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OPEN MEETING ITEM

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ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL
2014 SEP 29 PM 2 04

DATE: SEPTEMBER 29, 2014

DOCKET NO.: T-02063A-13-0411

ORIGINAL

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Jane L. Rodda. The recommendation has been filed in the form of an Opinion and Order on:

ARIZONA TELEPHONE COMPANY
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

October 8, 2014

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

OCTOBER 16, 2014

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission
DOCKETED
SEP 29 2014
DOCKETED BY

JODI JERICH
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347
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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 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 DECISION NO. _____ **OPINION AND ORDER**

DATE OF HEARING:	March 25, 2014
PLACE OF HEARING:	Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE:	Jane Rodda
APPEARANCES:	Mr. Craig A. Marks, CRAIG A. MARKS, PLC, on behalf of Applicant; and Ms. Maureen A. Scott, Senior Staff Counsel and Mr. Charles O. Hains, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

* * * * * * * * * *

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

Procedural History

1. On November 27, 2013, Arizona Telephone Company ("Arizona Telephone" or "Company") filed an Application with the Commission pursuant to A.R.S. §40-250 and Arizona Administrative Code ("A.A.C.") R14-2-103, for an increase in its residential rates in order to

compensate for the rate impacts of the Federal Communication Commission's ("FCC") November 18, 2011, *USF/ICC Order*.[1] In its Application, Arizona Telephone requested that the Commission approve a basic residential local access line rate of the lesser of $19.00, or the floor rate to be set by the FCC. In order to avoid the loss of federal funding for high-cost loop support, Arizona Telephone requested that the new rates go into effect by June 1, 2014.[2]

2. On December 16, 2013, Arizona Telephone filed a Time Clock Waiver in order to allow additional time for the Commission to determine procedures for processing the Application.

3. In a Special Open Meeting on January 14, 2014, the Commission agreed to adopt a proposal by the Commission's Utilities Division ("Staff") that would not require Arizona Telephone to file all of the schedules normally required under A.A.C. R14-2-103 for rate applications due to the short time frame when new rates must be in effect under the FCC directive.[3]

4. By Procedural Order dated January 15, 2014, a Procedural Conference was held on January 22, 2014, to discuss the timing of the hearing in this matter and other procedural matters. Arizona Telephone and Staff appeared through counsel and agreed on a process to govern this matter.

5. By Procedural Order dated January 23, 2014, this matter was set for hearing on March 25, 2014, and other procedural guidelines established.

6. On January 29, 2014, Arizona Telephone docketed a "Supplemental Filing" that included a schedule showing the effect on the Company's rate of return if the FCC's Wireline Competition Bureau were to set $17.50 as the monthly residential rate floor to be in effect as of June 1, 2014.[4]

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[1] FCC 11-161, Connect America Fund, WC Docket No. 10-90 et al., *Report and Order and Further Notice of Proposed Rulemaking*, 26 FCC Rcd 17663 (November 18, 2001) ("*USF/ICC Order*").

[2] Six rural Arizona incumbent local exchange carriers ("ILECs") filed similar rate case applications around the same time in order to comply with the FCC's *USF/ICC Order*. All six were represented by the same legal counsel and several of the carriers have common ownership. Although separate hearings were held for each entity, the proceedings were coordinated to promote efficiency. The dockets are: Docket No. T-02063A-13-0411 (Arizona Telephone Company); Docket No. T-01072A-13-0412 (Southwestern Telephone Company); Docket No. T-01923A-13-0428 (South Central Utah Telephone Association, Inc.); Docket No. T-02724A-13-0416 (Table Top Telephone Company, Inc.); Docket No. T-01847A-13-0457 (Valley Telephone Cooperative, Inc.); and Docket No. T-02727A-13-0458 (Copper Valley Telephone, Inc.). Arizona Telephone Company and Southwestern Telephone Company have the same parent company, and Valley Telephone Cooperative, Inc. owns Copper Valley Telephone, Inc.

