



0000155491

COMMISSIONERS

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

RECEIVED

2014 AUG 22 P 12:14

ORIGINAL

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF ARIZONA TELEPHONE COMPANY, 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-02063A -13-0411

RESPONSE TO PROCEDURAL ORDER
Arizona Corporation Commission
DOCKETED

AUG 22 2014

DOCKETED BY

1 Arizona Telephone Company ("Arizona Telephone") hereby responds to the following
2 requests in Judge Rodda's August 7, 2014, Procedural Order in the above-captioned docket.

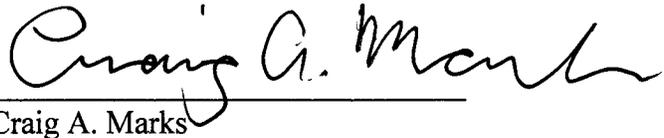
3 Specifically, the Order stated that Arizona Telephone:

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 The requested increases (to \$16, \$18, and \$20) are just and reasonable because, if they
14 were not authorized, Arizona Telephone would lose federal high-cost loop support funds and
15 further reduce revenues below the levels that would be required for Arizona Telephone to earn
16 its authorized rate of return.

1 Respectfully submitted on August 22, 2014.
2
3
4



5 Craig A. Marks
6 Craig A. Marks, PLC
7 10645 N. Tatum Blvd., Ste. 200-676
8 Phoenix, Arizona 85028
9 (480) 367-1956 (Direct)
10 (480) 304-4821 (Fax)
11 Craig.Marks@azbar.org
12 Attorney for Arizona Telephone Company

Original and 13 copies filed
on August 22, 2014, with:

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

Copies mailed and e-mailed
on August 22, 2014 to:

Maureen Scott
Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007
MScott@azcc.gov

Charles Hains
Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007
CHains@azcc.gov

