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Transcript Exhibit(s)

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Docket #(s): T-01923A-13-0428

Arizona Corporation Commission
DOCKETED
APR 08 2014

DOCKETED BY 

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

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 SOUTH CENTRAL UTAH TELEPHONE ASSOCIATION, INC., A UTAH NON-PROFIT 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-01923A-13-0428

APPLICATION

1 South Central Utah Telephone Association, Inc., a non-profit Utah corporation, doing
2 business as South Central Communications ("SCC"), hereby applies pursuant to A.R.S. § 40-250
3 and the Commission's Rule R 14-2-103 for a determination of SCC's earnings and the fair value
4 of its investment and requests that its residential rates be increased as necessary to compensate
5 for the 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 The USF/ICC Order transitions the outdated federal universal service programs and most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 SCC is a small rate-of-return regulated Incumbent Local Exchange Carrier (“ILEC”). Of
5 particular importance to SCC and other rural ILECs, the USF/ICC Order adds new rules that will
6 reduce federal high-cost loop support to carriers by the amount their flat-rate residential local
7 service rates fall below a specified annual urban rate floor.¹ The rate floor includes, if any, state
8 subscriber line charges, state universal service fees, and mandatory extended area service
9 charges. The FCC’s order established local residential rate floors of \$10.00 as of June 1, 2012,
10 and \$14.00 as of June 1, 2013, with the floor thereafter being determined annually by the FCC’s
11 Wireline Competition Bureau, based on a nationwide average.²

12 The Wireline Competition Bureau has not yet determined the rate floor to be in effect for
13 June 1, 2014. The nationwide residential average rate was \$15.62 in 2008. Estimates for the
14 2013 nationwide residential average rate range from \$17.00 to \$18.50, so the 2014 rate floor will
15 certainly be substantially higher than 2013’s \$14.00 rate floor.

16 Federal and state support funding are vital to a robust telecommunications network in
17 high cost areas. To maintain federal loop support, SCC and other rural ILECs must increase
18 local rates to the FCC-mandated residential rate floors. Otherwise, the amount of federal support
19 funds will be reduced dollar-for-dollar for each customer by the difference between the existing
20 local rate and the new rate floor. If local rates are not increased, the new FCC rules will reduce
21 funds coming to the state of Arizona and negatively impact customers living in high-cost areas in
22 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 SCC dependent on high-cost federal support mechanisms.
2 It is important that the company be allowed to increase local rates to the FCC-determined annual
3 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 this quarter or the first quarter of 2014. If the rate floor is not set until 2014, it could be
6 difficult for the Commission to timely review an application and authorize new rates for SCC by
7 June 1, 2014. This would cause SCC to lose federal high-cost loop support dollar-for-dollar by
8 the amount the new rate floor exceeds current \$14 residential rates.

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

13 **II. SOUTH CENTRAL COMMUNICATIONS**

14 SCC is a non-profit corporation duly organized and existing under and by virtue of the
15 laws of the State of Utah. SCC is authorized to engage in and is now engaged in the conduct of a
16 general communications business within the State of Arizona.

17 **III. SUMMARY OF REQUEST**

18 This application is made pursuant to the provisions of A.R.S. §§ 40-250 and 40-367, and
19 Commission Rule R14-2-103. The Commission last considered SCC's rates in Docket No. T-
20 01923A-13-0229, which resulted in Commission Decision 74205 issued on December 3, 2013.
21 Decision No. 74205 authorized SCC to raise its residential service to \$14.00/month, effective
22 December 1, 2013. As discussed above, these rates are substantially below the expected federal
23 rate floor that will go into effect on June 1, 2014.

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

1 SCC's loss of federal support funds would be particularly difficult to bear. As the
2 attached schedules demonstrate, SCC's return on investment is negative at current rates. Put
3 another way, SCC's jurisdictional earnings are negative. Losing federal support funds will only
4 drive earnings deeper into the red.

