

OPEN MEETING ITEM

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ARIZONA CORPORATION COMMISSION

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DOCKET CONTROL

DATE: SEPTEMBER 29, 2014

DOCKET NO.: T-01072A-13-0412

TO ALL PARTIES:

ORIGINAL

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:

SOUTHWESTERN 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
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

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, Southwestern Telephone Company ("Southwestern" 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

1 compensate for the rate impacts of the Federal Communication Commission's ("FCC") November
 2 18, 2011, *USF/ICC Order*.¹ In its Application, Southwestern requested that the Commission approve
 3 a basic residential local access line rate of the lesser of \$19.00, or the floor rate to be set by the FCC.
 4 In order to avoid the loss of federal funding for high-cost loop support, Southwestern requested that
 5 the new rates go into effect by June 1, 2014.²

6 2. On December 17, 2013, Southwestern filed a Time Clock Waiver in order to allow
 7 additional time for the Commission to determine procedures for processing the Application.

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

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

15 5. By Procedural Order dated January 23, 2014, the matter was set for hearing on March
 16 25, 2014, and other procedural guidelines established.

17 6. On January 29, 2014, Southwestern docketed a "Supplemental Filing" that included a
 18 schedule showing the effect on the Company's rate of return if the FCC's Wireline Competition
 19 Bureau set \$17.50 as the monthly residential rate floor to be in effect as of June 1, 2014.⁴

20 ...

22 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*").

23 ² Six rural Arizona incumbent local exchange carriers ("ILECs") filed similar rate case applications around the same time
 24 in order to comply with the FCC's *USF/ICC Order*. All six were represented by the same legal counsel and several of the
 25 carriers have common ownership. Although separate hearings were held for each entity, the proceedings were
 26 coordinated to promote efficiency. The dockets are: Docket No. T-02063A-13-0411 (Arizona Telephone Company);
 27 Docket No. T-01072A-13-0412 (Southwestern Telephone Company); Docket No. T-01923A-13-0428 (South Central
 28 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; adjustments;
 Year-2 FCC *USF/ICC Order* impacts; rate base; working capital; and rate design.

⁴ At that time, Southwestern believed that the FCC's new floor rate would be close to \$17.50 per month.

1 7. On February 28, 2014, Southwestern filed a “Proof of Mailing” and on March 7, 2014,
2 filed a “Revised Proof of Notice,” attaching an affidavit indicating that the public notice of the
3 hearing in this matter was mailed to its customers on February 14, 2014.

4 8. On March 14, 2014, Staff filed a Request for Suspension of the Procedural Schedule
5 on the grounds that the FCC’s Wireline Competition Bureau had not yet determined the rate floor for
6 June 1, 2014, which resulted in uncertainty about the level of the rate floor and the implementation
7 date. In its filing, Staff included information that on March 11, 2014, the Eastern Rural Telecom
8 Association (“ERTA”); the Independent Telephone & Telecommunications Alliance (“ITTA”);
9 NTCA – The Rural Broadband Association (“NTCA”); the National Exchange Carrier Association
10 (“NECA”); the United States Telecom Association (“US Telecom”); and WTA-Advocates for Rural
11 Broadband (“WTA”) (collectively the “Associations”) filed a request with the FCC asking that the
12 effective reporting date for the as yet unannounced 2014 local service floor be extended from July 1,
13 2014, to January 2, 2015.⁵ Staff believed that the FCC would likely seek comment on the
14 Associations’ request before it made any determination on the rate floor and whether to extend the
15 date for compliance. Because of these developments, Staff did not believe that it would be
16 productive to proceed with the hearing, and requested a temporary suspension of the procedural
17 schedule until the FCC set both the local service rate floor and gave guidance to carriers and the
18 states on how to proceed, or the FCC ruled on the Associations’ request for extension of time.

19 9. On March 17, 2014, Southwestern filed a Response to the Staff Request. Because the
20 outcome of the Associations’ pending motion before the FCC was unknown, Southwestern could
21 support Staff’s request only with the understanding that if the FCC required compliance with a new
22 benchmark by June 1, 2014, or shortly thereafter, that Staff and the Hearing Division would work
23 with the Company to resume the hearing as expeditiously as necessary in order to avoid any potential
24 loss of federal funds.

25 ...

26 ...

27
28 ⁵ The FCC’s July 1 reporting date relates to the rates in effect on June 1.

1 10. By Procedural Order dated March 18, 2014, Staff's Request was denied in order to
2 provide the Commission with sufficient time to act on the Application if the FCC did not extend the
3 June 1, 2014, implementation date. Staff was directed to file its Staff Report by March 20, 2014.⁶

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

6 12. On March 21, 2014, Staff filed its Staff Report, recommending approval of
7 Southwestern's request to increase its residential local exchange service rate from \$14.00 to the lesser
8 of \$19.00 or the 2014 local service rate floor established by the FCC. Staff further recommended that
9 the rate increase become effective on the rate floor compliance date as determined by the FCC.

