

NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION COMMISSION

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ARIZONA CORP COMMISSION
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ORIGINAL

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-13-0458

APPLICATION

Arizona Corporation Commission

DOCKETED

DEC 19 2013

DOCKETED BY

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 The USF/ICC Order transitions the outdated federal universal service programs and most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 established 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 The Wireline Competition Bureau has not determined the rate floor to be in effect for
14 June 1, 2014. The nationwide residential average rate was \$15.62 in 2008. Estimates for the
15 2013 nationwide residential average rate range from \$17.00 to \$18.50, so the 2014 rate floor will
16 be substantially higher than 2013’s \$14.00 floor.

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

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 Low customer density makes Copper Valley Telephone dependent on high-cost federal
2 support mechanisms. It is important that the company be allowed to increase local rates, to the
3 FCC determined annual 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 first
5 quarter of 2014. If the rate floor is not set until 2014, it could be difficult for the Commission to
6 timely review an application filed thereafter and authorize new rates for Copper Valley
7 Telephone by June 1, 2014. This would cause Copper Valley Telephone to lose federal high-
8 cost support dollar-for-dollar by the amount the new rate floor exceeds current \$14 residential
9 rates.

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

14 **II. COPPER VALLEY TELEPHONE**

15 Copper Valley Telephone, Inc. is a corporation duly organized and existing under and by
16 virtue of the laws of the State of Arizona. Copper Valley Telephone is authorized to engage in
17 and is now engaged in the conduct of a general communications business within the State of
18 Arizona.

19 **III. SUMMARY OF REQUEST**

20 This application is made pursuant to the provisions of A.R.S. §§ 40-250 and 40-367, and
21 Commission Rule R14-2-103. The Commission last considered Copper Valley Telephone's
22 rates in Docket No. T-02727A-12-0484 which resulted in Commission Decision 73871 issued on
23 May 8, 2013. Decision No. 73871 authorized Copper Valley Telephone to raise its residential
24 one-party rates to \$14.00/month, effective June 1, 2013. As discussed above, these rates are
25 substantially below the expected federal rate floor that will go into effect on June 1, 2014.

26 Copper Valley Telephone is aware that many parties, including the Commission, have
27 appealed the USF/ICC Order. However, in the meantime, Copper Valley Telephone and other

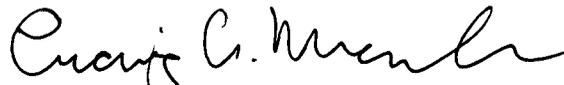
1 rural ILECS must comply with all provisions of the USF/ICC Order and will remain subject to
2 the increased local residential rate floors and the corresponding losses of federal support funds.

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

6 In connection with this application, Copper Valley Telephone has filed exhibits which
7 include a schedule of the specific rate changes requested and the impact of the revenue generated
8 on the company's financial position. Copper Valley Telephone asks that the Commission
9 determine the fair value of the company's investments for ratemaking purposes and stipulates to
10 use original cost less depreciation for those purposes. Because the next opportunity to affect
11 federal support funds is June 1, 2014, Copper Valley Telephone further asks that the
12 Commission approve a local residential rate of up to \$19.00. At \$19.00 Copper Valley
13 Telephone's return on rate base would still be only 2.68%. Copper Valley Telephone asks that
14 the customer notice inform customers of this potential range of rate increases.

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

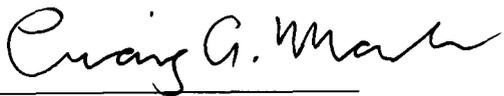
18 Respectfully submitted on December 19, 2013.

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Original and 13 copies filed
on December 19, 2013, with:

Docket Control
Arizona Corporation Commission
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Phoenix, Arizona 85007

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Craig A. Marks

Copper Valley Telephone Company

Streamlined filing to support residential rate increase due to FCC
floor implementation and resulting HCL loss.

