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AZ CORP COMMISSION
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Docket #(s): T-01847A-13-0457

Arizona Corporation Commission
DOCKETED
APR 08 2014

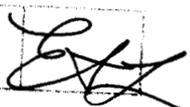
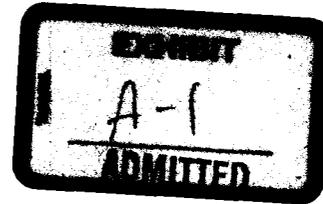
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Exhibit #: A-1, A-2, S-1

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 VALLEY TELEPHONE COOPERATIVE, 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-01847A-13-0457

APPLICATION

1 Valley Telephone Cooperative, Inc. ("Valley Telephone"), an Arizona non-profit,
2 member-owned, corporation, hereby applies pursuant to A.R.S. § 40-250 and the Commission's
3 Rule R 14-2-103 for a determination of Valley Telephone's earnings and the fair value of its
4 investment and requests that its residential rates be increased as necessary to compensate for the
5 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 The USF/ICC Order transitions the outdated federal universal service programs and most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."

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 Valley Telephone is a small rate-of-return regulated Incumbent Local Exchange Carrier
5 (“ILEC”). Of particular importance to Valley Telephone and other rural ILECs, the USF/ICC
6 Order adds new rules that will reduce federal high-cost loop support to carriers by the amount
7 their flat-rate residential local service rates fall below a specified annual urban rate floor.¹ The
8 rate floor includes, if any, state subscriber line charges, state universal service fees, and
9 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, Valley Telephone and other rural ILECs must
19 increase local rates to the FCC-mandated residential rate floors. Otherwise, the amount of
20 federal support funds will be reduced dollar-for-dollar for each customer by the difference
21 between the existing local rate and the new rate floor. If local rates are not increased, the new
22 FCC rules will reduce funds coming to the state of Arizona and negatively impact customers
23 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 Valley Telephone dependent on high-cost federal support
2 mechanisms. It is important that the company be allowed to increase local rates, to the FCC
3 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 end
5 of the first quarter of 2014. If the rate floor is not set until 2014, it could be difficult for the
6 Commission to timely review an application filed thereafter and authorize new rates for Valley
7 Telephone by June 1, 2014. This would cause Valley Telephone to lose federal high-cost
8 support dollar-for-dollar by the amount the new rate floor exceeds current \$14 residential rates.

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

13 **II. VALLEY TELEPHONE**

14 Valley Telephone Cooperative, Inc. is a non-profit, member-owned, corporation duly
15 organized and existing under and by virtue of the laws of the State of Arizona. Valley Telephone
16 is authorized to engage in and is now engaged in the conduct of a general communications
17 business within the State of Arizona.

18 **III. SUMMARY OF REQUEST**

19 This application is made pursuant to the provisions of A.R.S. §§ 40-250 and 40-367, and
20 Commission Rule R14-2-103. The Commission last considered Valley Telephone's rates in
21 Docket No. T-01847A-12-0485 which resulted in Commission Decision 73872 issued on May 8,
22 2013. Decision No. 73872 authorized Valley Telephone to raise its residential one-party rates to
23 \$14.00/month, effective June 1, 2013. As discussed above, these rates are substantially below
24 the expected federal rate floor that will go into effect on June 1, 2014.

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

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

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

6 In connection with this application, Valley Telephone has filed exhibits which include a
7 schedule of the specific rate changes requested and the impact of the revenue generated on the
8 company's financial position. Valley Telephone asks that the Commission determine the fair
9 value of the company's investments for ratemaking purposes and stipulates to use original cost
10 less depreciation for those purposes. Because the next opportunity to affect federal support
11 funds is June 1, 2014, Valley Telephone further asks that the Commission approve a local
12 residential rate of up to \$19.00. At \$19.00, Valley Telephone's return on rate base would still be
13 only 2.09%. Valley Telephone asks that the customer notice inform customers of this potential
14 range of rate increases.

