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Transcript Exhibit(s)

AZ CORP COMMISSION  
DOCKET CONTROL

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Docket #(s): T-02724A-13-0416

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Arizona Corporation Commission  
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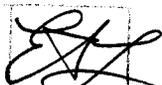
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Exhibit #: A-1, A-2, S-2

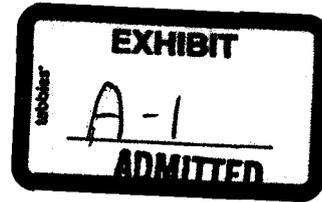
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# Exhibit A-1

## 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  
TABLE TOP TELEPHONE COMPANY, INC., A  
NEVADA 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-02724A-13-0416

### APPLICATION

1 Table Top Telephone Company, Inc. ("Table Top"), an Arizona corporation, hereby  
2 applies pursuant to A.R.S. § 40-250 and the Commission's Rule R 14-2-103 for a determination  
3 of Table Top's earnings and the fair value of its investment and requests that its residential rates  
4 be increased as necessary to compensate for the rate impacts of the Federal Communication  
5 Commission's November 18, 2011, USF/ICC Transformation Order ("USF/ICC Order").

#### 6 I. BACKGROUND

7 On November 18, 2011, the Federal Communications Commission issued the USF/ICC  
8 Order. The USF/ICC Order transitions the outdated federal universal service programs and most  
9 inter-carrier compensation systems into a new Connect America Fund ("CAF"). The FCC's  
10 press release characterized the USF/ICC Order as "the most significant policy step ever taken to  
11 connect all Americans to broadband."

12 The USF/ICC Order will reduce inter-carrier compensation rates to zero by July 1, 2020,  
13 for rate of return companies, with limited recovery from customers and partial recovery from the  
14 CAF. The recovery from the CAF will phase out over time at 5% annually.

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

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

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

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

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<sup>1</sup> 41 C.F.R § 54.318.

<sup>2</sup> USF/ICC Order paragraph 236 states the most recently available nationwide average local rate from 2008 was \$15.62.

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

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

## 10 **II. TABLE TOP**

11 Table Top is a corporation duly organized and existing under and by virtue of the laws of  
12 the State of Arizona. Table Top is authorized to engage in and is now engaged in the conduct of  
13 a general communications business within the State of Arizona.

## 14 **III. SUMMARY OF REQUEST**

15 This application is made pursuant to the provisions of A.R.S. §§ 40-250 and 40-367, and  
16 Commission Rule R14-2-103. The Commission last considered Table Top's rates in Docket No.  
17 T-02724A- 12-0489, which resulted in Commission Decision 73875 issued on May 8, 2013.  
18 Decision No. 73875 authorized Table Top to raise its base residential rates to \$14.00/month,  
19 effective June 1, 2013. As discussed above, these rates are substantially below the expected  
20 federal rate floor that will go into effect on June 1, 2014.

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

25 Table Top's loss of federal support funds would be particularly difficult to bear. As the  
26 attached schedules demonstrate, Table Top's return on investment is quite low at current rates.

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

12 Table Top also asks to eliminate its current Zone 1 and Zone 2 surcharges so that all  
13 residential customers will pay the same base rate.

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

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Respectfully submitted on December 4, 2013.

/s/Craig A. Marks  
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Attorney for Table Top Telephone Company, Inc.

**Original and 13 copies filed**  
on December 4, 2013, with:

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

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

# **Table Top Telephony Company, Inc.**

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

December 2, 2013

# Table Top Telephony Company, Inc.

December 2, 2013

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**Table Top Telephony Company, Inc.**  
as of December 2, 2013