November 30, 2013

Copper Valley Telephone Company

November 30, 2013

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Copper Valley Telephone Company

as of November 30, 2013

REGULATED 2012 RESULTS OF OPERATIONS REFLECTS CHANGES EFFECTIVE WITH ARC AND CAF IMPLEMENTATION -- YEAR 2

	2012 TOTAL TELEPHONE OPERATIONS	ADJUSTMENTS	Ref	ADJUSTED 2012 RESULTS	INTERSTATE	INTRASTATE
	(a)	(b)	(c)	(d)	(e)	(f)
1 Local	875,280	(1,625)	#3	873,655	-	873,655
2 Universal Service Fund (USF-HCL) and Safety Net Additive (SNA)	1,758,820	-	#2	1,758,820	-	1,758,820
3 Access Revenues	2,645,776	279,800	#1,3	2,925,576	2,641,328	284,248
4 Billing & Collecting	237	-	-	237	-	237
5 Other Misc., Uncollectibles	211,641	-	-	211,641	-	211,641
6 Total Operating Revenues	5,491,755	278,175		5,769,930	2,641,328	3,128,602
7 Plant Specific Expenses	1,001,915	(11,811)	#9	990,104	359,630	630,474
8 Plant Nonspecific Expenses	456,038	(531)	#3,4,9	455,507	194,956	260,551
9 Depreciation & Amortization Expenses	1,667,246	(33,406)	#5,10,11,12	1,633,840	581,442	1,052,398
10 Customer Operations Expenses	466,432	-	-	466,432	183,307	283,125
11 Corporate Operations Expenses	542,982	(5,249)	#6,7	537,733	235,069	302,664
12 Other Operating Taxes and (Income)	288,648	(500)	#6,7,8	288,148	93,053	195,095
13 Nonregulated Adjustment						
14 Total Operating Expenses	4,423,261	(51,497)		4,371,764	1,647,357	2,724,407
15 OPERATING RETURN BEFORE TAXES	1,068,494	323,672		1,392,166	993,971	404,195
16 State Income Taxes (SIT) (6.97%)	30,511	-	-	30,511	11,402	19,109
17 Federal Income Taxes (FIT) (35%)	152,078	-	-	152,078	56,833	95,245
18 Deterred Income Taxes	(75,427)	-	-	(75,427)	(28,188)	(47,239)
Total Operating Income Taxes	107,162	-	-	107,162	40,047	67,115
19 Total Expenses and Income Taxes	4,530,423	(51,497)		4,478,926	1,687,404	2,791,522
Fixed Charges	429,040	(132,443)	#13	296,597	97,479	199,118
20 Net Operating Income	532,292	462,115		994,407	856,445	137,962
21 Total Year-End Avg Rate Base	12,735,650	(566,410)		12,169,240	4,006,935	8,162,306
22 Return on Rate Base (Ln 20 / Ln 21)						1.69%
23 Estimated Revenue from Local Rate Increase						134,270
24 State Income Taxes (SIT) (6.97%)						9,359
25 Federal Income Taxes (FIT) (35%)						43,719
26 Increase in Net Operating Income						81,192
27 Net Operating Income After Increase (Ln 20 + Ln 26)						219,154
28 Return on Rate Base After Increase (Ln27 / Ln21)						2.68%

ASSUMPTIONS

Used 2011 Copper Valley Only Cost Study ran 7/31/2012 for Part 36 separatio
Separated results based upon frozen 2000 traffic factors
Separated results based upon 2012 financials, interstate rules, adjusted for Part 64 activities
Working Capital included for all jurisdictions
Federal & State Income Taxes reflect 2012 actual
Contributions & AFUDC included in Other Operating Taxes and (Income)
Interest on customer deposits included in Fixed Charges