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

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

20 15. On March 31, 2014, Southwestern filed Post-hearing Exhibits, consisting of pro forma
21 results of operations under two different rate scenarios, and a bill impact schedule.

22 16. On April 23, 2014, the FCC met in open meeting and adopted a *Seventh Order on*
23 *Reconsideration of its USF/ICC Order.*⁸ Statements made during the open meeting indicated that the
24 FCC was going to adopt a lower rate floor than previously announced, waive that portion of its rules
25

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

27 ⁷ TDS Telecom is the parent of Southwestern and approximately 120 other, mostly rural, ILECs, including Arizona
Telephone located in Arizona.

28 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*").

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

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

13 18. The FCC's *Seventh Reconsideration Order* was released on June 10, 2014. This Order
14 grants a waiver of the provision that would cut FHCLS for carriers if their local residential rates are
15 \$14.00 or higher as of June 1, 2014. In addition, it establishes a phase-in of the floor rate that calls
16 for residential local exchange rates to be at or above \$16.00 by December 1, 2014, at or above \$18.00
17 by June 1, 2016, and at or above \$20.00 by June 1, 2017, in order to preserve current levels of
18 FHCLS.⁹

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

21 20. On July 31, 2014, Southwestern and Staff each filed Responses to the July 1, 2014,
22 Procedural Order.

23 21. Southwestern recommended that the Commission authorize it to increase its
24 residential rates to \$16.00 effective December 1, 2014, to the lower of \$18.00 or the new national
25 benchmark effective June 1, 2016, and to the lower of \$20.00 or any new national benchmark by June
26 1, 2017, without re-opening the hearing or requiring a new hearing. Southwestern believed that
27

28 ⁹ *Seventh Reconsideration Order* at ¶ 80.

1 because the notice sent to residential customers concerning its rate request stated that it was
2 requesting new rates up to the lower of \$19.00 or the FCC's approved residential rate floor and also
3 provided that the final rates approved by the Commission may be higher or lower than the rates
4 requested by the Company, that no additional notice is required prior to Commission action on the
5 Application. Southwestern recommended that it be required to provide notice of each rate increase
6 before it is implemented.

7 22. Staff recommended that the Commission adopt the following residential access line
8 rates and implementation schedule: (a) \$16.00 effective December 1, 2014; (b) \$18.00 or the 2016
9 rate floor set by the FCC, whichever is lower, effective June 1, 2016; and (c) \$20.00, or the 2017 rate
10 floor set by the FCC, whichever is lower, on June 1, 2017. Staff believed that because the hearing in
11 this matter discussed various options the FCC might take, there is sufficient evidence in the record to
12 establish that the proposed final \$20.00 rate and the various step increases are just and reasonable.
13 Staff believes that the matter has been adequately noticed to residential customers for a rate up to
14 \$19.00, and that within 30 days of the effective date of any Order in this matter, the Company should
15 be required to re-notice customers informing them of the new rate floor of \$20.00 to be implemented
16 in 2017, and also include the various step increases provided in the FCC's *Seventh Reconsideration*
17 *Order* and their effective dates.¹⁰ In addition, Staff recommends that before each of the rate phase-
18 ins, the Company should send another notice to customers at least 30 days prior to the effective date
19 of the increase in rates. Finally, Staff recommends that the Company be required to file a full rate
20 case for any future rate increases beyond the \$20 floor.

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

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

26 ...

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

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

3 **Background**

4 26. Southwestern is an Arizona public service corporation engaged in the business of
5 providing telephone utility service to the public in two exchanges in Arizona -- Salome and
6 Quartzite.¹¹ In the test year, June 30, 2013 ("test year"), Southwestern had an average of 1,456
7 residential lines.¹²

8 27. Southwestern's current rates were authorized in Decision No. 73874 (May 8, 2013). In
9 that Decision, the Commission authorized Southwestern to increase its local exchange service charge
10 from \$11.25 to \$14.00 to comply with the FCC's *USF/ICC Order*.¹³

11 28. Staff confirmed that Southwestern is in compliance with Commission Orders.¹⁴

12 29. Southwestern is a rate-of-return ILEC eligible to receive FHCLS under the *USF/ICC*
13 *Order*.

14 30. On November 18, 2011, the FCC issued the *USF/ICC Order*, which provides for a
15 transition away from then-existing federal universal service programs and most intercarrier
16 compensation systems to a new Connect America Fund ("CAF"). In its *USF/ICC Order*, the FCC
17 stated that by July 1, 2020, intercarrier compensation rates for rate of return companies will be
18 reduced to zero. The CAF provides revenues to carriers as a means to help the transition from access
19 charges and/or reciprocal compensation. Recovery from the CAF will phase out over time at 5
20 percent annually. In addition to CAF revenues, *USF/ICC Order* allows ILECs to implement an
21 Access Recovery Charge ("ARC") on the residential end user's bill. In the first year starting July 1,
22 2012, ILECs could impose an ARC in the amount of \$0.50 per residential line; in the second year
23 (July 1, 2013 to June 30, 2014) the ARC could increase to \$1.00 per residential line; and in year

24 _____
25 ¹¹ Tr. at 18.