Revised January 20, 2014

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

|  | 2012<br>TOTAL<br>TELEPHONE<br>OPERATIONS<br>(a) | ADJUSTMENTS<br>(b) | Ref<br>(c)      | ADJUSTED<br>2012 RESULTS<br>(d) | INTERSTATE<br>(e) | INTRASTATE<br>(f) |
|--|---|--------------------|-----------------|---------------------------------|-------------------|-------------------|
| 1 Local  | 1,267,128                                       | (3,131)            | #6              | 1,263,997                       | -                 | 1,263,997         |
| 2 Universal Service Fund (USF-HCI) and Safety Net Additive (SNA) | 2,610,564                                       | (30,717)           | #11, 12         | 2,579,847                       | -                 | 2,579,847         |
| 3 Access Revenues  | 6,254,917                                       | (193,453)          | #6, 7, 8, 9, 10 | 6,061,464                       | 5,552,635         | 508,829           |
| 4 Billing & Collecting   | 8,358   | -                  | -               | 8,358                           | 1,940             | 6,418             |
| 5 Other Misc., Uncollectibles                                    | 29,626  | -                  | -               | 29,626                          | -                 | 29,626            |
| <b>6 Total Operating Revenues</b>                                | <b>10,170,593</b>                               | <b>(227,301)</b>   |                 | <b>9,943,292</b>                | <b>5,554,575</b>  | <b>4,388,717</b>  |
| 7 Plant Specific Expenses  | 1,755,627                                       | 30,597             | #1, 3           | 1,786,224                       | 1,018,446         | 767,778           |
| 8 Plant Nonspecific Expenses                                     | 732,810   | 3,860              | #4, 5, 6        | 736,670                         | 436,958           | 299,712           |
| 9 Depreciation & Amortization Expenses                           | 2,422,087                                       | -                  | -               | 2,422,087                       | 1,173,995         | 1,248,092         |
| 10 Customer Operations Expenses                                  | 400,254   | 5,403              | #2              | 405,657                         | 203,267           | 202,390           |
| 11 Corporate Operations Expenses                                 | 1,189,848                                       | (5,403)            | #2              | 1,184,445                       | 668,252           | 516,193           |
| 12 Other Operating Taxes and (Income)                            | 445,004   | -                  | -               | 445,004                         | 228,838           | 216,166           |
| 13 Total Operating Expenses                                      | 6,945,630                                       | 34,457             |                 | 6,980,087                       | 3,729,756         | 3,250,331         |
| <b>14 OPERATING RETURN BEFORE TAXES</b>                          | <b>3,224,963</b>                                | <b>(261,758)</b>   |                 | <b>2,963,205</b>                | <b>1,824,819</b>  | <b>1,138,386</b>  |
| 15 State Income Taxes (SIT) (6.968%)                             | 182,597   | (11,110)           | #13             | 171,487                         | 110,902           | 60,585            |
| 16 Federal Income Taxes (FIT) (34%)                              | 828,320   | (49,864)           | #13             | 778,456                         | 503,432           | 275,024           |
| 17 Total Operating Income Taxes                                  | 1,010,917                                       | (60,974)           |                 | 949,482                         | 614,334           | 335,609           |
| 18 Total Expenses and Income Taxes                               | 7,956,547                                       | (26,517)           |                 | 7,930,030                       | 4,344,090         | 3,585,940         |
| <b>19 Net Operating Income</b>                                   | <b>2,214,046</b>                                | <b>(200,784)</b>   |                 | <b>2,013,262</b>                | <b>1,210,485</b>  | <b>802,777</b>    |
| 20 Total Year-End Rate Base                                      | 21,998,051                                      |                    |                 | 21,998,051                      | 10,189,539        | 11,808,512        |
| <b>21 Return on Rate Base (Ln 19/Ln 20)</b>                      |   |                    |                 |                                 |                   | <b>6.80%</b>      |
| 22 Estimated Revenue from Local Rate Increase                    |   |                    |                 |                                 |                   | <b>128,136</b>    |
| 23 State Income Taxes (SIT) (6.968%)                             |   |                    |                 |                                 |                   | 8,929             |
| 24 Federal Income Taxes (FIT) (34%)                              |   |                    |                 |                                 |                   | 40,531            |
| 25 Increase in Net Operating Income                              |   |                    |                 |                                 |                   | 78,677            |
| <b>26 Net Operating Income After Increase (Ln 19 + Ln 25)</b>    |   |                    |                 |                                 |                   | <b>881,454</b>    |
| <b>27 Return on Rate Base After Increase (Ln 26 / Ln20)</b>      |   |                    |                 |                                 |                   | <b>7.46%</b>      |

**ASSUMPTIONS**

Used 2012 Cost Study run dated 7/29/13 for Part 36 separations  
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