**Copper Valley Telephone Company
Adjustments to Revenues and Expenses**

Ref	Account	Description	Debit	Credit
1.	5082	Access Revenues		316,930
	9999	Balancing Account	316,930	
		To remove prior period NECA interstate adjustments.		
2.	5082	Universal Service Fund	-	
	9999	Balancing Account		-
		To adjust for HCL and SN projected change for 2013. Does not include impact of floor.		
3.	5001	Local Revenues	1,625	
	5082	Access Revenues	32,446	
	5084	Access Revenues	4,684	
	6540	Plant Nonspecific Exp		624
	9999			38,131
		Year 2 FCC Order ICC intrastate and interstate revenue and expense 5% reductions.		
4.	9999	Balancing Account		2,866
	6540	Access Expense- Recip Comp - Local	20,899	
	6540	Access Expense- Recip Comp - I/S		20,899
	6540	Access Expense	2,866	
		To adjust the USF contributions to the EC 1050 3(c)2.		
5.	9999	Balancing Account	400	
	6560-2121	Dep Exp Tower		400
		To remove expenses associated with Tower leases		
6.	7200	Other Taxes - I/S	2,249	
	6722	Operating Taxes - Other		2,249
		To directly assign FCC Regulatory Fees-CVTC		
7.	7370	Contributions	3,000	
	6720	G & A - External Relations		3,000
		To reclassify deferred charges		
8.	7370	AFUDC	1,389	
	9999	Balancing Account		1,389
		To remove AFUDC from study		
9.	9999	Balancing Account	21,731	
	6232	Circuit Equipment Expense		3,241
	6423	Buried Cable Expense		8,570
	6531	Power Expense		942
	6532	Network Admin Expense		729
	6533	Testing Expense		1,111
	7240	Operating Taxes - Ad Valorem		7,138
		To remove costs associated with non-reg fiber leases		
10.	9999	Balancing Account	7,095	
	6561-2423	Depr Exp - Buried Cable		7,095
		To remove costs associated with Qwest Leased Fiber		
11.	9999	Balancing Account	7,867	
	6561-2232	Depr Exp - Circuit Equipment		5,593
	6561-2423	Depr Exp - Buried Cable		2,274
		To remove costs associated with OC12 Fiber Lease		
12.	9999	Balancing Account	18,044	
	6561-2423	Depr Exp - Buried Cable		18,044
		To remove costs associated with Dark Fiber Lease - GIGE Network		
13.	7510	Interest on Funded Debt	132,443	
	9999	Balancing Account		132,443
		To remove non-operating portion of Fixed Charges		

Copper Valley Telephone Company

Rate Base

As of December 31, 2012

	Adjusted		
	Total Company	INTERSTATE	INTRASTATE
Plant in Service	\$ 29,893,951	\$ 9,445,638	\$ 20,448,313
Accumulated Depreciation	(15,846,568)	(4,852,805)	(10,993,763)
Net Plant in Service	\$ 14,047,383	\$ 4,592,833	\$ 9,454,550
Plant Under Construction	53,412	16,877	36,535
Material & Supplies	-	-	-
Deferred Income Taxes	(2,044,382)	(647,258)	(1,397,124)
Customer Deposits	(19,408)	(6,132)	(13,276)
Cash Working Capital	132,236	50,615	81,621
Rate Base	<u>\$ 12,169,241</u>	<u>\$ 4,006,935</u>	<u>\$ 8,162,306</u>

ASSUMPTIONS

Used 2012 Copper Valley Only Cost Study ran 7/31/2013 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	\$ 4,371,764	\$ 1,647,357	\$ 2,724,407
Less Depreciation & Amortization	1,633,840	581,442	1,052,398
Fixed Charges	295,325	97,061	198,264
Interest on Customer Deposits	1,272	418	854
Other Nonoperating Expenses - Contributions	3,861	1,688	2,173
Cash Operating Federal Income Taxes	152,078	56,833	95,245
Cash Operating State & Local Taxes	<u>30,511</u>	<u>11,402</u>	<u>19,109</u>
Total Cash Operating Expenses	\$ 3,220,971	\$ 1,233,317	\$ 1,987,654
% LAG (15 days)	4.11%	4.11%	4.11%
TOTAL CASH WORKING CAPITAL	<u>\$ 132,369</u>	<u>\$ 50,684</u>	<u>\$ 81,684</u>

Copper Valley Telephone Company
Proposed Rate Design
2013 Average Units

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
Service Description	2013 Avg Units	2012 Avg Units	Current Rates	Propforma 2012 Annual Revenues	Proposed Rates	Proposed Revenues	Proposed Change Revenue Percent
Basic Service	2,157	2,238	\$ 14.00	\$ 375,956	\$ 19.00	\$ 510,226	\$ 134,270 35.71%
Residence One-Party							
Estimated Revenue from Local Rate Increase							<u>\$ 134,270</u>

Notes:
No reduction made for line loss.

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	2,271	2,265	2,265	2,253	2,240	2,228	2,215	2,217	2,206	2,213	2,216
2013 Total		2,196	2,196	2,183	2,181	2,166	2,153	2,145	2,139	2,124	2,119	2,119	2,119