



0000151934

**MEMORANDUM**

RECEIVED

2014 MAR 21 P 2:10

AZ CORP COMMISSION  
DOCKET CONTROL

ORIGINAL

TO: Docket Control

FROM: Steven M. Olea  
Director  
Utilities Division

DATE: March 21, 2014

RE: IN THE MATTER OF THE APPLICATION OF TABLE TOP TELEPHONE COMPANY, INC., FOR A HEARING TO DETERMINE THE EARNINGS 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-02724A-13-0416)

Attached is the Staff Report for Table Top Telephone Company, Inc.'s application to increase residential rates as necessary 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 Table Top Telephone Company, Inc.'s request to increase its monthly residential local exchange service rate from \$14.00 to the lesser of \$19.00 or the 2014 local service rate floor established by the FCC. Staff further recommends that the rate increase become effective on the rate floor compliance date, as determined by the FCC.

SMO:WMS:sms:CHH

Originator: Wilfred Shand

Arizona Corporation Commission

DOCKETED

MAR 21 2014

DOCKETED BY

SERVICE LIST FOR: TABLE TOP TELEPHONE COMPANY, INC.  
DOCKET NO.: T-02724A-13-0416

Craig A. Marks  
CRAIG A. MARKS PLC  
10645 N. Tatum Boulevard, 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**

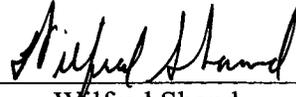
**TABLE TOP TELEPHONE COMPANY, INC.  
DOCKET NO. T-02724A-13-0416**

**IN THE MATTER OF THE APPLICATION OF TABLE TOP TELEPHONE COMPANY,  
INC., FOR A HEARING TO DETERMINE THE EARNINGS 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**

**MARCH 21, 2014**

## STAFF ACKNOWLEDGMENT

The Staff Report for Table Top Telephone Company, Inc. (Docket No. T-02724A-13-0416) was the responsibility of the Staff member listed below.

A handwritten signature in cursive script, appearing to read "Wilfred Shand", is written over a horizontal line.

Wilfred Shand  
Public Utility Analyst Manager

**EXECUTIVE SUMMARY  
TABLE TOP TELEPHONE COMPANY, INC..  
DOCKET NO. T-02724A-13-0416**

On December 4, 2013, Table Top Telephone Company, Inc. ("Table Top" 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 to compensate for the rate impacts of the Federal Communication Commission's ("FCC's") November 18, 2011, Universal Service Fund/Intercarrier Compensation ("USF/ICC") Transformation Order ("USF/ICC Order"), pursuant to Arizona Revised Statutes ("A.R.S.") §§ 40-250 and 40-367.

Staff recommends approval of Table Top Telephone Company, Inc.'s request to increase its monthly residential local exchange service rate from \$14.00 to the lesser of \$19.00 or the 2014 local service rate floor established by the FCC. Staff further recommends that the rate increase become effective on the rate floor compliance date, as determined by the FCC. 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 Table Top pursuant to the FCC's rules;
- The increase will minimize/reduce the amount of future rate increases; and
- The increase will allow the Applicant to receive matching funds from the FUSF.

Staff further recommends that any future rate increase applications filed by Table Top be processed per full A.A.C. R14-2-103 requirements, not streamlined.

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
Introduction.....	1
Background.....	1
Consumer Services.....	2
Public Notice.....	3
Compliance .....	3
Operating Income Statement.....	3
Operating Revenue and Expenses.....	3
Operating Income .....	3
Rate Base .....	4
Customer Base .....	4
Revenue Requirement.....	4
Rate Design.....	4
Staff Analysis.....	5
Staff's Recommendations .....	5

## **Introduction**

On December 4, 2013, Table Top Telephone Company, Inc. ("Table Top" 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 to compensate for the rate impacts of the Federal Communication Commission's ("FCC's") November 18, 2011, Universal Service Fund/Intercarrier Compensation ("USF/ICC") Transformation Order ("USF/ICC Order") pursuant to Arizona Revised Statute ("A.R.S.") §40-250 and the Arizona Corporation Commission's ("Commission's") 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. Table Top submitted, as recommended by Staff, a streamlined filing which included the following exhibits to support the requested increase in residential rates:

- Adjusted 2012 Results
- Adjustments
- Year 2 FCC Order ICC Impact
- Rate Base
- Working Capital
- Rate Design

On December 17, 2013, the Applicant filed a Time Clock Waiver for thirty (30) days. In addition, the Applicant filed revised Schedule pages to correct errors in its previous filing on January 21, 2014. Finally, the Applicant submitted a Supplemental Filing on January 29, 2014.