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

18 Respectfully submitted on December 19, 2013.

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

Original and 13 copies filed
on December 18, 2013, with:

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

By: /s/Craig A. Marks
Craig A. Marks

Valley Telephone Cooperative, Inc. AZ

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

November 30, 2013

Valley Telephone Cooperative, Inc. AZ

November 30, 2013

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Valley Telephone Cooperative, Inc. AZ

as of Nov 30, 2013

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

	2012 TOTAL TELEPHONE OPERATIONS (a)	ADJUSTMENTS (b)	Ref (c)	ADJUSTED 2012 RESULTS (d)	INTERSTATE (e)	INTRASTATE (f)
1 Local	567,478	(3,304)	#3	564,175	-	564,175
2 Universal Service Fund (USF-HCL) and Safety Net Additive (SNA)	3,378,696	-	#2	3,378,696	-	3,378,696
3 Access Revenues	4,186,065	481,841	#1,3	4,679,906	4,322,082	357,824
4 Billing & Collecting	138	-		138	-	138
5 Other Misc., Uncollectibles	336,351	-		336,351	-	336,351
6 Total Operating Revenues	8,480,729	478,537		8,959,266	4,322,082	4,637,184
7 Plant Specific Expenses	1,322,702	(16,739)	#7	1,305,963	584,528	721,435
8 Plant Nonspecific Expenses	550,326	(14,165)	#3,4,5,7	536,141	263,694	282,447
9 Depreciation & Amortization Expenses	3,148,314	(76,828)	#8-17	3,071,485	1,327,358	1,744,127
10 Customer Operations Expenses	389,526	-		389,526	152,963	236,563
11 Corporate Expenses	1,114,404	(14,760)	#6,7	1,114,404	500,743	613,661
12 Other Operating Taxes and (Income)	583,208	(122,533)		6,995,947	227,602	350,826
13 Nonregulated Adjustment	-	-		-	-	-
14 Total Operating Expenses	7,118,480	(122,533)		6,995,947	3,046,868	3,949,059
15 OPERATING RETURN BEFORE TAXES	1,362,249	601,070		1,963,319	1,275,194	688,125
16 State Income Taxes (SIT) (6.97%)	-	-		-	-	-
17 Federal Income Taxes (FIT) (35%)	-	-		-	-	-
18 Total Income Taxes	-	-		-	-	-
19 Total Expenses and Income Taxes	7,118,480	(122,533)		6,995,947	3,046,868	3,949,059
Fixed Charges	1,239,034	(566,220)	#18	682,814	265,564	417,250
20 Net Operating Income	123,215	1,157,290		1,280,505	1,009,630	270,875
21 Total Year-End Avg Rate Base	29,342,069	(62,631)		29,279,439	11,346,336	17,933,103
22 Return on Rate Base (Ln 20 / Ln 21)						1.51%
23 Estimated Revenue from Local Rate Increase						104,370
24 State Income Taxes (SIT) (6.97%)						-
25 Federal Income Taxes (FIT) (35%)						-
26 Increase in Net Operating Income						104,370
27 Net Operating Income After Increase (Ln 20 + Ln 26)						375,245
28 Return on Rate Base After Increase (Ln27 / Ln21)						2.09%

ASSUMPTIONS
 Used 2012 Valley AZ Only Cost Study run 7/31/2013 for Part 36 separation of
 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
 No Federal & State Income Taxes for Valley AZ
 Contributions & AFUDC included in Other Operating Taxes and (Income)
 Interest on customer deposits included in Fixed Charges

Valley Telephone Cooperative, Inc. AZ
Adjustments to Revenues and Expenses

Ref	Account	Description	Debit	Credit
1.	5082	Access Revenues		557,330
	9999	Balancing Account	557,330	
		To remove prior period NECA interstate adjustments.		
2.	5082	Universal Service Fund	-	
	9999	Balancing Account		-
		To adjust for HCL and SN projected change for 2012. Does not include impact of floor.		
3.	5001	Local Revenues	3,304	
	5082	Access Revenues	65,965	
	5084	Access Revenues	9,524	
	6540	Plant Nonspecific Exp		1,268
	9999	Balancing Account		77,525
		Year 2 FCC Order ICC intrastate and interstate revenue and expense 5% reductions.		
4.	6540	Access Expense		6,889
	6540	Access Expense - Recip Comp	2,126	
	9999	Balancing Account	4,763	
		To adjust the USF contributions to the EC 1050 3(c)2.		
5.	9999	Balancing Account	3,477	
	6530	Power Exp		3,477
	6560-2121	Dep Exp Tower		-
		To remove expense associated with Tower and Land leases		
6.	7370	AFUDC	14,780	
	9999	Balancing Account		14,780
		To remove AFUDC from study		
7.	9999	Balancing Account	34,453	
	6232	Circuit Equipment Expense		6,623
	6423	Buried Cable Expense		10,116
	6531	Power Expense		2,619
	6532	Network Admin Expense		1,122
	6533	Testing Expense		936
	7240	Operating Taxes - Ad Valorem		13,037
		To remove costs associated with non-reg fiber leases		
8.	9999	Balancing Account	3,178	
	6561-2423	Depr Exp - Buried Cable		3,178
		To remove costs associated with Qwest Leased Fiber		
9.	9999	Balancing Account	29,115	
	6561-2232	Depr Exp - Circuit Equipment		24,909
	6561-2423	Depr Exp - Buried Cable		4,206
		To remove costs associated with OC12 Fiber Lease		
10.	9999	Balancing Account	24,444	

