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COMMISSIONERS

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2014 AUG 22 P 12:15

ARIZONA CORPORATION COMMISSION  
SECRET CONTROL

ORIGINAL

IN THE MATTER OF THE APPLICATION OF COPPER VALLEY TELEPHONE, INC., AN ARIZONA CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, AND TO INCREASE RESIDENTIAL RATES AS NECESSARY TO COMPENSATE FOR THE RATE IMPACTS OF THE FCC'S USF/ICC TRANSFORMATION ORDER

DOCKET NO. T-02727A-13-0458

RESPONSE TO PROCEDURAL ORDER

Arizona Corporation Commission

DOCKETED

AUG 22 2014

DOCKETED BY

1 Copper Valley Telephone, Inc., ("Copper Valley Telephone") hereby responds to the  
2 following requests in Judge Rodda's August 7, 2014, Procedural Order in the above-captioned  
3 docket. Specifically, the Order stated that Valley Telephone:

4 should update its schedules to show the pro forma effects on revenues if  
5 residential access rates are increased to \$16, \$18 and \$20, and to also show the  
6 effect on operations if residential rates remain at \$14/month and the federal  
7 benchmark is \$16, \$18 and \$20/ month; and shall update the exhibit that shows a  
8 typical residential rate at the requested rates.

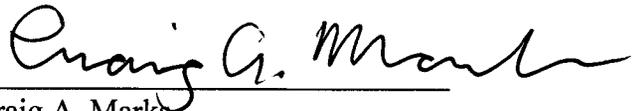
9 Attached hereto is a sheet summarizing returns for each of the six cases, followed by a  
10 revised exhibit that shows total residential rates at the \$16, \$18, and \$20 base rates, detailed rate  
11 design exhibits at the three rates, and exhibits that detail the loss of high-cost loop support at the  
12 new benchmarks if rates were not raised.

13 Prior Results of Operations schedules for VTC that were filed in this docket understated  
14 the Return on Rate Base because Fixed Charges were inappropriately included in the calculation.  
15 The Fixed Charges were needed in reconciling the data but should not have been included as  
16 expenses to compute the return. The corrected Returns on Rate Base presented in this exhibit are  
17 still significantly short of a reasonable rate of return.

18 The requested increases (to \$16, \$18, and \$20) are just and reasonable because, if they  
19 were not authorized, Copper Valley Telephone would lose federal high-cost loop support funds

1 and further reduce revenues below the levels that would be required for Copper Valley  
2 Telephone to earn its authorized rate of return.

3 Respectfully submitted on August 22, 2014.

4  
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6

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15 Inc.

**Original and 13 copies filed**  
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# Copper Valley Telephone, Inc.

REGULATED 2012 RESULTS OF OPERATIONS  
 REFLECTS CHANGES EFFECTIVE WITH ARC AND CAF IMPLEMENTATION -- YEAR 2  
 COMPARISON OF VARIOUS RATE AND BENCHMARK SCENARIOS