## Table Top Telephone Company, Inc.

### Adjustments to Revenues and Expenses

| Ref | Account                                   | Description   | Debit                     | Credit         |
|-----|---|---|---------------------------|----------------|
| 1   | Exclude<br>6120<br>6410                   | Corporate Expenses  | 7,066                     | 5,317<br>1,749 |
|     |   | To net rent revenues with expenses  |                           |                |
| 2   | 6620<br>6720                              | Customer Operations Expense<br>Corporate Operations Expenses  | 5,403                     | 5,403          |
|     |   | To move TRS Fees to the proper account.   |                           |                |
| 3   | 6230<br>Exclude                           | COE Transmission  | 37,663                    | 37,663         |
|     |   | To remove 2011 help desk expenses associated with non-reg activities (booked in 2012-should be reverse in 2012 cost study.) |                           |                |
| 4   | 6540<br>Exclude                           | Access Expense  | 10,501                    | 10,501         |
|     |   | To adjust USAC expenses to EC1050   |                           |                |
| 5   | Exclude<br>6540                           | Access Expense  | 5,843                     | 5,843          |
|     |   | To transfer other access expense out of study   |                           |                |
| 6   | 5000<br>5082<br>5084<br>6540.3<br>Exclude | Local Service Revenue<br>Interstate Access Revenue<br>Intrastate Access Revenue<br>Plant Non-Specific Expense               | 3,131<br>53,244<br>13,256 | 798<br>68,833  |
|     |   | Year 2 FCC Order ICC Intrastate and Interstate revenue and expense reductions   |                           |                |
| 7   | 5082<br>Exclude                           | Interstate Access Revenue   | 2,939                     | 2,939          |
|     |   | To remove prior period (2009) Interstate Revenue.   |                           |                |
| 8   | Exclude<br>5082                           | Interstate Access Revenue   | 211,309                   | 211,309        |
|     |   | To adjust 2010 revenue trued-up in 2012.  |                           |                |
| 9   | 5082<br>Exclude                           | Interstate Access Revenue   | 236,094                   | 236,094        |
|     |   | To remove prior period (2011) Interstate Revenue.   |                           |                |

**Table Top Telephone Company, Inc.**

Adjustments to Revenues and Expenses

Revised January 20, 2014

| <b>Ref</b> | <b>Account</b> | <b>Description</b>                                 | <b>Debit</b> | <b>Credit</b> |
|------------|----------------|--|--------------|---------------|
| 10         | 5082           | Interstate Access Revenue                          | 99,229       |               |
|            | Exclude        |  |              | 99,229        |
|            |                | To adjust 2012 revenue trued-up in 2013.           |              |               |
| 11         | 5082.1         | Interstate High Cost Loop Fund                     | 5,751        |               |
|            | Exclude        |  |              | 5,751         |
|            |                | Adjustments in 2012 to previous year's USF Revenue |              |               |
| 12         | 5082.1         | Interstate High Cost Loop Fund                     | 24,966       |               |
|            | Exclude        |  |              | 24,966        |
|            |                | Adjustments in 2013 to 2012 USF Revenue            |              |               |
| 13         | Exclude        |  | 60,974       |               |
|            | 7220           | Federal Income Tax                                 |              | 49,864        |
|            | 7230           | State Income Tax                                   |              | 11,110        |

**Table Top Telephone Company, Inc.**

Estimated ICC Impact of FCC Order

Base Line of Eligible Recovery:

|                                 | Total            | Estimated Revenue Reduction |                   |
|---------------------------------|------------------|-----------------------------|-------------------|
| Interstate SWA (Includes LSS)   | 1,092,188        | (53,244)                    | Interstate        |
| Intrastate Terminating Access   | 271,913          | (13,256)                    | Intrastate Access |
| Recip Comp Revenue              | 64,219           | (3,131)                     | Intrastate Local  |
| Recip Comp Expense              | (16,363)         | 798                         | Intrastate Local  |
| Total Base of Eligible Recovery | <u>1,411,957</u> | <u>(68,833)</u>             |                   |

