealed the USF/ICC  
25 Order. However, in the meantime, SCC and other rural ILECS must comply with all provisions  
26 of the USF/ICC Order and will remain subject to the increased local residential rate floors and  
27 the corresponding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

1 SCC's loss of federal support funds would be particularly difficult to bear. As the  
2 attached schedules demonstrate, SCC's return on investment is negative at current rates. Put  
3 another way, SCC's jurisdictional earnings are negative. Losing federal support funds will only  
4 drive earnings deeper into the red.

5 In connection with this application, SCC has filed exhibits which include a schedule of  
6 the specific rate changes requested and the impact of the revenue generated on the company's  
7 financial position. SCC asks that the Commission determine the fair value of the company's  
8 investments for ratemaking purposes and stipulates to use original cost less depreciation for  
9 those purposes. Because the next opportunity to affect federal support funds is June 1, 2014,  
10 SCC further asks that the Commission approve a local residential rate of up to \$19.00. At  
11 \$19.00, SCC's return on rate base would -5.96%. The actual rate implemented would be set at  
12 the lower of the approved 2014 residential rate floor and \$19.00, so the actual return on rate base  
13 would be less than or equal to -1.95%. SCC asks that the customer notice issued by the  
14 Hearing Division inform customers of this potential range of rate increases.

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

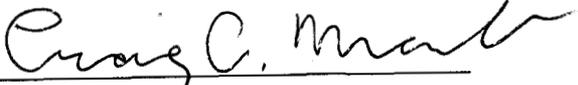
17 Respectfully submitted on December 9, 2013.

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**Original and 13 copies filed**  
on December 9, 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 September 30, 2013

REGULATED RESULTS OF OPERATIONS FOR 12 MONTHS ENDING 09/30/2013  
REFLECTS CHANGES EFFECTIVE WITH ARC AND CAF IMPLEMENTATION - YEAR 1

	TOTAL TELEPHONE OPERATIONS (a)	ADJUSTMENTS (b)	Ref (c)	ADJUSTED RESULTS (d)	INTERSTATE (e)	INTRASTATE (f)
<b>OPERATING REVENUES</b>						
1 Local	\$ 262,507			\$ 262,507		\$ 262,507
2 Interstate	878,807	(57,057) *		821,750	821,750	-
3 Intrastate	150,671			150,671		150,671
4 Message Toll	-			-		-
5 Miscellaneous	4,220			4,220		4,220
6 Uncollectible	16,200			16,200		16,200
7	<u>\$ 1,312,406</u>	<u>\$ (57,057)</u>	<u>\$ -</u>	<u>\$ 1,255,348</u>	<u>\$ 821,750</u>	<u>\$ 433,598</u>
<b>OPERATING EXPENSES</b>						
8 Plant Specific Operations	\$ 181,344			\$ 181,344	90,529	\$ 90,814
9 Plant Non-specific Operations	11,430			11,430	6,585	4,845
10 Depreciation	317,392			317,392	130,626	186,766
11 Marketing	27,489			27,489	12,591	14,898
12 Customer Operations	83,407			83,407	28,024	55,383
13 Corporate Operations	136,146			136,146	65,752	70,394
14	<u>\$ 757,208</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 757,208</u>	<u>\$ 334,108</u>	<u>\$ 423,100</u>
15 <b>OPERATING INCOME</b>	<u>\$ 555,198</u>	<u>\$ (57,057)</u>	<u>\$ -</u>	<u>\$ 498,141</u>	<u>\$ 487,642</u>	<u>\$ 10,499</u>
16 <b>OPERATING TAXES</b>	119,353			119,353	55,164	64,189
17 <b>NET OPERATING INCOME</b>	<u>\$ 435,845</u>	<u>\$ (57,057)</u>	<u>\$ -</u>	<u>\$ 378,788</u>	<u>\$ 432,478</u>	<u>\$ (53,690)</u>
<b>NON-OPERATING INCOME</b>						
18 Interest Income	\$ 4,063			4,063	1,318	\$ 2,745
19 Interest on Funded Debt	(12,475)			(12,475)	(4,072)	(8,403)
20 CoBank dividends	-			-		-
21 AFUDC	1,738			1,738	773	964
22 Other	(211)			(211)	(98)	(114)
23	<u>\$ (6,885)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,885)</u>	<u>\$ (2,078)</u>	<u>\$ (4,807)</u>
24 <b>NET OPERATING INCOME</b>	<u>\$ 428,960</u>	<u>\$ (57,057)</u>	<u>\$ -</u>	<u>\$ 371,903</u>	<u>\$ 430,400</u>	<u>\$ (58,497)</u>
25 <b>Total Rate Base at 09/30/2013</b>	1,374,664				393,935	980,729
26 Return on Rate Base (Ln 23/Ln24)						<b>-5.96%</b>
27 Estimated Revenue from Local Rate Increase						\$ 39,205
28 Net Operating Income After Increase (Ln 23 + Ln 26)						\$ (19,292)
29 Return on Rate Base After Increase (Ln 27/Ln 24)						<b>-1.97%</b>

