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Docket #(s): T-02727A-13-0458

Arizona Corporation Commission
DOCKETED

APR 08 2014

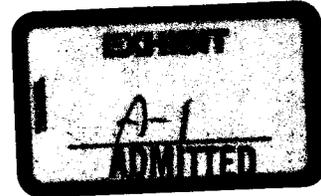
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Exhibit #: A-1, A-2, S-1

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH



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

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 The USF/ICC Order transitions the outdated federal universal service programs and most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.

19
20
21 /s/Craig A. Marks
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29 Attorney for Copper Valley Telephone, Inc.

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

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

By: /s/Craig A. Marks
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

Index

	<u>Page</u>
Adjusted 2012 Results	1
Adjustments	2
Year 2 FCC Order ICC Impact	3
Rate Base	4
Working Capital	5
Rate Design	6

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 (c)	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	278,800 #1.3		2,924,576	2,641,328	284,248
4 Billing & Collecting	237	-		237	-	237
5 Other Misc., Uncollectibles	211,841	-		211,841	-	211,841
6 Total Operating Revenues	5,491,765	278,175		5,769,930	2,641,328	3,128,602
7 Plant Specific Expenses	1,001,915	(11,811) #9		990,104	359,830	630,274
8 Plant Nonspecific Expenses	456,038	(531) #3.4.9		455,507	184,856	270,651
9 Depreciation & Amortization Expenses	1,987,246	(33,406) #5.10.11.12		1,953,840	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	235,068	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	4,423,281	(51,497)		4,371,784	1,647,357	2,724,407
15 OPERATING RETURN BEFORE TAXES	1,068,484	328,872		1,397,356	993,971	404,185
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 Total Operating Income Taxes	(75,427)	-		(75,427)	(28,168)	(47,239)
19 Total Expenses and Income Taxes	107,162	-		107,162	40,047	67,115
20 Net Operating Income	4,830,423	(61,497)		4,478,926	1,687,404	2,791,522
Fixed Charges	429,040	(132,443) #13		296,597	97,479	199,118
21 Total Year-End Avg Rate Base	532,252	452,115		984,407	866,445	137,962
22 Return on Rate Base (Ln 20 / Ln 21)	12,735,650	(566,410)		12,169,240	4,006,935	8,162,306
23 Estimated Revenue from Local Rate Increase						1,635%
24 State Income Taxes (SIT) (6.97%)						134,270
25 Federal Income Taxes (FIT) (35%)						9,358
26 Increase in Net Operating Income						43,719
27 Net Operating Income After Increase (Ln 20 + Ln 26)						81,192
28 Return on Rate Base After Increase (Ln27 / Ln21)						2,685%

ASSUMPTIONS
 Used 2011 Copper Valley Only Cost Study ran 7/9/12/2012 for Part 36 separate
 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 INTERSTATE 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	30,511	11,402	19,109
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	Proposed Rates	Proposed Revenues	Proposed Revenue	Change Percent
Basic Service	2,157	2,238	\$ 14.00	\$ 19.00	\$ 510,226	\$ 134,270	35.71%
Residence One-Party						\$ 134,270	
Estimated Revenue from Local Rate Increase						\$ 134,270	

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	2,168	2,153	2,145	2,139	2,124	2,119	2,119	2,116

Residential Lines



PUBLIC NOTICE

Exhibit A-2

Federal Communications Commission
445 12th St., S.W.
Washington, D.C. 20554

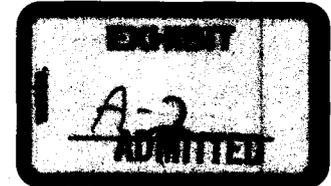
News Media Information 202 / 418-0500
Internet: <http://www.fcc.gov>
TTY: 1-888-835-5322

DA 14-384
Released March 20, 2014

**WIRELINE COMPETITION BUREAU ANNOUNCES RESULTS OF
URBAN RATE SURVEY FOR VOICE SERVICES;
SEEKS COMMENT ON PETITION FOR EXTENSION OF TIME
TO COMPLY WITH NEW RATE FLOOR**

WC Docket No. 10-90

Oppositions Date: March 21, 2014
Replies Date: March 31, 2014



Today, the Wireline Competition Bureau announces the results of the urban rate survey for fixed voice services, which will be used to determine the 2014 rate floor for incumbent eligible telecommunications carriers (ETCs) and the reasonable comparability benchmark for voice services.¹ We also seek comment on a petition to extend the deadline for compliance with the 2014 rate floor.