**Valley Telephone Cooperative, Inc. AZ
Adjustments to Revenues and Expenses**

Ref	Account	Description	Debit	Credit
	6561-2423	Depr Exp - Buried Cable To remove costs associated with Dark Fiber Lease -GIG E Network		24,444
11.	9999	Balancing Account	2,509	
	6561-2232	Depr. Exp - Circuit Equipment To remove costs associated with Occam 6440 Blades		2,509
12	9999	Balancing Account	371	
	6561-2232	Depr. Exp - Circuit Equipment		277
	6561-2423	Depr. Exp - Buried Cable To remove expenses associated with OC3 Fiber Lease		94
13.	9999	Balancing Account	6,468	
	6561-2423	Depr. Exp - Buried Cable To remove expense associated with Arriba Fiber Lease		6,468
14.	9999	Balancing Account	6,035	
	6561-2423	Depr. Exp - Buried Cable To remove expense associated with TransTelco Fiber Lease		6,035
15.	9999	Balancing Account	366	
	6561-2423	Depr. Exp - Buried Cable To remove expense associated with Eurofresh Fiber Lease		366
16.	9999	Balancing Account	18	
	6561-2423	Depr. Exp - Buried Cable To remove expense associated with Rosemont Fiber Lease		18
17.	9999	Balancing Account	4,325	
	6561-2423	Depr. Exp - Buried Cable To remove expense associated with TransTelco Fiber Lease		4,325
18.	7510	Interest on Funded Debt	556,220	
	9999	Balancing Account To remove non-operating portion of Fixed Charges		556,220

Valley Telephone Cooperative, Inc. AZ
 Year 2 Estimated ICC Impact of FCC Order

Base Line of Eligible Recovery:

Interstate SWA (Includes LSS)					
Intrastate Terminating Access					
Recip Comp Revenue					
Recip Comp Expense					
Total Base of Eligible Recovery					
	Total	5% Reduction for 2013			
	1,319,305	(65,965)	Access Revenue	Interstate	
	190,474	(9,524)	Access Revenue	Intrastate Access	
	66,072	(3,304)	Local Revenue	Intrastate Local	
	(25,363)	1,268	Plant Non-Specific	Intrastate Local	
	<u>1,550,487</u>	<u>(77,525)</u>			

AJE #3

Valley Telephone Cooperative, Inc. AZ
Rate Base
As of December 31, 2012

	Adjusted		
	Total Company	INTERSTATE	INTRASTATE
Plant in Service	\$ 61,182,792	\$ 24,060,246	\$ 37,122,546
Accumulated Depreciation	(32,094,397)	(12,708,843)	(19,385,554)
Net Plant in Service	\$ 29,088,395	\$ 11,351,403	\$ 17,736,992
Plant Under Construction	581,726	228,765	352,961
Material & Supplies	514,681	159,418	355,263
Deferred Income Taxes	-	-	-
Customer Deposits	(9,425)	(3,706)	(5,719)
Other Long Term Liabilities	(1,085,301)	(471,133)	(614,168)
Cash Working Capital	189,363	81,589	107,774
Rate Base	<u>\$ 29,279,439</u>	<u>\$ 11,346,336</u>	<u>\$ 17,933,103</u>

ASSUMPTIONS

Used 2012 Valley AZ Only Cost Study ran 7/31/2013 for Part 36 separation of Average Rate Base.