5 In connection with this application, SCC has filed exhibits which include a schedule of
6 the specific rate changes requested and the impact of the revenue generated on the company's
7 financial position. SCC asks that the Commission determine the fair value of the company's
8 investments for ratemaking purposes and stipulates to use original cost less depreciation for
9 those purposes. Because the next opportunity to affect federal support funds is June 1, 2014,
10 SCC further asks that the Commission approve a local residential rate of up to \$19.00. At
11 \$19.00, SCC's return on rate base would -5.96%. The actual rate implemented would be set at
12 the lower of the approved 2014 residential rate floor and \$19.00, so the actual return on rate base
13 would be less than or equal to -1.95%. SCC asks that the customer notice issued by the
14 Hearing Division inform customers of this potential range of rate increases.

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

17 Respectfully submitted on December 9, 2013.

18
19
20 /s/Craig A. Marks
21 Craig A. Marks
22 Craig A. Marks, PLC
23 10645 N. Tatum Blvd., Ste. 200-676
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28 Attorney for South Central Utah Telephone
29 Association, Inc.

Original and 13 copies filed
on December 9, 2013, with:

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

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

South Central Utah Telephone Association, Inc.

as of September 30, 2013

REGULATED RESULTS OF OPERATIONS FOR 12 MONTHS ENDING 09/30/2013
 REFLECTS CHANGES EFFECTIVE WITH ARC AND CAF IMPLEMENTATION - YEAR 1

	TOTAL TELEPHONE OPERATIONS (a)	ADJUSTMENTS (b)	Ref (c)	ADJUSTED RESULTS (d)	INTERSTATE (e)	INTRASTATE (f)
OPERATING REVENUES						
1 Local	\$ 262,507			\$ 262,507		\$ 262,507
2 Interstate	878,807	(57,057) *		821,750	821,750	-
3 Intrastate	150,671			150,671		150,671
4 Message Toll	-			-		-
5 Miscellaneous	4,220			4,220		4,220
6 Uncollectible	16,200			16,200		16,200
7	<u>\$ 1,312,406</u>	<u>\$ (57,057)</u>	<u>\$ -</u>	<u>\$ 1,255,348</u>	<u>\$ 821,750</u>	<u>\$ 433,598</u>
OPERATING EXPENSES						
8 Plant Specific Operations	\$ 181,344			\$ 181,344	90,529	\$ 90,814
9 Plant Non-specific Operations	11,430			11,430	6,585	4,845
10 Depreciation	317,392			317,392	130,626	186,766
11 Marketing	27,489			27,489	12,591	14,898
12 Customer Operations	83,407			83,407	28,024	55,383
13 Corporate Operations	136,146			136,146	65,752	70,394
14	<u>\$ 757,208</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 757,208</u>	<u>\$ 334,108</u>	<u>\$ 423,100</u>
15 OPERATING INCOME	<u>\$ 555,198</u>	<u>\$ (57,057)</u>	<u>\$ -</u>	<u>\$ 498,141</u>	<u>\$ 487,642</u>	<u>\$ 10,499</u>
16 OPERATING TAXES	119,353			119,353	55,164	64,189
17 NET OPERATING INCOME	<u>\$ 435,845</u>	<u>\$ (57,057)</u>	<u>\$ -</u>	<u>\$ 378,788</u>	<u>\$ 432,478</u>	<u>\$ (53,690)</u>
NON-OPERATING INCOME						
18 Interest Income	\$ 4,063			4,063	1,318	\$ 2,745
19 Interest on Funded Debt	(12,475)			(12,475)	(4,072)	(8,403)
20 CoBank dividends	-			-		-
21 AFUDC	1,738			1,738	773	964
22 Other	(211)			(211)	(98)	(114)
23	<u>\$ (6,885)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,885)</u>	<u>\$ (2,078)</u>	<u>\$ (4,807)</u>
24 NET OPERATING INCOME	<u>\$ 428,960</u>	<u>\$ (57,057)</u>	<u>\$ -</u>	<u>\$ 371,903</u>	<u>\$ 430,400</u>	<u>\$ (58,497)</u>
25 Total Rate Base at 09/30/2013	1,374,664				393,935	980,729
26 Return on Rate Base (Ln ^{24 25} 23/Ln 24)						-5.96%
27 Estimated Revenue from Local Rate Increase					\$ 39,205	
28 Net Operating Income After Increase (Ln ^{24 27} 23 + Ln 26)					\$ (19,292)	
29 Return on Rate Base After Increase (Ln ^{28 25} 27/Ln 24)						-1.97%