# Table Top Telephony Company, Inc.

2012 Rate Base

|                             | 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           |
| <b>Rate Base</b>            | <b>21,998,051</b> | <b>10,189,539</b> | <b>11,808,512</b> |

**Table Top Telephony Company, Inc.**

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

|   |           |        |
|---|-----------|--------|
| Plant Specific Operations Expense   | 1,786,224 |        |
| Plant Non-Specific Operations Expense Excluding Depreciation and Amortization | 736,670   |        |
| Customer Operations Expense   | 405,657   |        |
| Corporate Operations Expense  | 1,184,445 |        |
| Contributions   | 8,394     |        |
| Interest on Customer Deposits   | 13,383    |        |
| Operating Taxes   | 1,171,331 |        |
| Interest Expense - Operating  | 502,144   |        |
| Total Annual Expense  | 5,808,248 |        |
| Cash Working Capital Factor   | 0.041096  | 15/365 |
| Cash Working Capital Base   | 238,695   |        |
| Minimum Cash Balance  | -         |        |
| Working Cash Allowance  | -         |        |
| Total Cash Working Capital  | 238,695   |        |

**Table Top Telephony Company, Inc.**  
Proposed Rate Design  
June 30, 2013 Average Units\*

| Service Description                               | (A) | (B)<br>Average<br>Units** | (C)<br>Current<br>Rates | (D)<br>Current<br>Zone Charge | (E)<br>2011 Annual<br>Revenues | (F)<br>Rates | (G)<br>Proposed<br>Zone Charge | (H)<br>Revenues | (I)<br>Proposed Change |         |
|---|-----|---------------------------|-------------------------|-------------------------------|--------------------------------|--------------|--------------------------------|-----------------|------------------------|---------|
|   |     |                           |                         |                               |                                |              |                                |                 | Revenue                | Percent |
| <b>Basic Service</b>                              |     |                           |                         |                               |                                |              |                                |                 |                        |         |
| Residence Within the Base Rate Area (R1)          |     | 1,802                     | \$ 14.00                | \$ -                          | \$ 302,736                     | \$ 19.00     | \$ -                           | \$ 410,856      | \$ 108,120             | 35.71%  |
| Residence in Zone 1 (RZ1)                         |     | 86                        | \$ 14.00                | \$ 0.80                       | \$ 15,274                      | \$ 19.00     | \$ -                           | \$ 19,608       | \$ 4,334               | 28.38%  |
| Residence in Zone 2 (RZ2)                         |     | 594                       | \$ 14.00                | \$ 2.80                       | \$ 119,750                     | \$ 19.00     | \$ -                           | \$ 135,432      | \$ 15,682              | 13.10%  |
| <b>Estimated Revenue from Local Rate Increase</b> |     |                           |                         |                               |                                |              |                                |                 | <u>\$ 128,136</u>      |         |

**Notes:**  
\* Average units (7/12-6/13) are used to capture seasonal fluctuations.  
\*\* No Reduction Made for Line Loss