On March 5, 2014, Linda J. Sharpe, a Table Top customer, filed a Petition to Intervene in this matter. In the Petition, Ms. Sharpe states, "I am a Table Top Telephone customer and have a direct and substantial interest in the proposed rate increase." The request to intervene was granted by Administrative Law Judge Rodda on March 14, 2014. Ms. Sharpe has requested compensation levels for the 5 highest level executives at Table Top. Table Top has agreed to provide the information if Ms. Sharpe signs a protective agreement. It is Staff's understanding that Ms. Sharpe believes this should be public information and so she has not signed the agreement to date.

## **Background**

Table Top is a corporation duly organized and existing under and by virtue of the laws of the State of Nevada and authorized to do business in the State of Arizona. Table Top is authorized to engage in and is engaged in the conduct of a general communications business within the State of Arizona. The Commission last considered Table Top's rates in Docket No. T-02724A-12-0489, which resulted in Commission Decision No. 73875, dated May 8, 2013. Decision No. 73875 authorized Table Top to increase its residential local service rates to the \$14.00 rate floor established by the FCC. With this application, Table Top seeks Commission

approval to raise, by June 1, 2013, its residential rates from \$14.00 to the lesser of \$19.00 or the 2014 local service rate floor established by the FCC. Table Top Telephone 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 single line residential local service rates fall below an FCC-specified local service 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 date, the FCC has not established the June 1, 2014 local service rate floor. The FCC is conducting a survey of urban rates for fixed voice residential services, required by the USF/ICC Transformation Order. The information collected in this survey will be used to establish a rate floor for voice services that eligible telecommunications carriers (“ETCs”) receiving high cost loop support (“HCLS”) or frozen high-cost support must meet in order to receive their full support amounts.

To maintain FHCLS, Table Top and other rural ILECs must increase single residential local rates to the FCC-mandated residential rate floor. Otherwise, the amount of FHCLS funds will be reduced dollar-for-dollar for each customer by the difference between the existing single line residential local rate and the new rate floor. Table Top’s current residential local service rate of \$14.00 is equal to the current rate floor. Therefore, with this application, Table Top seeks Commission approval to raise its residential local service rate from \$14.00 to the lesser of the local service rate floor established by the FCC for the period July 1, 2014 to June 30, 2015 or \$19.00.

### **Consumer Services**

On February 3, 2014, the Commission’s Corporations Division responded that Table Top is in good standing. A review of Consumer Services database from January 1, 2010 to current revealed that one complaint was filed in 2011 and one complaint was filed in 2013. All complaints, inquiries and opinions have been resolved and closed. One opinion was filed opposing the rate increase.

**Public Notice**

On February 28, 2014, Table Top filed an Affidavit of Mailing indicating that notice was mailed on February 10, 2014, to all of Table Top's Arizona residential customers.

**Compliance**

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

**Operating Income Statement**

Table Top submitted Regulated 2012 Results of Operations 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, Table Top Total Intrastate Operating Revenues for 2012 were \$4,388,717. Subcategories of Total Intrastate Operating Revenues are noted below:

Local	\$1,263,997
USF-HCL <sup>1</sup> & Safety Net	\$2,579,847
Access Revenues	\$508,829
Billing and Collecting	\$6,418
Other	\$29,626

The Company also provided information that stated that its Total Intrastate Operating Expenses for 2012 were \$3,350,331. Subcategories of Total Intrastate Operating Expenses are noted below:

Plant Expenses	\$1,067,490
Depreciation & Amortization	\$1,248,092
Customer Operations	\$202,390
Corporate Operations	\$516,193
Other	\$216,166

***Operating Income***

As provided by the Applicant, Table Top's total intrastate operating income before taxes for 2012 was \$1,138,386 and its net operating income was \$802,777.