ASSUMPTIONS

Unaudited financial statements for 12 months ending 09/30/2013
 Used 2012 cost study factors (latest available factors)

Ref Notes

* Prior period adjustments as per NECA 3050

South Central Utah Telephone Association, Inc.

09/30/2013 Rate Base

	<u>Total Company</u>	<u>Interstate</u>	<u>Intrastate</u>
Plant In Service	7,496,458	3,336,066	4,160,392
<i>Accumulated Depreciation</i>	<u>6,266,701</u>	<u>3,007,164</u>	<u>3,259,537</u>
Net Plant in Service	1,229,757	328,902	900,855
Plant Under Construction	(28,245)	(12,569)	(15,676)
Material & Supplies	-	-	-
Deferred Income Taxes	-	-	-
Other Long Term Liabilities	133,383	59,358	74,025
Customer Deposits	4,750	2,114	2,636
Cash Working Capital	<u>35,019</u>	<u>16,130</u>	<u>18,889</u>
Rate Base	1,374,664	393,935	980,729

South Central Utah Telephone Association, Inc.

CALCULATION OF CASH WORKING CAPITAL (CWC)

Plant Specific Operations Expense	181,344	
Plant Non-Specific Operations Expense Excluding Depreciation and Amortization	11,430	
Customer Operations Expense	110,896	
Corporate Operations Expense	136,146	
Contributions	-	
Interest on Customer Deposits	-	
Operating Taxes	119,353	
Interest Expense - Operating	12,475	
Total Annual Expense	571,644	
Cash Working Capital Factor	0.06126	22.36/365
Cash Working Capital Base	35,019	
Minimum Cash Balance	-	
Working Cash Allowance	-	
Total Cash Working Capital	35,019	

South Central Utah Telephone Association, Inc.
Proposed Rate Design
09/30/2013 Average Units

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
Service Description	Average Units	Current Rates	09/30/2013 Annual Revenues	Proposed Rates	Proposed Revenues	Proposed Change Revenue	Proposed Change Percent
Basic Service							
Residence in Colorado City Base Rate Area (CLCY)	297	\$ 14.00	\$ 49,812.00	\$ 19.00	\$ 67,602.00	\$ 17,790.00	35.71%
Residence in Fredonia Base Rate Area (FRDN)	357	\$ 14.00	\$ 59,962.00	\$ 19.00	\$ 81,377.00	\$ 21,415.00	35.71%
Estimated Revenue from Local Rate Increase						<u>\$ 39,205.00</u>	

Year	Area	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13
2013	CLCY	291	292	295	295	300	303	302	302	301	301	292	284
2013	FRDN	363	363	358	363	367	363	356	351	352	348	349	350
	09/30/2013 Total	654	655	653	658	667	666	658	653	653	649	641	634

Multi-line business Lines

Year	Area	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13
2013	CLCY	190	180	172	171	171	170	170	168	170	173	175	177
2013	FRDN	173	173	173	165	170	169	168	172	172	172	173	176
	09/30/2013 Total	363	353	345	336	341	339	338	340	342	346	348	353

Total AZ Lines

CLCY	481	472	467	466	471	473	472	470	471	474	474	467	461
FRDN	536	536	531	528	537	532	524	523	524	521	522	522	526
	1017	1008	998	994	1008	1005	996	993	995	995	989	989	987