[3] The streamlined filing, as recommended by Staff, included schedules showing: adjusted test year results; individual adjustments; Year- 2 FCC *USF/ICC Order* impacts; rate base; working capital; and rate design.

[4] At that time, Arizona Telephone believed that the FCC's new floor rate would be close to $17.50 per month. Arizona Telephone March 25, 2014 Hearing Transcript ("Tr.") at 32.

7. On February 28, 2014, Arizona Telephone filed a Proof of Notice, and on March 7, 2014, filed a Revised Proof of Notice, attaching an affidavit indicating that the public notice of the hearing in this matter was mailed to its customers on February 14, 2014.

8. The Commission received one objection to the proposed rate increase from an Arizona Telephone customer.

9. On March 14, 2014, Staff filed a Request for Suspension of the Procedural Schedule on the grounds that the FCC's Wireline Competition Bureau had not yet determined the rate floor to become effective June 1, 2014, resulting in uncertainty about the level of the rate floor and its implementation date. In its filing, Staff included information that on March 11, 2014, the Eastern Rural Telecom Association ("ERTA"); the Independent Telephone & Telecommunications Alliance ("ITTA"); NTCA – The Rural Broadband Association ("NTCA"); the National Exchange Carrier Association ("NECA"); the United States Telecom Association ("US Telecom"); and WTA-Advocates for Rural Broadband ("WTA") (collectively the "Associations") had filed a request with the FCC asking that the effective reporting date for the as yet unannounced 2014 local service rate floor be extended from July 1, 2014, to January 2, 2015.[5] Staff believed that the FCC would likely seek comment on the Associations' request before it made any determination on the rate floor and whether to extend the date for compliance. Because of the uncertainty surrounding the applicable rate floor, Staff did not believe that it would be productive to proceed with the hearing, and requested a temporary suspension of the procedural schedule until the FCC set both the local service rate floor and gave guidance to carriers and the states on how to proceed, or the FCC ruled on the Associations' request for extension of time.

10. On March 17, 2014, Arizona Telephone filed a Response to the Staff Request. Because the effect of the pending motion by the Associations before the FCC was unknown, Arizona Telephone stated that it could support Staff's request only with the understanding that if the FCC required compliance with a new benchmark by June 1, or shortly thereafter, that Staff and the Hearing Division would work with the Company to resume the hearings as expeditiously as

[5] The FCC's July 1 reporting date requires carriers to report the rates in effect on June 1.

necessary so as to avoid any potential loss of federal funds.

11. By Procedural Order dated March 18, 2014, Staff's Request was denied in order to provide sufficient time for the Commission to act on the Application if the FCC did not extend the June 1, 2014 implementation date. Staff was directed to file its Staff Report by March 20, 2014.[6]

12. On March 20, 2014, Staff filed a Request for an Extension of Time to File Its Staff Report until March 21, 2014. Staff's request was granted by Procedural Order dated March 21, 2014.

13. On March 21, 2014, Staff filed its Staff Report, recommending approval of Arizona Telephone's request 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. Staff further recommended that the rate increase become effective on the rate floor compliance date as determined by the FCC.

14. On March 21, 2014, Arizona Telephone filed Notice of New FCC Rate Floor. The Company attached a copy of the FCC Public Notice DA14-384 dated March 20, 2014, in which the FCC announced a rate floor of $20.46. The FCC did not extend the June 1, 2014, compliance date but asked for comments on the Associations' petition to extend the compliance date.

15. The hearing convened as scheduled on March 25, 2014, before a duly authorized Administrative Law Judge, at the Commission's offices in Phoenix, Arizona. Arizona Telephone and Staff appeared through counsel; Jeff Handley, Manager, State Government Affairs for TDS Telecom, testified for Arizona Telephone;[7] and Pamela Genung, Executive Consultant II for the Utilities Division, testified for Staff. No members of the public appeared at the hearing to make public comment.

16. On March 31, 2014, Arizona Telephone filed Post-hearing Exhibits, consisting of pro forma results of operations under two different rate scenarios, and a bill impact schedule.