| Residential Lines |      |              |              |              |              |              |              |              |              |              |              |              |              |
|-------------------|------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Year              | Type | Jan          | Feb          | Mar          | Apr          | May          | Jun          | Jul          | Aug          | Sep          | Oct          | Nov          | Dec          |
| 2011              | R1   | 1,863        | 1,871        | 1,860        | 1,842        | 1,832        | 1,832        | 1,829        | 1,826        | 1,819        | 1,810        | 1,813        | 1,813        |
| 2011              | RZ1  | 106          | 106          | 105          | 105          | 106          | 105          | 106          | 100          | 101          | 101          | 100          | 98           |
| 2011              | RZ2  | 655          | 653          | 657          | 648          | 643          | 641          | 644          | 641          | 635          | 637          | 637          | 632          |
| <b>2011 Total</b> |      | <b>2,624</b> | <b>2,630</b> | <b>2,622</b> | <b>2,595</b> | <b>2,581</b> | <b>2,578</b> | <b>2,579</b> | <b>2,567</b> | <b>2,555</b> | <b>2,548</b> | <b>2,550</b> | <b>2,543</b> |
| 2012              | R1   | 1,832        | 1,843        | 1,839        | 1,811        | 1,797        | 1,784        | 1,778        | 1,769        | 1,782        | 1,785        | 1,802        | 1,805        |
| 2012              | RZ1  | 97           | 95           | 97           | 96           | 95           | 94           | 90           | 89           | 89           | 87           | 88           | 88           |
| 2012              | RZ2  | 635          | 633          | 624          | 615          | 614          | 609          | 600          | 604          | 599          | 605          | 608          | 606          |
| <b>2012 Total</b> |      | <b>2,564</b> | <b>2,571</b> | <b>2,560</b> | <b>2,522</b> | <b>2,506</b> | <b>2,487</b> | <b>2,468</b> | <b>2,462</b> | <b>2,470</b> | <b>2,477</b> | <b>2,498</b> | <b>2,499</b> |
| 2013              | R1   | 1,824        | 1,835        | 1,827        | 1,806        | 1,805        | 1,801        | -            | -            | -            | -            | -            | -            |
| 2013              | RZ1  | 87           | 86           | 84           | 83           | 81           | 80           | -            | -            | -            | -            | -            | -            |
| 2013              | RZ2  | 602          | 602          | 595          | 581          | 569          | 559          | -            | -            | -            | -            | -            | -            |
| <b>2013 Total</b> |      | <b>2,513</b> | <b>2,523</b> | <b>2,506</b> | <b>2,470</b> | <b>2,455</b> | <b>2,440</b> | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     |

Exhibit A-2



# PUBLIC NOTICE

Federal Communications Commission  
445 12<sup>th</sup> 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.<sup>1</sup> 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.”<sup>2</sup> 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,”<sup>3</sup> 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.”<sup>4</sup> 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.<sup>5</sup>

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

<sup>1</sup> 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).

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

<sup>3</sup> *Id.* at 17693, para. 81.

<sup>4</sup> *Id.* at 17694, para. 84.

<sup>5</sup> *Id.* at 17694, 17708, paras. 85, 114.

fixed voice and fixed broadband residential services, as required by the *USF/ICC Transformation Order*.<sup>6</sup> 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.<sup>7</sup>

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).<sup>8</sup> 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.<sup>9</sup> 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.<sup>10</sup> 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.<sup>11</sup> In addition, each ETC, including competitive ETCs, must certify that the pricing of the voice services is no more than \$46.96.<sup>12</sup>

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

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

<sup>7</sup> *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.

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

<sup>9</sup> *Id.* at 17694, para. 84.

<sup>10</sup> *Id.*

<sup>11</sup> 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.

<sup>12</sup> 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.<sup>13</sup> 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,<sup>14</sup> 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,<sup>15</sup> 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.<sup>16</sup>

- *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 12<sup>th</sup> 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 12<sup>th</sup> 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](mailto: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:

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

<sup>14</sup> 47 C.F.R. § 1.3.

<sup>15</sup> 47 C.F.R. §§ 1.45, 1.47-1.49, 1.51-52.

<sup>16</sup> 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.

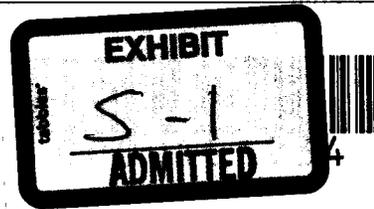
**Ex Parte Rules.** The proceeding this Notice initiates shall be treated as a “permit-but-disclose” proceeding in accordance with the Commission’s *ex parte* rules.<sup>17</sup> Persons making *ex parte* presentations must file a copy of any written presentation or a memorandum summarizing any oral 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 -

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<sup>17</sup> 47 C.F.R. §§ 1.1200 *et seq.*



**MEMORANDUM  
RECEIVED**

2014 MAR 21 P 2:10

TO: Docket Control

FROM: Steven M. Olea  
Director  
Utilities Division

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

ORIGINAL

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.

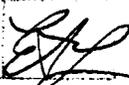
SMO:WMS:sms:CHH

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

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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**

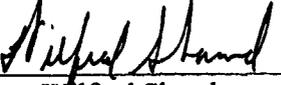
**TABLE TOP TELEPHONE COMPANY, INC.  
DOCKET NO. T-02724A-13-0416**

**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.

  
\_\_\_\_\_  
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.

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## **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.

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<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;

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<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.