	INTRASTATE Base Case	INTRASTATE Case 1	INTRASTATE Case 2	INTRASTATE Case 3	INTRASTATE Case 4	INTRASTATE Case 5	INTRASTATE Case 6
Assumed Actual Rate	\$ 14.00	\$ 16.00	\$ 18.00	\$ 20.00	\$ 14.00	\$ 14.00	\$ 14.00
Assumed Benchmark Rate	\$ 14.00	\$ 16.00	\$ 18.00	\$ 20.00	\$ 16.00	\$ 18.00	\$ 20.00
	(f)	(f)	(f)	(f)	(f)	(f)	(f)
1 Local	873,655	873,655	873,655	873,655	873,655	873,655	873,655
2 Universal Service Fund (USF-HCL) and Safety Net Additive (SNA)	1,758,820	1,758,820	1,758,820	1,758,820	1,758,820	1,758,820	1,758,820
3 Access Revenues	284,248	284,248	284,248	284,248	284,248	284,248	284,248
4 Billing & Collecting	237	237	237	237	237	237	237
5 Other Misc., Uncollectibles	211,641	211,641	211,641	211,641	211,641	211,641	211,641
6 Total Operating Revenues	<b>3,128,602</b>	<b>3,128,602</b>	<b>3,128,602</b>	<b>3,128,602</b>	<b>3,128,602</b>	<b>3,128,602</b>	<b>3,128,602</b>
7 Plant Specific Expenses	630,474	630,474	630,474	630,474	630,474	630,474	630,474
8 Plant Nonspecific Expenses	260,651	260,651	260,651	260,651	260,651	260,651	260,651
9 Depreciation & Amortization Expenses	1,052,398	1,052,398	1,052,398	1,052,398	1,052,398	1,052,398	1,052,398
10 Customer Operations Expenses	283,125	283,125	283,125	283,125	283,125	283,125	283,125
11 Corporate Operations Expenses	302,664	302,664	302,664	302,664	302,664	302,664	302,664
12 Other Operating Taxes and (Income)	195,095	195,095	195,095	195,095	195,095	195,095	195,095
13 Nonregulated Adjustment							
14 Total Operating Expenses	<b>2,724,407</b>	<b>2,724,407</b>	<b>2,724,407</b>	<b>2,724,407</b>	<b>2,724,407</b>	<b>2,724,407</b>	<b>2,724,407</b>
15 OPERATING RETURN BEFORE TAXES	<b>404,195</b>	<b>404,195</b>	<b>404,195</b>	<b>404,195</b>	<b>404,195</b>	<b>404,195</b>	<b>404,195</b>
16 State Income Taxes (SIT) (6.97%)	19,109	19,109	19,109	19,109	19,109	19,109	19,109
17 Federal Income Taxes (FIT) (35%)	95,245	95,245	95,245	95,245	95,245	95,245	95,245
	(47,239)	(47,239)	(47,239)	(47,239)	(47,239)	(47,239)	(47,239)
18 Total Operating Income Taxes	<b>67,115</b>	<b>67,115</b>	<b>67,115</b>	<b>67,115</b>	<b>67,115</b>	<b>67,115</b>	<b>67,115</b>
19 Total Expenses and Income Taxes	<b>2,791,522</b>	<b>2,791,522</b>	<b>2,791,522</b>	<b>2,791,522</b>	<b>2,791,522</b>	<b>2,791,522</b>	<b>2,791,522</b>
20 Net Operating Income	<b>337,080</b>	<b>337,080</b>	<b>337,080</b>	<b>337,080</b>	<b>337,080</b>	<b>337,080</b>	<b>337,080</b>
21 Total Year-End Avg Rate Base	8,162,306	8,162,306	8,162,306	8,162,306	8,162,306	8,162,306	8,162,306
22 Return on Rate Base (Ln 20 / Ln 21)	<b>4.13%</b>	<b>4.13%</b>	<b>4.13%</b>	<b>4.13%</b>	<b>4.13%</b>	<b>4.13%</b>	<b>4.13%</b>
23 Estimated Revenue from Local Rate Increase	-	63,708	107,416	161,124	-	-	-
24 Estimated Annual Reduction in High-Cost Loop Support	-	-	-	-	53,708	107,416	161,124
25 State Income Taxes (SIT) (6.97%)	-	3,743	7,487	11,230	(3,743)	(7,487)	(11,230)
26 Federal Income Taxes (FIT) (35%)	-	17,488	34,975	52,463	(17,488)	(34,975)	(52,463)
27 Increase in Net Operating Income	-	32,477	64,954	97,431	(32,477)	(64,954)	(97,431)
28 Net Operating Income After Increase (Ln 20 + Ln 26)	<b>337,080</b>	<b>369,557</b>	<b>402,034</b>	<b>434,511</b>	<b>304,603</b>	<b>272,126</b>	<b>239,649</b>
29 Return on Rate Base After Increase (Ln27 / Ln21)	<b>4.43%</b>	<b>4.53%</b>	<b>4.93%</b>	<b>5.32%</b>	<b>3.73%</b>	<b>3.33%</b>	<b>2.94%</b>

# Copper Valley Telephone, Inc. AZ

## Typical Charges for Subscribers to Basic Residential Service Comparison of Effect in Various Rate Scenarios

	<u>Base Case</u>	<u>Case 1</u>	<u>Case 2</u>	<u>Case 3</u>
Residential Telephone Service	\$ 14.00	\$ 16.00	\$ 18.00	\$ 20.00
Subscriber Line Charge	6.50	6.50	6.50	6.50
Access Recovery Charge	1.50	1.50	1.50	1.50
AZ 911 Excise Tax	0.20	0.20	0.20	0.20
AZ Universal Service Fund	0.01	0.01	0.01	0.01
Federal Excise Tax	0.66	0.72	0.78	0.84
Federal Universal Service Fund	1.26	1.26	1.26	1.26
State/County Sales Tax (Bill description will specify the county)	0.85	0.98	1.10	1.22
AZ Telephonic Device Fee	0.15	0.18	0.20	0.22
<b>Total Basic Residential Service Bill</b>	<b>\$ 25.13</b>	<b>\$ 27.35</b>	<b>\$ 29.55</b>	<b>\$ 31.75</b>

Note: Subscribers in certain limited areas pay the following additional taxes and fees related to the local laws.

- A. Subscribers located inside the town limits of Duncan pay city sales taxes of 2% which amounts to from 28¢ to 40¢ per month for these alternative basic rate scenarios.
- B. Subscribers located inside the town limits of Clifton pay city sales taxes of 3% which amounts to from 42¢ to 60¢ per month for these alternative basic rate scenarios.
- C. Subscribers in Duncan pay a City Franchise Fee of 2%.
- D. Subscribers in the Elfrida exchange pay a mandatory EAS fee of 78¢ per month.