17. On April 23, 2014, the FCC met in open meeting and adopted a *Seventh Order on Reconsideration* of its *USF/ICC Order*.[8] Statements made during the open meeting indicated that the FCC was going to adopt a lower rate floor than previously announced, waive that portion of its rules

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[6] The original Rate Case Procedural Order had set March 14, 2014, as the date to file the Staff Report.

[7] TDS Telecom is the parent of Arizona Telephone and approximately 120 other, mostly rural, ILECs. Tr. at 29.

[8] *Report and Order, Declaratory Ruling, Order, Memorandum and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking*, WC Docket No. 10-90, WT Docket No. 10-208, WT Docket No. 14-58, WC Docket No. 07-135, CC Docket No. 01-92 ("*Seventh Reconsideration Order*").

that would have required the new rate floor go into effect on June 1, 2014, and phase-in the rates over a number of years. The FCC's open meeting discussion did not provide the specifics of its decision.

18. On April 28, 2014 and May 7, 2014, Arizona Telephone and Staff participated in two telephonic procedural conferences to discuss the implications of the FCC's actions and whether the Commission needed to approve new rates by June 1, 2014, in order to preserve the current levels of federal high cost loop support ("FHCLS"). The Order adopted at the FCC's April 23, 2014 Open Meeting had not yet been released, and no party to this proceeding was certain of its specific provisions. Staff recommended delaying Commission action on the rate application until the FCC's actions were known. However, without knowing the details of the forthcoming order, Arizona Telephone was reluctant to risk not having new rates in place by June 1, 2014. On or about May 8, 2014, based on additional information received about the FCC's actions, Arizona Telephone agreed that the Commission could delay taking action on its rate application until the FCC's Order was released.

19. The FCC's *Seventh Reconsideration Order* was released on June 10, 2014. This Order grants a waiver of the provision that would cut FHCLS for carriers if their local residential rates are $14.00 or higher as of June 1, 2014. In addition, it establishes a phase-in of the floor rate that calls for residential local exchange rates to be at or above $16.00 by December 1, 2014, at or above $18.00 by June 1, 2016, and at or above $20.00 by June 1, 2017, in order to preserve current levels of FHCLS.[9]

20. By Procedural Order dated July 1, 2014, the parties were directed to provide revised substantive and procedural recommendations given the FCC's *Seventh Reconsideration Order*.

21. On July 31, 2014, Arizona Telephone and Staff each filed Responses to the July 1, 2014, Procedural Order.

22. Arizona Telephone recommended that the Commission authorize it to increase its residential rates to $16.00 effective December 1, 2014, to the lower of $18.00 or the new national benchmark effective June 1, 2016, and to the lower of $20.00 or any new national benchmark by June

[9] *Seventh Reconsideration Order* at ¶ 80.

1, 2017, without re-opening the hearing or requiring a new hearing. Arizona Telephone believed that because the notice sent to residential customers concerning its rate request stated that it was requesting new rates up to the lower of $19.00 or the FCC's approved residential rate floor and also provided that the final rates approved by the Commission may be higher or lower than the rates requested by the Company, that no additional notice is required prior to Commission action on the Application. Arizona Telephone recommended that it be required to provide notice of each rate increase before it is implemented.

23. Staff recommended that the Commission adopt the following residential access line rates and implementation schedule: (a) $16.00 effective December 1, 2014; (b) $18.00 or the 2016 rate floor set by the FCC, whichever is lower, effective June 1, 2016; and (c) $20.00, or the 2017 rate floor set by the FCC, whichever is lower, on June 1, 2017. Staff believed that because the hearing in this matter discussed various options the FCC might take, there is sufficient evidence in the record to establish that the proposed final $20.00 rate and the various step increases are just and reasonable. Staff believes that the matter has been adequately noticed to residential customers for a rate up to $19.00, and that within 30 days of the effective date of any Order in this matter, the Company should be required to re-notice customers informing them of the new rate floor of $20.00 to be implemented in 2017, and also include the various step increases provided in the FCC's *Seventh Reconsideration Order* and their effective dates.[10] In addition, Staff recommends that before each of the rate phase-ins, the Company should send another notice to customers at least 30 days prior to the effective date of the increase in rates. Finally, Staff recommends that the Company be required to file a full rate case for any future rate increases beyond the $20 floor.