In the *USF/ICC Transformation Order*, the Commission adopted a rate floor “to ensure that states are contributing to support and advance universal service and that consumers are not contributing to the Fund to support customers whose rates are below a reasonable level.”² To be consistent with section 254(b) of the Communications Act, the Commission also determined that “ETCs must offer voice telephony service, including voice telephone service offered on a standalone basis, at rates that are reasonably comparable to urban rates,”³ and it adopted a presumption that “a voice rate is within a reasonable range if it falls within two standard deviations above the national average.”⁴ In the *USF/ICC Transformation Order*, the Commission directed the Wireline Competition Bureau and Wireless Telecommunications Bureau to conduct a survey of residential urban rates for, among other things, fixed voice and fixed broadband services.⁵

On April 3, 2013, the Wireline Competition Bureau (Bureau) and the Wireless Telecommunications Bureau adopted an order setting the form and content for a survey of urban rates for

¹ See *Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing a Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up; Universal Service Reform—Mobility Fund*; WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663, 17694, 17751, paras. 84-85, 238 (2011) (*USF/ICC Transformation Order*), *pets. for review pending sub nom. In re: FCC 11-161*, No. 11-9900 (10th Cir. argued Nov. 19, 2013).

² *USF/ICC Transformation Order*, 26 FCC Rcd at 17751, para. 238 (emphasis and footnote omitted).

³ *Id.* at 17693, para. 81.

⁴ *Id.* at 17694, para. 84.

⁵ *Id.* at 17694, 17708, paras. 85, 114.

fixed voice and fixed broadband residential services, as required by the *USF/ICC Transformation Order*.⁶ On December 16, 2013, the Bureau initiated the survey and collected the rates offered by a statistically valid sample of facilities-based providers of fixed services identified using the most recent FCC Form 477 data in 500 urban Census tracts.⁷

Based on the survey results, the Bureau has calculated that the average local end-user rates plus state regulated fees of the surveyed ILECs in urban areas is \$20.46. The *USF/ICC Transformation Order* defined the average urban rate to include local end-user rates plus state regulated fees (specifically, state subscriber line charges (SLCs), state universal service, and mandatory extended area service charges).⁸ The Commission specifically did not include the federal SLC in the calculation for the rate floor. The Bureau found that non-ILEC provider recurring monthly rates collected in the survey typically were higher than ILEC reported recurring monthly rates. Non-ILEC providers who do not separately charge and report a federal SLC may charge recurring monthly rates similar to an ILEC's monthly charge plus the federal SLC. The Bureau calculated the average using urban ILEC rates from the sample in order to avoid inclusion of rates that may be designed to match the ILEC's monthly local rate plus the federal SLC.

Based on the survey responses, the Bureau also calculated the reasonable comparability benchmark for voice services to be \$46.96.⁹ For purposes of the reasonable comparability benchmark, the Bureau concluded that the rates of all local flat-rate providers (both ILEC and non-ILEC providers) and, consistent with existing precedent, federal SLCs, should be included.¹⁰ The purpose of the reasonable comparability measurement is to ensure that rural rates do not significantly exceed urban rates. From the consumer's perspective, it is the total local rate (the base charge plus the federal SLC) that is relevant. Therefore, establishing a benchmark based on the price of local voice services offered by all voice providers in urban areas is the most reasonable basis for comparison.

Under the Commission's rules, by July 1, 2014, all ETCs that are ILEC recipients of high-cost support must report the number of residential service lines for which the sum of the rate and state fees are below \$20.46 as of June 1, 2014.¹¹ In addition, each ETC, including competitive ETCs, must certify that the pricing of the voice services is no more than \$46.96.¹²

On March 11, 2014, the Eastern Rural Telecom Association (ERTA), the Independent Telephone & Telecommunications Alliance (ITTA), NTCA, the National Exchange Carrier Association (NECA), the

⁶ *Connect America Fund*, WC Docket No. 10-90, Order, 28 FCC Rcd 4242 (Wireline Comp. Bur. and Wireless Telecom. Bur. 2013).

⁷ *Wireline Competition Bureau Announces Timeline for Completion of Urban Rates Survey*, WC Docket No. 10-90, Public Notice, 28 FCC Rcd 16753 (Wireline Comp. Bur. 2013). The sample included fixed, facilities-based, terrestrial (not mobile) voice providers, including incumbent local exchange carriers (ILECs), cable companies, and fixed wireless providers.

⁸ *USF/ICC Transformation Order*, 26 FCC Rcd at 17751, para. 238.

⁹ *Id.* at 17694, para. 84.