PUBLIC NOTICE

Exhibit A-2

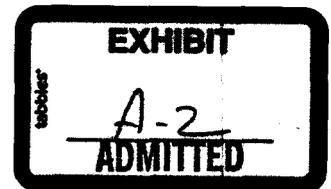
Federal Communications Commission
445 12th St., S.W.
Washington, D.C. 20554

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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.*

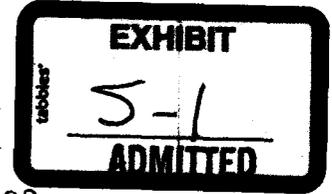


0000151930

MEMORANDUM

RECEIVED
AZ CORP COMM
DOCKET CONTROL

2014 MAR 21 10 2 09



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

Date: March 21, 2014

ORIGINAL

RE: IN THE MATTER OF THE APPLICATION OF SOUTH CENTRAL UTAH TELEPHONE ASSOCIATION, 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-01923A-13-0428)

Attached is the Staff Report for South Central Utah Telephone Association, Inc. dba South Central Communications' Application to increase residential rates to compensate for the rate impacts of the Federal Communications Commission's Universal Service Fund/Intercarrier Compensation ("FCC's USF/ICC") Transformation Order.

Staff recommends approval of South Central Utah Telephone Association, Inc. dba South Central Communications' request to increase its monthly residential local exchange service rate from \$14.00 to the lesser of \$19.00 or the 2014 local service rate floor established by the FCC. Staff further recommends that the rate increase become effective on the rate floor compliance date, as determined by the FCC.

SMO: PJG:tdp\MAS

Originator: Pamela J. Genung

Arizona Corporation Commission

DOCKETED

MAR 21 2014

DOCKETED BY

SERVICE LIST FOR: SOUTH CENTRAL UTAH TELEPHONE ASSOCIATION
DOCKET NO.: T-01923A-13-0428

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Arizona Corporation Commission
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Phoenix, Arizona 85007

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

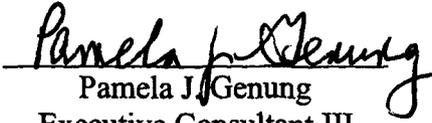
**SOUTH CENTRAL UTAH TELEPHONE ASSOCIATION, INC.
DOCKET NO. T-01923A-13-0428**

**IN THE MATTER OF THE APPLICATION OF SOUTH CENTRAL UTAH TELEPHONE
ASSOCIATION, 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 South Central Utah Telephone Association, Inc. dba South Central Communications, Docket No. T-01923A-13-0428, was prepared by the Staff member shown below.


Pamela J. Genung
Executive Consultant III

EXECUTIVE SUMMARY
SOUTH CENTRAL UTAH TELEPHONE ASSOCIATION, INC.
DOCKET NO. T-01923A-13-0428

On December 9, 2013, South Central Utah Telephone Association, Inc. dba South Central Communications ("SCC" or "Applicant") filed an Application for a determination of its earnings and the fair value of its investment and requested that its residential rates be increased as necessary to compensate for the rate impacts of the Federal Communication Commission's ("FCC's") November 18, 2011, USF/ICC Transformation Order ("USF/ICC Order"); pursuant to Arizona Revised Statute ("A.R.S.") § 40-250.

Staff recommends that the SCC monthly residential local exchange rate increase from \$14.00 to the lesser of \$19.00 or the 2014 local service rate floor established by the FCC. Staff further recommends that the rate increase become effective on the rate floor compliance date, as determined by the FCC. Staff believes the proposed increase is just, fair and reasonable for the following reasons:

- The increase is necessitated by the FCC's November 18, 2011 USF/ICC Order;
- The increase is necessary to preserve the entirety of the Federal Universal Service Fund ("FUSF") funds that may flow to SCC 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 SCC be processed per full A.A.C. R14-2-103 requirements, not streamlined.