24. By Procedural Order dated August 7, 2014, the parties were requested to provide additional information about their positions.

25. On August 22, 2014, Arizona Telephone filed a Response to the August 7, 2014 Procedural Order, attaching updated schedules reflecting the effect of the FCC's revised directive for the phase-in of local service rates.

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[10] Staff recommended that the notice should also explain that if the new FCC surveys in 2016 and 2017 result in rate floors that are lower than the step increases contained in the FCC's *Seventh Reconsideration Order*, the step increases will also be lower.

26. On August 29, 2014, Staff filed its Response to the August 7, 2014 Procedural Order, addressing the reasonableness of the proposed rate phase-in schedule.

Background

27. Arizona Telephone is an Arizona public service corporation engaged in the business of providing telephone utility service to the public in portions of Coconino, Gila, Pima, Maricopa and Yuma Counties. The Company serves ten exchanges in Arizona located in or around Sasabe, Hyder, Harquahala, Tonto Basin, Roosevelt, Blue Ridge, Mormon Lake, Greenhaven, Marble Canyon and Supai.[11] At the end of the test year, June 30, 2013 ("test year"), Arizona Telephone had approximately 1,713 residential lines.[12]

28. Arizona Telephone's current rates were authorized in Decision No. 73873 (May 8, 2013). In that Decision, the Commission authorized the Company to increase its residential local exchange service charge from $10.00 to $14.00 to comply with the FCC's *USF/ICC Order*.[13]

29. Staff confirmed that Arizona Telephone is in compliance with Commission Orders.[14]

30. Arizona Telephone is a rate-of-return ILEC eligible to receive FHCLS under the *USF/ICC Order*.

31. On November 18, 2011, the FCC issued the *USF/ICC Order*, which provides for a transition from former federal universal service programs and most intercarrier compensation systems into a new Connect America Fund ("CAF"). In its *USF/ICC Order*, the FCC states that by July 1, 2020, intercarrier compensation rates for rate-of-return companies will be reduced to zero. The CAF provides revenues to carriers as a means to help the transition away from access charges and reciprocal compensation. Recovery from the CAF will phase-out over time at 5 percent annually. In addition to CAF revenues, *USF/ICC Order* allows ILECs to implement an Access Recovery Charge ("ARC") on the residential end user's bill. In the first year starting July 1, 2012, ILECs could impose an ARC in the amount of $0.50 per residential line; in the second year (July 1, 2013 to June 30,

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[11] Tr. at 42-43.

[12] Ex A-1. In January 2009, Arizona Telephone had 2,911 residential lines.

[13] In Decision No. 73873, as well as in Decision No. 73575 (November 21, 2012), in which the residential local exchange charge was increased from $9.25 to $10.00, the Commission did not require the Company to file all of the schedules typically required under A.A.C. R14-2-103. The last rate case in which the Commission engaged in a full rate case review of the Company's financial statements was Decision No. 62722 (March 23, 1998).

[14] Ex S-1 Staff Report at 2.

2014), the ARC could increase to $1.00 per residential line; and in year three, the ARC could increase to $1.50, up to a maximum ARC of $3.00 in year six.[15]

32. The *USF/ICC Order* also adds new rules that reduce FHCLS to carriers by the amount that their flat-rate residential local service rates fall below a specified local service rate floor. The rate floor is intended "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."[16] The rate floor includes state subscriber line charges, state universal service fees, and mandatory extended area service charges, if any. The *USF/ICC Order* established the residential rate floor at $14.00 as of June 1, 2013, with the floor thereafter being determined annually by the FCC's Wireline Competition Bureau.