¹⁰ *Id.*

¹¹ 47 C.F.R. § 54.313(h). To the extent that an ILEC's local rates (plus state regulated fees) are less than the urban rate floor, that carrier's high-cost support will be reduced on a dollar-for-dollar basis. This applies both to price cap and rate-of-return carriers, and to high-cost loop support as well as Connect America Fund Phase I frozen support. See *USF/ICC Transformation Order*, 26 FCC Rcd at 17751-52, para. 239.

¹² 47 C.F.R. § 54.313(a)(10).

United States Telecom Association (USTelecom), and WTA – Advocates for Rural Broadband filed a joint petition requesting that the deadline for compliance with the 2014 local service rate floor be extended from July 1, 2014 to January 2, 2015, and that subsequent adjustments to the rate floor should then be made annually on January 2.¹³ Pursuant to section 1.45 of the Commission’s rules, oppositions to the petition are due on March 21, 2014, and replies would be due on March 26, 2014. Pursuant to section 1.3 of the Commission’s rules,¹⁴ however, we waive the provisions in section 1.45(c) of the Commission’s rules relating to the replies filing deadline and the substantive content of replies, to extend the reply period to March 31, 2014 in order to allow more time for parties to comment on the petition, as well as any alternative approaches that would protect consumers while ensuring swift implementation of the Commission’s statutory obligation to ensure reasonably comparable rates. For example, we seek comment on a longer phase-in of the rate floor than the extension requested by petitioners.

Pursuant to sections 1.45, 1.47-1.49, and 1.51-1.52 of the Commission’s rules,¹⁵ interested parties may file **oppositions to the petition on or before March 21, 2014 and replies on or before March 31, 2014**. All pleadings are to reference **WC Docket No. 10-90**. Pleadings may be filed using the Commission’s Electronic Comment Filing System (ECFS) or by filing paper copies.¹⁶

- *Electronic Filers:* Pleadings may be filed electronically using the Internet by accessing the ECFS: <http://fjallfoss.fcc.gov/ecfs2/>.
- *Paper Filers:* Parties who choose to file by paper must file an original and one copy of each filing. Filings can be sent by hand or messenger delivery, by commercial overnight courier, or by first-class or overnight U.S. Postal Service mail. All filings must be addressed to the Commission’s Secretary, Office of the Secretary, Federal Communications Commission.
 - All hand-delivered or messenger-delivered paper filings for the Commission’s Secretary must be delivered to FCC Headquarters at 445 12th St., SW, Room TW-A325, Washington, DC 20554. The filing hours are 8:00 a.m. to 7:00 p.m. All hand deliveries must be held together with rubber bands or fasteners. Any envelopes and boxes must be disposed of before entering the building.
 - Commercial overnight mail (other than U.S. Postal Service Express Mail and Priority Mail) must be sent to 9300 East Hampton Drive, Capitol Heights, MD 20743.
 - U.S. Postal Service first-class, Express, and Priority mail must be addressed to 445 12th Street, SW, Washington, DC 20554.
- *People with Disabilities:* To request materials in accessible formats for people with disabilities (braille, large print, electronic files, audio format), send an e-mail to fcc504@fcc.gov or call the Consumer & Governmental Affairs Bureau at 202-418-0530 (voice), 202-418-0432 (tty).

Additional Copies. In addition, we request that you send one copy of each pleading to each of the following:

¹³ Petition for Extension of Time by ERTA, ITTA, NECA, NTCA, USTelecom and WTA, WC Docket No. 10-90 (filed Mar. 11, 2014).

¹⁴ 47 C.F.R. § 1.3.

¹⁵ 47 C.F.R. §§ 1.45, 1.47-1.49, 1.51-52.

¹⁶ See *Electronic Filing of Documents in Rulemaking Proceedings*, 63 FR 24121 (1999).

- (1) Suzanne Yelen, Industry Analysis and Technology Division, Wireline Competition Bureau, 445 12th Street, SW, 6-B115, Washington, DC 20554; e-mail: Suzanne.Yelen@fcc.gov.
- (2) Alexander Minard, Telecommunications Access Policy Division, Wireline Competition Bureau, 445 12th Street, SW, 5-A334, Washington, DC 20554; e-mail: Alexander.Minard@fcc.gov.