Valley Telephone Cooperative, Inc. AZ

CALCULATION OF CASH WORKING CAPITAL (CWC)

CASH OPERATING EXPENSES	<u>Total Company INTERSTATE INTRASTATE</u>		
Total Operating Expenses	\$ 6,995,947	\$ 3,046,888	\$ 3,949,059
Less Depreciation & Amortization	3,071,485	1,327,358	1,744,127
Fixed Charges	682,101	265,285	416,816
Interest on Customer Deposits	714	279	435
Other Nonoperating Expenses	550	247	303
Cash Operating Federal Income Taxes	-	-	-
Cash Operating State & Local Taxes	-	-	-
Total Cash Operating Expenses	\$ 4,607,827	\$ 1,985,341	\$ 2,622,486
% LAG (15 days)	4.11%	4.11%	4.11%
TOTAL CASH WORKING CAPITAL	<u>\$ 189,363</u>	<u>\$ 81,589</u>	<u>\$ 107,773</u>

Valley Telephone Cooperative, Inc. AZ
 Proposed Rate Design
 2013 Average Units

(A) Service Description	(B) 2013 Avg Units	(C) 2012 Avg Units	(D) Proforma 2012 Annual Revenues	(E) Proposed Rates	(F) Proposed Revenues	(G) Proposed Revenue	(H) Proposed Change Percent
Basic Service	1,646	1,740	\$ 292,236	\$ 19.00	\$ 396,606	\$ 104,370	35.71%
Residence One-Party							
Estimated Revenue from Local Rate Increase						\$ 104,370	

Notes:

No reduction made for line loss.

Year	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009 Total		2,164	2,161	2,151	2,137	2,129	2,125	2,107	2,091	2,083	2,082	2,072	2,057
2010 Total		2,045	2,027	2,020	2,013	1,997	1,964	1,950	1,941	1,932	1,922	1,925	1,924
2011 Total		1,906	1,896	1,883	1,866	1,858	1,837	1,828	1,817	1,806	1,803	1,787	1,780
2012 Total		1,778	1,783	1,784	1,774	1,765	1,758	1,738	1,720	1,710	1,688	1,691	1,685
2013 Total		1,683	1,675	1,677	1,663	1,647	1,646	1,636	1,633	1,623	1,613	1,610	

Residential Lines



PUBLIC NOTICE

Exhibit A-2

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

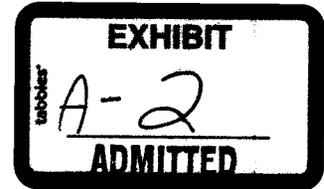
News Media Information 202 / 418-0500
Internet: <http://www.fcc.gov>
TTY: 1-888-835-5322

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.

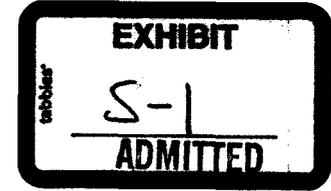
- FCC -

¹⁷ 47 C.F.R. §§ 1.1200 *et seq.*



0000151932

MEMORANDUM



ORIGINAL

TO: Docket Control
FROM: Steven M. Olea
Director
Utilities Division
DATE: March 21, 2014

RE: IN THE MATTER OF THE APPLICATION OF VALLEY TELEPHONE COOPERATIVE, 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-01847A-13-0457)

Attached is the Staff Report for Valley Telephone Cooperative, 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 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.

SMO:WMS:sms\CHH

Originator: Wilfred Shand

Arizona Corporation Commission

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SERVICE LIST FOR: VALLEY TELEPHONE COOPERATIVE, INC.
DOCKET NO.: T-01847A-13-0457

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Chief Administrative Law Judge, Hearing Division
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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**VALLEY TELEPHONE COOPERATIVE, INC.
DOCKET NO. T-01847A-13-0457**

**IN THE MATTER OF THE APPLICATION OF VALLEY TELEPHONE COOPERATIVE,
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 Valley Telephone Cooperative, Inc. (Docket No. T-01847A-13-0457) was the responsibility of the Staff member listed below.



Wilfred Shand

Public Utility Analyst Manager

EXECUTIVE SUMMARY
VALLEY TELEPHONE COOPERATIVE, INC.
DOCKET NO. T-01847A-13-0457

On December 19, 2013, Valley Telephone Cooperative, Inc. ("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 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 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. 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 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 Valley Telephone be processed per full A.A.C. R14-2-103 requirements, not streamlined.

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Introduction

On December 19, 2013, Valley Telephone Cooperative, Inc. ("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 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. 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. Valley Telephone 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 January 6, 2014, the Applicant filed an Amendment to its Application to include Schedules that were inadvertently omitted from the docketed copy of its Application. The Applicant submitted a Supplemental Filing on January 29, 2014. On January 30, 2014, the Applicant filed a Notice of Errata to correct its Supplemental Filing.