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INTRODUCTION

On December 9, 2013, South Central Utah Telephone Association, Inc. dba South Central Communications (“SCC” or “Applicant”) filed an application for a determination of its earnings and the fair value of its investment and requested that its residential rates be increased as necessary to compensate for the rate impacts of the Federal Communication Commission’s (“FCC’s”) November 18, 2011, USF/ICC Transformation Order (“USF/ICC Order”) pursuant to Arizona Revised Statute (“A.R.S.”) § 40-250. A.A.C. R14-2-103(A)(1) requires specific financial and statistical information be filed with a request by a public service corporation doing business in Arizona for a determination of the value of the property of the corporation and of the rate of return earned. SCC submitted a streamlined filing containing the following five exhibits to support the requested increase in residential rates:

- Regulated Results of Operations Twelve Months Ending September 30, 2013
- Rate Base as of September 30, 2013
- Cash Working Capital
- Proposed Rate Design
- Estimated ICC Impact of FCC Order

On December 16, 2013, the Applicant filed a Notice of Errata to correct an error in its December 9, 2013 Application.

On December 17, 2013, the Applicant filed a Time Clock Waiver for thirty (30) days.

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

BACKGROUND

SCC is a non-profit association duly organized and existing under and by virtue of the laws of the State of Utah. SCC is authorized to engage in and is now engaged in the conduct of a general communications business within the State of Arizona. SCC 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 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 residential local

service rates fall below a specified annual rate floor. The rate floor includes state subscriber line charges, state universal service fees, and mandatory extended area service charges, if any are assessed. The FCC's order establishes single line residential local service rate floors of \$10.00 as of June 1, 2012, \$14.00 as of June 1, 2013, with the floor thereafter being determined annually by the FCC's Wireline Competition Bureau, based on a nationwide average. To date, the Wireline Competition Bureau has not determined the rate floor to be in effect for June 1, 2014. The FCC is conducting a survey of urban rates for fixed voice residential services, required by the USF/ICC Order. The information collected in this survey will be used to establish a rate floor for voice services that eligible telecommunications carriers ("ETCs") receiving high cost loop support ("HCLS") or frozen high-cost support must meet in order to receive their full support amounts.

To maintain FHCLS, SCC and other rural ILECs must increase single line residential local rates to the FCC-mandated residential rate floors. Otherwise, the amount of FHCLS funds will be reduced dollar-for-dollar for each customer by the difference between the existing single line local rate and the new rate floor.

The Arizona Corporation Commission's ("Commission's") last considered SCC's rates in Docket No. T-01923A-13-0229, which resulted in Commission Decision No. 74205¹, dated December 3, 2013. With this application, SCC 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 December 17, 2013, the Records Section of the Corporations Division responded that SCC is in good standing. A review of the Consumer Services database revealed that no complaints, inquiries and opinions were received pertaining to SCC for the period January 1, 2010 through December 17, 2013.

PUBLIC NOTICE

On March 3, 2014, SCC provided Staff with a copy of the Notice that SCC sent to its Arizona residential customers on February 12, 2014. On March 10, 2014, SCC filed an Affidavit of Customer Notice indicating that the required notice was sent on February 12, 2014 to SCC's Arizona residential customers of record.

COMPLIANCE

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

¹ Decision No. 74205 authorized SCC to raise its residential service rates to \$14.00/month, effective December 1, 2013.

OPERATING INCOME STATEMENT

SCC submitted Regulated Results of Operations for Twelve Months Ending September 30, 2013 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, SCC Total Intrastate Operating Revenues for the Twelve Months Ending September 30, 2013 were \$433,598. Subcategories of Total Intrastate Operating Revenues are noted below:

Local	\$262,507
Intrastate	\$150,671
Miscellaneous	\$ 4,220
Uncollectible	\$ 16,200

The Applicant also stated that its Total Intrastate Operating Expenses for the Twelve Months Ending September 30, 2013 were \$423,100. Subcategories of Total Intrastate Operating Expenses are noted below:

Plant Specific Operations	\$ 90,814
Plant Non-specific Operations	\$ 4,845
Depreciation	\$186,766
Marketing	\$ 14,898
Customer Operations	\$ 55,383
Corporate Operations	\$ 70,394

Operating Income

As provided by the SCC's Total Intrastate Operating Income for the Twelve Months Ending September 30, 2013 was \$10,499 before taxes and negative \$58,497 after taxes.