Arizona Telephone Company

REGULATED RESULTS OF OPERATIONS FOR TWELVE MONTHS ENDING JUNE 30, 2013
 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	455,910	455,910	455,910	455,910	455,910	455,910	455,910
2 Universal Service Fund (USF-HCL) and Safety Net/ Additive (SNA)	118,182	118,182	118,182	118,182	118,182	118,182	118,182
3 Access Revenues	366,869	366,869	366,869	366,869	366,869	366,869	366,869
4 Billing & Collecting	18,067	18,067	18,067	18,067	18,067	18,067	18,067
5 Other Misc., Uncollectibles	32,953	32,953	32,953	32,953	32,953	32,953	32,953
6 Total Operating Revenues	<u>991,981</u>	<u>991,981</u>	<u>991,981</u>	<u>991,981</u>	<u>991,981</u>	<u>991,981</u>	<u>991,981</u>
7 Plant Specific Expenses	417,281	417,281	417,281	417,281	417,281	417,281	417,281
8 Plant Nonspecific Expenses	162,539	162,539	162,539	162,539	162,539	162,539	162,539
9 Depreciation & Amortization Expenses	495,450	495,450	495,450	495,450	495,450	495,450	495,450
10 Customer Operations Expenses	232,637	232,637	232,637	232,637	232,637	232,637	232,637
11 Corporate Operations Expenses	324,224	324,224	324,224	324,224	324,224	324,224	324,224
12 Other Operating Taxes and (Income)	75,276	75,276	75,276	75,276	75,276	75,276	75,276
13 Nonregulated Adjustment							
14 Total Operating Expenses	<u>1,707,407</u>	<u>1,707,407</u>	<u>1,707,407</u>	<u>1,707,407</u>	<u>1,707,407</u>	<u>1,707,407</u>	<u>1,707,407</u>
15 OPERATING RETURN BEFORE TAXES	<u>(715,426)</u>	<u>(715,426)</u>	<u>(715,426)</u>	<u>(715,426)</u>	<u>(715,426)</u>	<u>(715,426)</u>	<u>(715,426)</u>
16 State Income Taxes (SIT) (6.87%)	(49,865)	(49,865)	(49,865)	(49,865)	(49,865)	(49,865)	(49,865)
17 Federal Income Taxes (FIT) (35%)	(232,946)	(232,946)	(232,946)	(232,946)	(232,946)	(232,946)	(232,946)
18 Total Operating Income Taxes	<u>(282,811)</u>	<u>(282,811)</u>	<u>(282,811)</u>	<u>(282,811)</u>	<u>(282,811)</u>	<u>(282,811)</u>	<u>(282,811)</u>
19 Total Expenses and Income Taxes	<u>1,424,596</u>	<u>1,424,596</u>	<u>1,424,596</u>	<u>1,424,596</u>	<u>1,424,596</u>	<u>1,424,596</u>	<u>1,424,596</u>
20 Net Operating Income	<u>(432,615)</u>	<u>(432,615)</u>	<u>(432,615)</u>	<u>(432,615)</u>	<u>(432,615)</u>	<u>(432,615)</u>	<u>(432,615)</u>
21 Total Year-End Avg Rate Base	2,291,937	2,291,937	2,291,937	2,291,937	2,291,937	2,291,937	2,291,937
22 Return on Rate Base (Ln 20 / Ln 21)	<u>-18.90%</u>	<u>-18.90%</u>	<u>-18.90%</u>	<u>-18.90%</u>	<u>-18.90%</u>	<u>-18.90%</u>	<u>-18.90%</u>
23 Estimated Revenue from Local Rate Increase	0	41,112	82,224	123,336	0	0	0
24 Estimated Annual Reduction in High-Cost Loop Support	0	0	0	0	41,112	82,224	118,182
25 State Income Taxes (SIT) (6.87%)	-	2,866	5,731	8,597	(2,866)	(5,731)	(8,237)
26 Federal Income Taxes (FIT) (35%)	-	13,386	26,773	40,159	(13,386)	(26,773)	(39,481)
27 Increase in Net Operating Income	0	24,860	49,720	74,581	(24,860)	(49,720)	(74,464)
28 Net Operating Income After Increase (Ln 20 + Ln 26)	<u>(432,615)</u>	<u>(407,754)</u>	<u>(382,894)</u>	<u>(356,034)</u>	<u>(457,475)</u>	<u>(482,335)</u>	<u>(504,079)</u>
29 Return on Rate Base After Increase (Ln27 / Ln21)	<u>-18.90%</u>	<u>-17.80%</u>	<u>-16.76%</u>	<u>-15.60%</u>	<u>-20.00%</u>	<u>-21.00%</u>	<u>-22.00%</u>

Arizona Telephone Company

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

Local Service Rate	Base Case		
	Case 1	Case 2	Case 3
	\$ 14.00	\$ 16.00	\$ 18.00
			\$ 20.00
AZ USF Surcharge	0.01	0.01	0.01
Federal SLC Charge	6.50	6.50	6.50
Access Recovery Charge (ARC)	1.50	1.50	1.50
Federal USF Charge	1.26	1.26	1.26
State 911 Tax	0.20	0.20	0.20
Federal Excise Tax	0.66	0.72	0.78
AZ Sales Tax	0.78	0.90	1.01
County Tax	0.18	0.20	0.23
City Tax			
TDD Tax	0.15	0.18	0.20
ACC Tax	0.03	0.03	0.04
Total	\$ 25.27	\$ 27.49	\$ 29.71
			\$ 31.94

Federal USF surcharge applies to Fed SLC and ARC charges.