---

<sup>1</sup> Universal Service Fund – High Cost Fund

**Rate Base**

According to Table Top, its intrastate rate base is \$11,808,512, as stated in the table below:

Table Top Telephone Company			
Rate Base for 2012			
	Adjusted		
	Total Company	INTERSTATE	INTRASTATE
Plant in Service	\$48,933,501	\$25,020,449	\$23,913,052
Accumulated Depreciation	\$30,623,897	\$16,743,327	\$13,880,570
Net Plant in Service	\$18,309,604	\$8,277,122	\$10,032,482
Plant Under Construction	\$4,958,613	\$2,535,415	\$2,423,198
Material & Supplies	\$143,415	\$61,736	\$81,679
Deferred Income Taxes	(\$1,519,019)	(\$752,493)	(\$766,526)
Other Long Term Liabilities	-	-	-
Customer Deposits	(\$133,257)	(\$66,013)	(\$67,244)
Cash Working Capital	\$238,695	\$133,772	\$104,923
Rate Base	\$21,998,051	\$10,189,539	\$11,808,512

**Customer Base**

Table Top reported 2,499 residential lines and 1365 business lines in its 2012 Utilities Annual Report submitted on March 3, 2013.

**Revenue Requirement**

As stated above, the Applicant's filing was based on a streamlined basis and does not contemplate rate adjustments based on revenue requirement analysis.

**Rate Design**

The Applicant is seeking to increase its residential local exchange service rate from \$14.00 to the lesser of \$19.00 or the 2014 local service rate floor established by the FCC. 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 from \$14.00 to the lesser of \$19.00 or the 2014 local service rate floor established by the FCC.

For its 2013 rate floor adjustments, Table Top reduced the zone changes for residential service provided in zones 1 and 2 by the same amount that it increased the basic residential service rate. Therefore, the customers in zones 1 and 2 experienced a restructuring of their rates, but did not see an increase in the amount they paid for service. In this proceeding, Table Top proposes to eliminate the current \$0.80 and \$2.80 zone charges for zones 1 and 2, respectively. Assuming that residential rates are increased to \$19.00, base rate area customers will see a monthly increase of \$5.00 per month, Zone 1 customers will see a monthly increase of \$4.20 and Zone 2 customers will see a monthly increase of \$2.20.

### **Staff Analysis**

Staff did not perform a regulatory audit of the information submitted by Table Top. 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 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. The Applicant states that its intrastate rate base is \$11,808,512. The Applicant provided information that indicates that its Total Intrastate Operating Revenue for 2012 was \$4,388,717. According to the Applicant, the annual revenue effect of the increase in residential local telephone service rates to \$19.00 is \$128,136. Table Top's Return on Rate Base would increase from 6.80 percent to 7.46 percent. In the Applicant's Supplemental Filing, Table Top indicated that the annual revenue effect of the increase in residential local telephone service rates to \$17.50 is \$83,460. At the \$17.50 residential local service rate, Table Top's Return on Rate Base would be 7.23 percent, versus 7.46 percent if the residential rate floor is set at \$19.00 per month. 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.

### **Staff's Recommendations**

Staff recommends approval of Valley Telephone Cooperative, Inc.'s request to increase its monthly residential local exchange service rate from \$14.00 to the lesser of \$19.00 or the 2014 local service rate floor established by the FCC. Staff further recommends that the rate increase become effective on the rate floor compliance date, as determined by the FCC, to address the impact of the FCC's USF/ICC Order.<sup>2</sup> 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;

---

<sup>2</sup> The rate floor compliance date is the date (currently June 1) on which the local service rate must equal or exceed the FCC rate floor so a company receiving federal high-cost loop support may continue to receive all of its authorized Federal Universal Service Fund revenues.

- The increase is necessary to preserve the entirety of the FUSF funds that may flow to Table Top pursuant to the FCC's rules;
- The increase will minimize/reduce the amount of future rate increases; and
- The increase will allow the Applicant to receive matching funds from the FUSF.

Staff further recommends that any future rate increase applications filed by Table Top be processed per full A.A.C. R14-2-103 requirements, not streamlined.

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.