33. Under the *USF/ICC Order*, in order to continue receiving FHCLS, Arizona Telephone must increase its residential local rates to the FCC-mandated residential rate floors. Otherwise, the amount of FHCLS received will be reduced dollar-for-dollar for each customer by the difference between the existing local rate and the new rate floor. Pursuant to the FCC's *Seventh Reconsideration Order*, in order to preserve current FHCLS revenue levels, Arizona Telephone must increase its residential local exchange rate to $16.00 by December 1, 2014, to $18.00 by June 1, 2016, and to $20.00 by June 1, 2017.[17]

Rate Request

34. Arizona Telephone requests that it be authorized to raise its residential local exchange rates from $14.00 to $16.00 effective December 1, 2014, and thereafter to increase its residential local exchange rate to the lower of the FCC benchmark rate or $18.00 as of June 1, 2016, and to the lower of the FCC benchmark rate or $20.00 on June 1, 2017.[18]

35. According to Arizona Telephone's schedules, in the test year, the Company had an Arizona intrastate Fair Value Rate Base ("FVRB") of $2,288,045.[19]

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[15] Tr. at 14 and 25.
[16] *Seventh Reconsideration Order* at ¶ 73.
[17] The FCC may revise the 2016 and 2017 floor rates based on new survey data. *Seventh Reconsideration Order* at ¶ 84.
[18] Arizona Telephone's Response to Procedural Order filed July 31, 2014. At the hearing, Arizona Telephone was requesting to increase its local exchange rates to the announced FCC mandated floor of $20.46 effective June 1, 2014. Tr. at 26 and 40.
[19] Ex A-1.

36. In the test year, Arizona Telephone reported total Arizona intrastate operating revenues of $991,981 (including FHCLS of $118,182), and total intrastate operating expenses of $1,424,596, resulting in an operating loss of $432,615.[20]

37. According to Arizona Telephone, if its current residential local exchange rate of $14.00 is not increased to the FCC floor rate of $16.00 by December 1, 2014, it would lose $41,112 of FHCLS, and incur an operating loss of $457,475.[21] Based on the test year, increasing Arizona Telephone's local rates to $16.00 would preserve its current FHCLS at $118,182, and increase its revenues by $41,112, which would result in an operating loss of $407,754.[22]

38. According to Arizona Telephone, based on the test year, if its residential local exchange rates are increased to $18.00 as of June 1, 2016, its revenue would increase by $82,224 over test year revenues (or $41,112 over revenues if the local rates are increased to $16.00 on December 1, 2014), it would preserve its FHCLS of $118,182, and see an operating loss of $382,894.[23]

39. According to Arizona Telephone, based on the test year, if its residential local exchange rates are increased to $20.00 as of June 1, 2017, its revenues would increase $123,236 over test year revenues (or $41,112 over revenues if the local rates are increased to $18.00 on June 1, 2016), it would retain its current FHCLS, and have an operating loss of $358,034.[24]

Staff Recommendations

40. Staff notes that because the Company's filing was based on streamlined requirements to meet the FCC's deadline for federal USF funding, it does not include rate adjustments typical of a revenue requirement analysis.[25] Given the particular circumstances of this case, Staff accepted Arizona Telephone's financial results as presented, and did not audit the numbers reported by the Company.[26]

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[20] Ex A-1.
[21] Arizona Telephone's August 22, 2014 Response.
[22] *Id.*
[23] *Id.*
[24] *Id.*
[25] Ex S-1 Staff Report at 4.
[26] *Id.* at 3, 4, and 5.

41. Based on the FCC's *Seventh Reconsideration Order*, Staff recommends that Arizona Telephone's residential local exchange rates be set at $16.00 effective December 1, 2014; $18.00 or the 2016 rate floor set by the FCC, whichever is lower, effective June 1, 2016; and $20.00, or the 2017 rate floor set by the FCC, whichever is lower, on June 1, 2017.[27]

42. In addition, Staff recommends that within 30 days of the effective date of this Order, the Company should be required to notify its customers of the new rate floor of $20.00 to be implemented in 2017 and of the preceding step increases and their effective dates.[28] Staff further recommends that the Company file a full rate case under A.A.C. R14-2-103 for any future rate increase beyond the $20.00 rate floor currently mandated for June 1, 2017.[29]