Ex Parte Rules. The proceeding this Notice initiates shall be treated as a “permit-but-disclose” proceeding in accordance with the Commission’s *ex parte* rules.¹⁷ Persons making *ex parte* presentations must file a copy of any written presentation or a memorandum summarizing any oral presentation within two business days after the presentation (unless a different deadline applicable to the Sunshine period applies). Persons making oral *ex parte* presentations are reminded that memoranda summarizing the presentation must (1) list all persons attending or otherwise participating in the meeting at which the *ex parte* presentation was made, and (2) summarize all data presented and arguments made during the presentation. If the presentation consisted in whole or in part of the presentation of data or arguments already reflected in the presenter’s written comments, memoranda or other filings in the proceeding, the presenter may provide citations to such data or arguments in his or her prior comments, memoranda, or other filings (specifying the relevant page and/or paragraph numbers where such data or arguments can be found) in lieu of summarizing them in the memorandum. Documents shown or given to Commission staff during *ex parte* meetings are deemed to be written *ex parte* presentations and must be filed consistent with rule 1.1206(b). In proceedings governed by rule 1.49(f) or for which the Commission has made available a method of electronic filing, written *ex parte* presentations and memoranda summarizing oral *ex parte* presentations, and all attachments thereto, must be filed through the electronic comment filing system available for that proceeding, and must be filed in their native format (*e.g.*, .doc, .xml, .ppt, searchable .pdf). Participants in this proceeding should familiarize themselves with the Commission’s *ex parte* rules.

For further information, please contact Alexander Minard, Telecommunications Access Policy Division, Wireline Competition Bureau at (202) 418-7400 or TTY (202) 418-0484, or Alexander.Minard@fcc.gov.

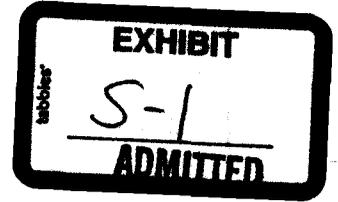
- FCC -

¹⁷ 47 C.F.R. §§ 1.1200 *et seq.*



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MEMORANDUM



ORIGINAL

TO: Docket Control
FROM: Steven M. Olea
Director
Utilities Division

Date: March 21, 2014

RE: IN THE MATTER OF THE APPLICATION OF COPPER VALLEY TELEPHONE, 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-02727A-13-0458)

Attached is the Staff Report for Copper Valley Telephone, Inc.'s 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 Copper Valley Telephone 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:PJG:red\CHH

Originator: Pamela J. Genung

Attachment: Original and Thirteen copies

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Arizona Corporation Commission
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DOCKET NO. T-02727A-13-0458**

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

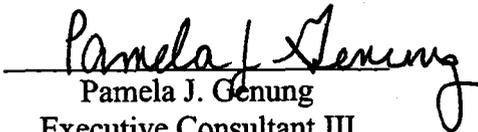
**COPPER VALLEY TELEPHONE, INC.
DOCKET NO. T-02727A-13-0458**

**IN THE MATTER OF THE APPLICATION OF COPPER VALLEY TELEPHONE, 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**

MARCH 21, 2014

STAFF ACKNOWLEDGMENT

The Staff Report for Copper Valley Telephone, Inc., Docket No. T-02727A-13-0458, was prepared by the Staff member shown below.


Pamela J. Genung
Executive Consultant III

**EXECUTIVE SUMMARY
COPPER VALLEY TELEPHONE, INC.
DOCKET NO. T-02727A-13-0458**

On December 19, 2013, Copper Valley Telephone, Inc. ("Copper Valley Telephone" 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.

Staff recommends that the Copper Valley Telephone monthly residential local exchange rate increase 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 Copper Valley Telephone 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 Copper Valley Telephone be processed per full A.A.C. R14-2-103 requirements, not streamlined.

TABLE OF CONTENTS

	PAGE
INTRODUCTION	1
BACKGROUND	1
CONSUMER SERVICES	2
PUBLIC NOTICE	2
COMPLIANCE	2
OPERATING INCOME STATEMENT	2
<i>Operating Revenue and Expenses</i>	3
<i>Operating Income</i>	3
RATE BASE	3
CUSTOMER BASE	4
REVENUE REQUIREMENT	4
RATE DESIGN	4
STAFF ANALYSIS	4
STAFF'S RECOMMENDATIONS	5

INTRODUCTION

On December 19, 2013, Copper Valley Telephone, Inc. ("Copper Valley Telephone" 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. 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. Copper Valley Telephone submitted a streamlined filing containing the following five exhibits to support the requested increase in residential rates:

- Regulated 2012 Results of Operations
- Rate Base as of December 31, 2012
- Cash Working Capital
- Proposed Rate Design
- Year 2 Estimated ICC Impact of FCC Order

On January 29, 2014, the Applicant filed a Supplemental Filing.

BACKGROUND

Copper Valley Telephone is a corporation duly organized and existing under and by virtue of the laws of the State of Arizona. Copper Valley Telephone is authorized to engage in and is now engaged in the conduct of a general communications business within the State of Arizona. Copper Valley 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 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 date, the Wireline Competition Bureau has not determined the rate floor to be in effect for June 1, 2014. The FCC is conducting a survey of urban rates for fixed voice residential services, required by the USF/ICC 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, Copper Valley Telephone 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.