Arizona Telephone Company
Proposed Rate Design
2013 June Units

Service Description	Units ^(a)	Jun-13 Assumed Rates	Actual Rates	Annual Revenues	Assumed Benchmark Rates	Proposed Change	
						Revenue	Percent
Basic Service							
Base Case							
Residence One-Party	1,712	\$ 14.00	\$ 14.00	\$ 287,616	\$ 14.00	\$ 287,616	0.00%
Residence Four-Party	1	\$ 14.00	\$ 168	\$ 168	\$ 168	\$ -	0.00%
Estimated Revenue from Local Rate Increase							
Class 1							
Residence One-Party	1,712	\$ 16.00	\$ 16.00	\$ 328,704	\$ 16.00	\$ 328,704	0.00%
Residence Four-Party	1	\$ 16.00	\$ 192	\$ 192	\$ 192	\$ -	0.00%
Estimated Revenue from Local Rate Increase							
Class 2							
Residence One-Party	1,712	\$ 18.00	\$ 18.00	\$ 369,792	\$ 18.00	\$ 369,792	0.00%
Residence Four-Party	1	\$ 18.00	\$ 216	\$ 216	\$ 216	\$ -	0.00%
Estimated Revenue from Local Rate Increase							
Class 3							
Residence One-Party	1,712	\$ 20.00	\$ 20.00	\$ 410,880	\$ 20.00	\$ 410,880	0.00%
Residence Four-Party	1	\$ 20.00	\$ 240	\$ 240	\$ 240	\$ -	0.00%
Estimated Revenue from Local Rate Increase							
Class 4							
Residence One-Party	1,712	\$ 14.00	\$ 14.00	\$ 287,616	\$ 16.00	\$ 328,704	14.29%
Residence Four-Party	1	\$ 14.00	\$ 168	\$ 168	\$ 192	\$ 24	14.29%
Estimated Revenue from Local Rate Increase						\$ 41,112	
Class 5							
Residence One-Party	1,712	\$ 14.00	\$ 14.00	\$ 287,616	\$ 18.00	\$ 369,792	28.57%
Residence Four-Party	1	\$ 14.00	\$ 168	\$ 168	\$ 216	\$ 48	28.57%
Estimated Revenue from Local Rate Increase						\$ 82,224	
Class 6							
Residence One-Party	1,712	\$ 14.00	\$ 14.00	\$ 287,616	\$ 20.00	\$ 410,880	42.86%
Residence Four-Party	1	\$ 14.00	\$ 168	\$ 168	\$ 240	\$ 72	42.86%
Estimated Revenue from Local Rate Increase						\$ 123,336	

Notes:
(a) No reduction made for line loss.

Year	Type	Monthly Revenues											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009	One-Party	2,898	2,868	2,872	2,865	2,858	2,922	2,927	2,849	2,785	2,718	2,602	2,532
2009	Four-Party	13	13	13	13	13	13	13	13	13	13	13	12
2009 Total		2,911	2,901	2,885	2,878	2,871	2,935	2,940	2,862	2,798	2,731	2,615	2,544
2010	One-Party	2,502	2,461	2,434	2,404	2,375	2,412	2,405	2,382	2,365	2,334	2,288	2,217
2010	Four-Party	11	11	11	11	11	11	10	10	10	10	7	7
2010 Total		2,513	2,472	2,445	2,415	2,386	2,423	2,415	2,382	2,375	2,344	2,295	2,224
2011	One-Party	2,195	2,177	2,167	2,154	2,146	2,178	2,169	2,159	2,154	2,125	2,069	2,031
2011	Four-Party	7	7	7	6	6	6	6	6	6	6	6	5
2011 Total		2,202	2,184	2,174	2,160	2,152	2,184	2,175	2,165	2,160	2,131	2,075	2,036
2012	One-Party	1,993	1,976	1,955	1,942	1,939	1,969	1,961	1,951	1,932	1,890	1,846	1,811
2012	Four-Party	5	5	5	5	5	5	5	5	5	5	4	3
2012 Total		1,998	1,981	1,960	1,947	1,944	1,974	1,966	1,956	1,937	1,895	1,850	1,814
2013	One-Party	1,788	1,758	1,741	1,708	1,690	1,712	-	-	-	-	-	-
2013	Four-Party	1	1	1	1	1	1	-	-	-	-	-	-
2013 Total		1,789	1,759	1,742	1,709	1,691	1,713	-	-	-	-	-	-

Residential Lines

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

June 2013 Residence		1,713
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>3,426.00</u></u>
Reduction in High Cost Loop Support per year		<u><u>41,112.00</u></u>

June 2013 Residence		1,713
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><u>6,852.00</u></u>
Reduction in High Cost Loop Support per year		<u><u>82,224.00</u></u>

June 2013 Residence		1,713
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><u>10,278.00</u></u>
Reduction in High Cost Loop Support per year		<u><u>123,336.00</u></u>
Current HCL		118,182.00
Maximun Reduction		<u><u>118,182.00</u></u>