43. At the time of the hearing, Staff argued that its then-recommended rate of $19.00 as of June 1, 2014, was just, fair and reasonable, and necessary because:

(a) The increase is necessitated by the FCC's November 18, 2011 *USF/ICC Order*;

(b) The increase is necessary to preserve the entirety of the Federal USF funds that may flow to Arizona Telephone pursuant to the FCC's rules;

(c) The increase will minimize/reduce the amount of future rate increases; and

(d) The increase will allow Arizona Telephone to receive matching funds from the Federal USF.[30]

44. Based on the revised schedules filed by Arizona Telephone on August 22, 2014, Staff concludes that if local rates are not increased to the FCC's phased-in benchmark rates, Arizona Telephone would lose FHCLS causing a negative rate of return of 20 percent as of December 1, 2014, a negative rate of return of 21 percent as of June 1, 2016, and a negative rate of return of 22 percent as of June 1, 2017.[31]

45. Based on the FCC's directives, the relatively small impact the increase has on Arizona Telephone's total revenues, the increasing negative returns that would result from the loss of FHCLS, and because Arizona Telephone would not be over-earning after the increase, Staff believes that

[27] Staff's July 31, 2014 Response and Staff's August 29, 2014 Response.
[28] Staff's July 31, 2014 Response and Staff's August 29, 2014 Response at 2.
[29] Staff's July 31, 2014 Response.
[30] Staff Report at 5-6; Tr. at 48-49.
[31] Staff's August 29, 2014 Response at 3.

increasing Arizona Telephone's rates to the FCC's minimum benchmark floor between December 1, 2014, and June 1, 2017, results in fair and reasonable rates.[32]

46. Staff states that its recommendation in these unique circumstances should not be viewed as precedent for the processing of future rate case applications.[33]

Conclusion

47. We concur with the parties that the March 2014 hearing on the Application anticipated and discussed a number of different scenarios that the FCC might take concerning its benchmark floor rate and considered rates that ranged between $14.00 and $20.46, and that with the parties' updated recommendations, there is no need to re-open the hearing in this matter in order to make an informed decision based on substantive evidence.

48. Under the particular circumstances of this proceeding, although we have considered FVRB, a rate of return analysis alone is not helpful in setting rates for Arizona Telephone.

49. At the current $14.00 local exchange rate, a typical basic residential phone bill is $25.27 per month.[34] If local residential rates are increased to $16.00, the basic bill would increase by $2.22 to $27.49; if local rates were increased to $18.00, the current typical basic residential bill would increase by $4.44 to $29.71; and if local rates are increased to $20.00, the current typical basic residential bill would increase by $6.67 to $31.94.[35]

50. Neither Staff nor the Company submitted an analysis of the effect of losing FHCLS on Arizona Telephone's operations. However, the record shows that notwithstanding any potential loss of FHCLS, the Company is currently experiencing an operating loss, and that the loss of FHCLS that would occur if Arizona Telephone's residential rates are not increased to the national average as determined by the FCC, will exacerbate the operating losses. According to the evidence presented, an

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[32] Staff's August 29, 2014 Response. *See also* Staff Report at 5 where Staff states that based on Arizona Telephone's application, Staff determined that an increase in the residential local exchange rate from $14.00 to $19.00 (the increase as requested in the initial application) would provide additional annual revenue of $102,780, and result in an operating loss. Staff opined that compared to the Company's total revenues, any impact on revenues from such rate increase would be small and any impact on the return on Arizona Telephone's FVRB would be *de minimus*.

[33] Ex S-1 Staff Report at 6.

[34] Arizona Telephone's August 22, 2014 Response; includes taxes.

[35] *Id.*

increase in residential local rates up to $20.00 will not result in Arizona Telephone over-earning on its FVRB, and the phase-in schedule advocated in this case will result in fair and reasonable rates.