**ASSUMPTIONS**

Unaudited financial statements for 12 months ending 09/30/2013  
Used 2012 cost study factors (latest available factors)

**Ref Notes**

\* Prior period adjustments as per NECA 3050

## South Central Utah Telephone Association, Inc.

09/30/2013 Rate Base

	Total Company	Interstate	Intrastate
Plant In Service	7,496,458	3,336,066	4,160,392
<i>Accumulated Depreciation</i>	6,266,701	3,007,164	3,259,537
Net Plant in Service	1,229,757	328,902	900,855
Plant Under Construction	(28,245)	(12,569)	(15,676)
Material & Supplies	-	-	-
Deferred Income Taxes	-	-	-
Other Long Term Liabilities	133,383	59,358	74,025
Customer Deposits	4,750	2,114	2,636
Cash Working Capital	35,019	16,130	18,889
<b>Rate Base</b>	<b>1,374,664</b>	<b>393,935</b>	<b>980,729</b>

**South Central Utah Telephone Association, Inc.**

**CALCULATION OF CASH WORKING CAPITAL (CWC)**

Plant Specific Operations Expense	181,344	
Plant Non-Specific Operations Expense Excluding Depreciation and Amortization	11,430	
Customer Operations Expense	110,896	
Corporate Operations Expense	136,146	
Contributions	-	
Interest on Customer Deposits	-	
Operating Taxes	119,353	
Interest Expense - Operating	12,475	
Total Annual Expense	571,644	
Cash Working Capital Factor	0.06126	22.36/365
Cash Working Capital Base	35,019	
Minimum Cash Balance	-	
Working Cash Allowance	-	
Total Cash Working Capital	35,019	

**South Central Utah Telephone Association, Inc.**

Proposed Rate Design  
09/30/2013 Average Units

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
Service Description	Average Units	Current Rates	09/30/2013 Annual Revenues	Proposed Rates	Proposed Revenues	Proposed Revenue	Change Percent
Basic Service	297	\$ 14.00	\$ 49,812.00	\$ 19.00	\$ 67,602.00	\$ 17,790.00	35.71%
Residence in Colorado City Base Rate Area (CLCY)	357	\$ 14.00	\$ 59,962.00	\$ 19.00	\$ 81,377.00	\$ 21,415.00	35.71%
Residence in Fredonia Base Rate Area (FRDN)						\$ 39,205.00	
<b>Estimated Revenue from Local Rate Increase</b>						<u>\$ 39,205.00</u>	

**Residential Lines**

Year	Area	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13
2013	CLCY	291	292	295	295	295	303	302	302	301	301	292	284
2013	FRDN	363	363	358	363	367	363	356	351	352	348	349	350
	<b>09/30/2013 Total</b>	<b>654</b>	<b>655</b>	<b>653</b>	<b>658</b>	<b>667</b>	<b>666</b>	<b>658</b>	<b>653</b>	<b>653</b>	<b>649</b>	<b>641</b>	<b>634</b>

**Multi-line business Lines**

Year	Area	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13
2013	CLCY	190	180	172	171	171	170	170	168	170	173	175	177
2013	FRDN	173	173	173	165	170	169	168	172	172	173	173	176
	<b>09/30/2013 Total</b>	<b>363</b>	<b>353</b>	<b>345</b>	<b>336</b>	<b>341</b>	<b>339</b>	<b>338</b>	<b>340</b>	<b>342</b>	<b>346</b>	<b>348</b>	<b>353</b>

**Total AZ Lines**

CLCY	481	472	467	466	471	471	473	472	470	471	474	467	461
FRDN	536	536	531	528	537	532	524	524	523	524	521	522	526
	<b>1017</b>	<b>1008</b>	<b>998</b>	<b>994</b>	<b>1008</b>	<b>1005</b>	<b>993</b>	<b>996</b>	<b>993</b>	<b>995</b>	<b>995</b>	<b>989</b>	<b>987</b>

**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>		