The Arizona Corporation Commission's ("Commission") last considered Copper Valley Telephone's rates in Docket No. T-02727A-12-0484, which resulted in Commission Decision No. 73871¹, dated May 8, 2013. With this application, Copper Valley Telephone seeks Commission approval to raise its residential local service rate from \$14.00 to the lesser of \$19.00 or the 2014 local service rate floor established by the FCC.

CONSUMER SERVICES

On January 31, 2014, the Records Section of the Corporations Division responded that Copper Valley Telephone is in good standing. A review of the Consumer Services database revealed that no complaints, inquiries and opinions were received pertaining to Copper Valley Telephone for the period January 1, 2010 through January 31, 2014.

PUBLIC NOTICE

On February 28, 2014, Copper Valley Telephone filed a Proof of Notice that it provided the notice required by the January 24, 2014 Procedural Order.

COMPLIANCE

A check of the Utilities Division Compliance Section database showed that Copper Valley Telephone is in compliance with all items.

OPERATING INCOME STATEMENT

Copper Valley Telephone submitted Regulated 2012 Results of Operations Ending December 31, 2012 in its streamlined filing. The submitted information was accepted without adjustment for the purposes of this streamlined application.

¹ Decision No. 73871 authorized Copper Valley Telephone to raise its residential one-party rates to \$14.00/month, effective June 1, 2013.

Operating Revenue and Expenses

According to the information provided by the Applicant, Copper Valley Telephone Total Intrastate Operating Revenues for the Twelve Months Ending December 31, 2012 were \$3,128,602. Subcategories of total intrastate operating revenues are noted below:

Local	\$ 873,655
Universal Service Fund (USF-HCL) and Safety Net Additive (SNA)	\$1,758,820
Access Revenues	\$ 284,248
Billing & Collecting	\$ 237
Other Misc., Uncollectibles	\$ 211,641

The Applicant also stated that its Total Intrastate Operating Expenses for the Twelve Months Ending December 31, 2012 were \$2,724,407. Subcategories of total intrastate operating expenses are noted below:

Plant Specific Expenses	\$ 630,474
Plant Nonspecific Expenses	\$ 260,651
Depreciation & Amortization Exp.	\$1,052,398
Customer Operations Expenses	\$ 283,125
Corporate Operations Expenses	\$ 302,664
Other Operating Taxes and (Income)	\$ 195,095

Operating Income

As provided by the Applicant, Copper Valley Telephone's Total Intrastate Operating Income for the Twelve Months Ending December 31, 2012 was \$404,195 before taxes and \$137,962 after taxes.

RATE BASE

According to Copper Valley Telephone, the interstate and intrastate rate base is \$12,169,241, as stated in the table below:

**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
<i>Accumulated Depreciation</i>	<u>(15,846,568)</u>	<u>(4,852,805)</u>	<u>(10,993,763)</u>
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	<u>132,236</u>	<u>50,615</u>	<u>81,621</u>
Rate Base	\$ 12,169,241	\$ 4,006,935	\$ 8,162,306

CUSTOMER BASE

Copper Valley Telephone reported 2,097 residential lines and 660 business lines in its Utilities Annual Report received March 5, 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 is seeking to increase its residential local exchange service rate up to \$19.00. The actual rate implemented would be set at the lesser of the approved 2014 local service rate floor or \$19.00. Copper Valley Telephone indicated that it will file the new FCC rate floor as soon as it is available. 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.

STAFF ANALYSIS

Staff did not perform a regulatory audit of the information submitted by Copper Valley Telephone. 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 \$8,162,306. The Applicant provided information that indicates that its Total Intrastate Operating Revenue for the Twelve Months Ending December 31, 2012 was \$3,128,602.

According to the Applicant, the annual revenue effect of the increase in residential local telephone service rates to \$19.00 is \$134,270.² Copper Valley Telephone's return on rate base would increase from 1.69 percent to 2.68 percent. In the Applicant's Supplemental Filing, Copper Valley Telephone indicated that the annual revenue effect of the increase in residential local telephone service rates to \$17.50 is \$93,989.³ At the \$17.50 residential local service rate, Copper Valley Telephone's return on rate base would be 2.39 percent, versus 2.68 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 Copper Valley Telephone'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.⁴ 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 Copper Valley Telephone 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 Copper Valley Telephone be processed per full A.A.C. R14-2-103 requirements, not streamlined.

² Based on 2,238 one-party residential lines.

³ Based on 2,238 one-party residential lines.

⁴ 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.

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.