51. We find that under the particular circumstances of this proceeding, including that the FCC is imposing the same requirements on all ILECs receiving FHCLS, and that the incremental impact on Arizona Telephone's returns are *de minimus*, it is in the public interest to increase the Company's rates for residential one-party and two-party local exchange service from the currently tariffed rate of $14.00 to $16.00 effective December 1, 2014; to the lower of $18.00 or the FCC residential rate floor effective as of June 1, 2016; and to the lower of $20.00 or the FCC's residential rate floor in effective as of June 1, 2017.

52. Although the evidence suggests that Arizona Telephone might be entitled to an even greater rate increase than being approved herein, we cannot make that determination absent a more complete rate case filing and audit. The rates and phase-in schedule approved herein were requested by the Company, and the Company agrees that a phase-in of the increase to $20.00 over a period of two and a half years, from December 1, 2014, to June 1, 2017, is fair and reasonable.

53. We find that it is reasonable to require the Company to file revised tariffs showing the rates authorized herein. Additionally, we find that Staff's recommendations concerning providing notice of the rates approved herein and their effective dates to be reasonable. Thus, we will direct Arizona Telephone to mail notice of the rate increases approved herein to its customers within thirty days of the effective date of this Order in a form approved by Staff. In addition, Arizona Telephone shall re-notify its customers by mail of the rates to become effective June 1, 2016, and June 1, 2017, at least thirty days in advance of their implementation dates.

CONCLUSIONS OF LAW

1. Arizona Telephone is a public service corporation within the meaning of Article 15 of the Arizona Constitution and A.R.S. §§40-250 and 40-251.

2. The Commission has jurisdiction over the Company and over the subject matter of this proceeding.

3. The Company provided notice of this proceeding in accordance with law.

4. Arizona Telephone's FVRB is $2,288,045.

5. Under the particular circumstances of this proceeding, it is appropriate to increase Arizona Telephone's rates for residential local exchange service effective December 1, 2014, from the currently tariffed rate of $14.00 to the FCC residential local exchange rate floor of $16.00 in order to assure continued FHCLS for Arizona Telephone's services; and thereafter, to increase Arizona Telephone's rates for residential local exchange service to the lower of $18.00 or the FCC's benchmark rate effective as of June 1, 2016; and to increase Arizona Telephone's rates for residential local service to the lower of $20.00 or the FCC's benchmark rate effective as of June 1, 2017.

6. The rates and charges authorized herein are just and reasonable and promote the public interest.

7. The Company should file revised tariffs showing the rates authorized herein.

ORDER

IT IS THEREFORE ORDERED that Arizona Telephone Company is authorized to increase its residential local exchange rates to $16.00 effective for billings on or after December 1, 2014, the implementation date for the new local exchange service rate floor as established by the FCC.

IT IS FURTHER ORDERED that Arizona Telephone Company is authorized to increase its residential local exchange rates to the lower of $18.00 or the FCC's benchmark rate floor effective as of June 1, 2016, and to the lower of $20.00 or the FCC's benchmark rate floor effective as of June 1, 2017.

IT IS FURTHER ORDERED that Arizona Telephone Company shall, by October 31, 2014, file revised schedules of rates and charges consistent with the Findings of Fact and Conclusions of Law contained herein.

IT IS FURTHER ORDERED that Arizona Telephone Company shall notify its affected customers of the rates approved herein and their implementation dates in a form approved by Staff either as an insert in its next regular bill, or as a separate mailing to be completed within thirty (30) days of the effective date of this Decision.

IT IS FURTHER ORDERED that Arizona Telephone Company shall mail notice of the approved rate increases to its residential customers at least thirty days prior to the implementation of the new residential rates on June 1, 2016 and June 1, 2017.

IT IS FURTHER ORDERED that any increases to Arizona Telephone Company's rates and charges beyond those approved herein shall be supported by a rate case filing pursuant to the requirements of A.A.C. R14-2-103.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____day of _____ 2014.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____
JR:ru

SERVICE LIST FOR: ARIZONA TELEPHONE COMPANY

DOCKET NO.: T-02063A-13-0411

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