Background

Valley Telephone is an Arizona non-profit, member-owned, cooperative. Valley Telephone 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 Valley Telephone's rates in Docket No. T-01847A-12-0485, which resulted in Commission Decision No. 73872, dated May 8, 2013.¹ 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

¹ Decision No. 73872 authorized Valley Telephone to raise its residential local service rates to \$14.00/month, effective June 1, 2013.

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 partial recovery from the CAF for the reduction in ICC rates 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, Valley Telephone 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. Valley Telephone’s current residential local service rate of \$14.00 is equal to the current rate floor. Therefore, with this application, 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 30, 2014, the Commission’s Corporations Division responded that Valley Telephone is in Good Standing. A review of Consumer Services database from January 1, 2010 to current revealed that only one complaint was filed in 2011. The lone complaint was for a Quality of Service issue, specifically, an outage complaint. That complaint has been resolved and closed. No opinions were received for Valley Telephone Cooperative, Inc.

Public Notice

On February 28, 2014, Valley Telephone filed an affidavit of Customer Notice indicating that notice was mailed on February 14, 2014, to all of Valley Telephone’s Arizona residential customers.

Compliance

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

Operating Income Statement

Valley Telephone 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, Valley Telephone Total Intrastate Operating Revenues for 2012 were \$4,637,184. Subcategories of Total Intrastate Operating Revenues are noted below:

Local	\$564,175
USF-HCL ² & Safety Net	\$3,378,696
Access Revenues	\$357,824
Billing and Collection	138
Other	\$336,351

The Company also provided information that stated that its Total Intrastate Operating Expenses for 2012 were \$3,949,059. Subcategories of Total Intrastate Operating Expenses are noted below:

Plant Expenses	\$1,003,882
Depreciation & Amortization	\$1,744,127
Customer Operations	\$236,563
Corporate Operations	\$613,661
Other	\$350,826

Operating Income

As provided by the Applicant, Valley Telephone's intrastate operating revenue before taxes for 2012 was \$688,125 and its net operating income was \$270,875.

² Universal Service Fund – High Cost Fund

Rate Base

According to Valley Telephone, its intrastate rate base is \$17,933,103, as stated in the table below:

Valley Telephone				
Rate Base - 2012				
	Adjusted			
	Total Company	INTERSTATE	INTRASTATE	
Plant in Service	\$61,182,792	\$24,060,246	\$37,122,546	
Accumulated Depreciation	(\$32,094,397)	(\$12,708,843)	(\$19,385,554)	
Net Plant in Service	\$29,088,395	\$11,351,403	\$17,736,992	
Plant Under Construction	\$581,726	\$228,765	\$352,961	
Material & Supplies	\$514,681	\$159,418	\$355,263	
Deferred Income Taxes	-	-	-	
Customer Deposits	(\$9,425)	(\$3,706)	(\$5,719)	
Other Long Term Liabilities	(\$1,085,301)	(\$471,133)	(\$614,168)	
Cash Working Capital	\$189,363	\$81,589	\$107,774	
Rate Base	\$29,279,439	\$11,346,336	\$17,933,103	

Customer Base

Valley Telephone reported 1,685 residential lines and 451 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 did not propose a rate design as required by A.A.C. R14-2-103. 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 of \$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 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 federal universal service programs and certain intercarrier compensation reductions 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 \$17,933,103. The Applicant provided information that indicates that its Total Intrastate Operating Revenue for 2012 was \$4,637,184. According to the Applicant, the annual revenue effect of the increase in residential local telephone service rates to \$19.00 is \$104,370. Valley Telephone's return on rate base would increase from 1.51 percent to 2.09 percent. In the Applicant's Supplemental Filing, Valley Telephone indicated that the annual revenue effect of the increase in residential local telephone service rates to \$17.50 is \$73,059. At the \$17.50 residential local service rate, Valley Telephone's return on rate base would be 1.92 percent, versus 2.09 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.³ 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 FUSF funds that may flow to Valley Telephone pursuant to the FCC's rules;
- The increase will minimize/reduce the amount of future rate increases; and

³ 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 will allow the Applicant to receive matching funds from the FUSF.

Staff further recommends that any future rate increase applications filed by Valley Telephone 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.