Copper Valley Telephone Company  
Proposed Rate Design  
2013 Average Units

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
Service Description	2013 Avg Units	2012 Avg Units	Current Rates	Proposed Rates	Proposed Revenue	Proposed Change Revenue	Proposed Change Percent
Residence One-Party	2,157	2,238	\$ 14.00	\$ 16.00	\$ 429,664	\$ 53,708	14.28%
<b>Basic Service</b>							
Estimated Revenue from Local Rate Increase						<u>\$ 53,708</u>	

Notes:  
No reduction made for line loss.

Year	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009 Total		3,078	3,036	2,963	2,812	2,903	2,863	2,852	2,827	2,768	2,766	2,727	2,679
2010 Total		2,687	2,682	2,658	2,642	2,633	2,599	2,568	2,578	2,565	2,550	2,527	2,508
2011 Total		2,481	2,483	2,482	2,474	2,439	2,401	2,368	2,361	2,349	2,337	2,309	2,281
2012 Total		2,265	2,271	2,265	2,265	2,253	2,240	2,228	2,215	2,217	2,206	2,213	2,216
2013 Total		2,196	2,196	2,183	2,181	2,168	2,153	2,145	2,139	2,124	2,119	2,119	2,119

Residential Lines

Copper Valley Telephone Company  
Proposed Rate Design  
2013 Average Units

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
Service Description	2013 Avg Units	2012 Avg Units	Current Rates	Propforma 2012 Annual Revenues	Proposed Rates	Proposed Change Revenue	Proposed Change Percent
Basic Service	2,157	2,238	\$ 14.00	\$ 375,956	\$ 18.00	\$ 483,372	\$ 107,416
Residence One-Party							28.57%
Estimated Revenue from Local Rate Increase							<u>\$ 107,416</u>

Notes:  
No reduction made for line loss.

Year	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009 Total		3,079	3,036	2,963	2,912	2,903	2,863	2,852	2,827	2,766	2,766	2,727	2,679
2010 Total		2,667	2,662	2,658	2,642	2,633	2,599	2,568	2,578	2,565	2,550	2,527	2,508
2011 Total		2,481	2,483	2,482	2,474	2,439	2,401	2,388	2,361	2,349	2,337	2,309	2,281
2012 Total		2,265	2,271	2,265	2,265	2,253	2,240	2,228	2,215	2,217	2,206	2,213	2,216
2013 Total		2,196	2,196	2,183	2,181	2,168	2,153	2,145	2,139	2,124	2,119	2,119	2,119

Residential Lines

Copper Valley Telephone Company  
Proposed Rate Design  
2013 Average Units

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
Service Description	2013 Avg Units	Proforma 2012 Annual Revenues	Proposed Rates	Proposed Revenues	Proposed Revenue	Proposed Change	Percent
Basic Service	2,157	375,958	20.00	\$ 537,080	\$ 161,124	42.86%	
Residence One-Party	2,238	\$ 14.00	\$		\$ 161,124		
Estimated Revenue from Local Rate Increase					<u>\$ 161,124</u>		

Notes:

No reduction made for line loss.

Residential Lines

Year	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009 Total		3,079	3,036	2,963	2,912	2,903	2,863	2,852	2,827	2,768	2,766	2,727	2,679
2010 Total		2,687	2,682	2,658	2,642	2,633	2,599	2,568	2,578	2,565	2,550	2,527	2,508
2011 Total		2,481	2,483	2,482	2,474	2,439	2,401	2,388	2,361	2,349	2,337	2,309	2,281
2012 Total		2,265	2,271	2,265	2,265	2,253	2,240	2,228	2,215	2,217	2,206	2,213	2,216
2013 Total		2,196	2,186	2,183	2,181	2,168	2,153	2,145	2,139	2,124	2,119	2,119	2,119

Copper Valley Telephone Company  
Proposed Rate Design  
Estimated Reduction In Federal High-Cost Loop Support

2012 Average Residence One-Party		2,238
FCC Benchmark Rate	16.00	
Present Rate	<u>14.00</u>	
Deficiency in Rate		<u>2.00</u>
Reduction in High Cost Loop Support per month		<u><u>4,476</u></u>
Reduction in High Cost Loop Support per year		<u><u>53,708</u></u>

Copper Valley Telephone Company  
Proposed Rate Design  
Estimated Reduction In Federal High-Cost Loop Support

2012 Average Residence One-Party		2,238
FCC Benchmark Rate	18.00	
Present Rate	<u>14.00</u>	
Deficiency in Rate		<u>4.00</u>
Reduction in High Cost Loop Support per month		<u>8,951</u>
Reduction in High Cost Loop Support per year		<u>107,416</u>

Copper Valley Telephone Company  
Proposed Rate Design  
Estimated Reduction In Federal High-Cost Loop Support

2012 Average Residence One-Party		2,238
FCC Benchmark Rate	20.00	
Present Rate	<u>14.00</u>	
Deficiency in Rate		<u>6.00</u>
Reduction in High Cost Loop Support per month		<u>13,427</u>
Reduction in High Cost Loop Support per year		<u>161,124</u>