RATE BASE

According to SCC, the interstate and intrastate rate base is \$1,374,664, as stated in the table below:

**South Central Utah Telephone Association, Inc.
Rate Base as of September 30, 2013**

	Total Company	Interstate	Intrastate
Plant In Service	\$ 7,496,458	\$ 3,336,066	\$ 4,160,392
<i>Accumulated Depreciation</i>	<u>6,266,701</u>	<u>3,007,164</u>	<u>3,259,537</u>
Net Plant in Service	\$ 1,229,757	\$ 328,902	\$ 900,855
Plant Under Construction	(28,245)	(12,569)	(15,676)
Material & Supplies	-	-	-
Deferred Income Taxes	-	-	-
Other Long Term Liabilities	133,383	59,358	74,025
Customer Deposits	4,750	2,114	2,636
Cash Working Capital	<u>35,019</u>	<u>16,130</u>	<u>18,889</u>
Rate Base	\$ 1,374,664	\$ 393,935	\$ 980,729

CUSTOMER BASE

SCC reported 653 residential lines and 345 business lines in its Utilities Annual Report received April 22, 2013.

REVENUE REQUIREMENT

As stated above, the Applicant's filing was based on streamlined requirements to meet the FCC's deadline for federal USF funding. Therefore, the Applicant's filing does not contemplate rate adjustments based on a typical revenue requirement analysis.

RATE DESIGN

The Applicant is seeking to increase its residential local exchange service rate up to \$19.00. The actual rate implemented would be set at the lesser of the approved 2014 local service rate floor or \$19.00. SCC indicated that it will file the new FCC rate floor as soon as it is available. The Applicant's filing only contemplates changes to residential local exchange rates to compensate for the rate impacts of the FCC's USF/ICC order. With this filing, Staff will only address the monthly increase of all residential local exchange service rates from \$14.00 to the lesser of \$19.00 or the 2014 local service rate floor established by the FCC.

STAFF ANALYSIS

Staff did not perform a regulatory audit of the information submitted by SCC. However, Staff reviewed the information filed in the context of the FCC's November 18, 2011 USF/ICC Order, which is intended to transition the outdated federal universal service programs and 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 ("FVRB"). The Applicant states that its intrastate rate base is \$980,729. The Applicant provided information that indicates that its Total Intrastate Operating Revenue for the Twelve Months Ending September 30, 2013 was \$433,598.

According to the Applicant, the annual revenue effect of the increase in residential local telephone service rates to \$19.00 is \$39,205.² SCC's return on rate base is negative and would remain negative with the \$19.00 rate. In the Applicant's Supplemental Filing, SCC indicated that the annual revenue effect of the increase in residential local telephone service rates to \$17.50 is \$27,444.³ At the \$17.50 residential local service rate, SCC's return on rate base would be negative. 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 SCC's request to increase its monthly residential local exchange service rate from \$14.00 to the lesser of \$19.00 or the 2014 local service rate floor established by the FCC. Staff further recommends that the rate increase become effective on the rate floor compliance date, as determined by the FCC.⁴ Staff believes the proposed increase is just, fair and reasonable for the following reasons:

- The increase is necessitated by the FCC's November 18, 2011 USF/ICC Order;
- The increase is necessary to preserve the entirety of the Federal Universal Service Fund ("FUSF") funds that may flow to SCC 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.

² Based on 654 one-party residential lines.

³ Based on 654 one-party residential lines.

⁴ The rate floor compliance date is the date (currently June 1) on which the local service rate must equal or exceed the FCC rate floor so a company receiving federal high-cost loop support may continue to receive all of its authorized Federal Universal Service Fund revenues.

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