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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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ARIZONA CORPORATION COMMISSION
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IN THE MATTER OF THE APPLICATION OF
SOUTHWESTERN 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-01072A-13-0412

STAFF'S RESPONSE TO AUGUST 7, 2014
PROCEDURAL ORDER

ORIGINAL

On July 1, 2014, the Administrative Law Judge ("ALJ") issued a procedural order which asked Staff and Southwestern Telephone Company ("Southwestern Telephone") to file updated recommendations based upon the FCC's June 10, 2014, Order which established a phase-in of the residential rate floor and a delay in implementing the phased-in rates. Staff filed its procedural recommendations on July 31, 2014.

Staff recommended, in part, that the Company file updated schedules reflecting the changes resulting from the FCC's June 10, 2014 Order. On August 7, 2014, the ALJ issued another procedural order requiring Southwestern Telephone to file revised schedules showing "the pro forma effects on revenues if residential access rates are increased to \$16, \$18 and \$20, and to also show the effect on operations if residential rates remain at \$14/month and the federal benchmark is \$16, \$18, and \$20/month; and...[to] update the exhibit that shows a typical residential rate at the requested rates."¹ Southwestern Telephone filed its updated schedules as required by the Procedural Order on August 22, 2014.

¹ Procedural Order at p. 2.

1 The August 7, 2014, Procedural Order also required Staff to state why it believes that the
 2 revised phased-in rates are just, fair and reasonable. Specifically the Order stated:

3 Staff...provided its reasons for believing that its recommended rates (i.e. up to \$19.00)
 4 are just, fair and reasonable, and necessary. In its July 31, 2014 update, Staff
 5 recommends adopting the lower of \$16, \$18 and \$20 or the FCC's benchmark floor to
 6 be phased-in over time. Given these revised recommendations, Staff is requested to
 clarify its reasons for concluding that the revised rates and phase-in schedule are just,
 fair and reasonable.²

7 Staff has revised its recommendations consistent with the FCC's most recent Order which
 8 came out subsequent to the hearing in this matter. Additionally, Staff originally supported a rate
 9 increase up to \$19.00 because that is the amount that had been noticed to customers, unless the ALJ
 10 or Commission believed the higher rate of \$20.46 was appropriate.³ Staff continues to take the
 11 position that this matter has been adequately noticed for a rate up to \$19.00 by the Company. For the
 12 reason, Staff is recommending that within 30 days of the effective date of any Order addressing these
 13 issues, the Company should be required to re-notice customers informing them of the new rate floor
 14 of \$20.00 to be implemented in 2017 and the preceding step increases and their effective dates.⁴

15 Staff has reviewed the revised schedules filed by Southwestern Telephone. The revised
 16 schedules show the following impact on the rate of return at the current local service rate and at the
 17 phased-in rates provided in the FCC's Order.

	<u>Current Rate</u>	<u>Phased-In Rate as of December 1, 2014</u>	<u>Phased-In Rate as of June 1, 2016</u>	<u>Phased-In Rate as of June 1, 2017</u>
	\$ 14.00	\$16.00	\$18.00 ⁵	\$20.00 ⁶
ROR	-1.50%	-0.50%	.50%	1.50%
Change in ROR		1.00	2.00	3.00
Change in Revenues		\$34,944	\$69,888	\$104,832 ⁷

26 ² Procedural Order at p. 2.

27 ³ See, T-01923A-13-0428 (South Central Utah Telephone Assoc., Inc.) Tr. at p. 49.

28 ⁴ See, Staff's July 31, 2014 Response to July 1, 2014 Procedural Order.

⁵ \$18, or the 2016 rate floor set by the FCC, whichever is lower.

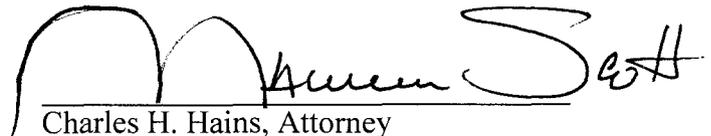
⁶ \$20, or the 2016 rate floor set by the FCC, whichever is lower.

⁷ The increase in revenues is a cumulative number.

1 If the Company does not adjust its local service rates to the FCC rate floors on the dates indicated, it
2 will lose federal universal service support on a dollar for dollar basis. No increase in the local service
3 rate would reduce the federal universal service support provided to the Company and would therefore
4 lower the Company's rate of return. With no local service increase to the level of the FCC's phased-
5 in rates, the Company schedules indicate that it would experience the following decreases to its
6 federal universal service support levels: December 2014 - \$34,944; June 2016 - \$69,888; and June
7 2017 - \$104,832. This equates to the following reduced rates of return on December 1, 2014, June 1,
8 2016 and June 1, 2017 respectively: -2.40%; -3.40% and -4.40%.

9 Based upon the above information, Staff believes that the phased-in rate increases are fair,
10 just and reasonable. Staff respectfully requests that the ALJ find that Southwestern Telephone's
11 revised schedules demonstrate that the new rates are fair, just and reasonable, and that the ALJ adopt
12 Staff's additional recommendations contained in its July 31, 2014 Response to the July 1, 2014
13 Procedural Order.

14 RESPECTFULLY SUBMITTED this 29th day of August, 2014.

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24 Original and thirteen (13) copies of
25 the foregoing filed this 29th day of
26 August, 2014, with:

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1 Copy of the foregoing emailed/mailed
2 this 29th day of August, 2014, to:

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