26 ¹² Ex A-1. Southwestern experiences a significant seasonality affecting its line counts. Southwestern Hearing Transcript
27 ("Tr.") at 13-14 and 18. Southwestern has also lost a large number of residential lines since January 2009, when it
28 reported 2,921 residential lines.

¹³ The rates in effect prior to Decision No. 73874 were authorized in Decision No. 63685 (May 24, 2001) in which the
Commission approved a Settlement between the Company, Staff and the Residential Utility Consumer Office that
authorized a 9.0 percent rate of return.

¹⁴ Ex S-1 Staff Report at 2.

1 three, the ARC could increase to \$1.50, up to a maximum ARC of \$3.00 in year six.

2 31. The *USF/ICC Order* also adds new rules that reduce FHCLS paid to carriers by the
 3 amount that their flat-rate residential local service rates fall below a specified local service rate floor.
 4 The rate floor is intended “to ensure that states are contributing to support and advance universal
 5 service and that consumers are not contributing to the Fund to support customers whose rates are
 6 below a reasonable level.”¹⁵ The rate floor includes state subscriber line charges, state universal
 7 service fees, and mandatory extended area service charges, if any. The *USF/ICC Order* established
 8 the rate floor at \$14.00 as of June 1, 2013, with the floor thereafter being determined annually by the
 9 FCC’s Wireline Competition Bureau.

10 32. Under the *USF/ICC Order*, in order to continue receiving FHCLS, Southwestern must
 11 increase its residential local exchange rates to the FCC-mandated residential rate floors. Otherwise,
 12 the amount of FHCLS received will be reduced dollar-for-dollar for each customer by the difference
 13 between the existing local rate and the new rate floor. Pursuant to the FCC’s *Seventh Reconsideration*
 14 *Order*, in order to preserve current FHCLS revenue levels, Southwestern must increase its residential
 15 local exchange rate to \$16.00 by December 1, 2014, to \$18.00 by June 1, 2016, and to \$20.00 by June
 16 1, 2017.¹⁶

17 **Rate Request**

18 33. Southwestern requests that it be authorized to raise its residential local exchange rates
 19 from \$14.00 to \$16.00 effective December 1, 2014, and thereafter to increase its residential local
 20 exchange rate to the lower of the FCC benchmark rate or \$18.00 as of June 1, 2016, and to the lower
 21 of the FCC benchmark rate or \$20.00 on June 1, 2017.¹⁷

22 34. According to Southwestern’s schedules, in the test year, the Company had an Arizona
 23 intrastate Fair Value Rate Base (“FVRB”) of \$2,138,418.¹⁸

24 ...

25 ...

26 ¹⁵ *Seventh Reconsideration Order* at ¶ 73.

27 ¹⁶ The FCC may revise the 2016 and 2017 floor rates based on new survey data. *Seventh Reconsideration Order* at ¶ 84.

28 ¹⁷ Southwestern’s Response to Procedural Order filed July 31, 2014. At the hearing, Southwestern was requesting to increase its local exchange rates to the announced FCC mandated floor of \$20.46 effective June 1, 2014. Tr. at 23.

¹⁸ Ex A-1.

1 35. In the test year, Southwestern reported total Arizona intrastate operating revenues of
 2 \$1,638,894 (including FHCLS of \$385,743), and total intrastate operating expenses of \$1,669,418,
 3 resulting in an operating loss of \$31,062.¹⁹

4 36. According to Southwestern, if its current residential local exchange rate of \$14.00 is
 5 not increased to the FCC floor rate of \$16.00 by December 1, 2014, it would lose \$34,944 of FHCLS,
 6 resulting in an operating loss of \$52,192.²⁰ Based on the test year, increasing Southwestern's local
 7 rates to \$16.00 would preserve its current FHCLS at \$385,743, and increase its revenues by \$34,944,
 8 resulting in an operating loss of \$9,932.²¹

9 37. According to Southwestern, based on the test year, if its residential local exchange
 10 rates are increased to \$18.00 as of June 1, 2016, its revenue would increase by \$69,888 over test year
 11 revenues (or \$34,944 over revenues if the local rates are increased to \$16.00 on December 1, 2014), it
 12 would preserve its FHCLS of \$385,743, resulting in operating income of \$11,199, a 0.5 percent rate
 13 of return on its Arizona FVRB.²²

14 38. According to Southwestern, based on the test year, if its residential local exchange
 15 rates are increased to \$20.00 as of June 1, 2017, its revenues would increase \$104,832 over test year
 16 revenues (or \$34,944 over revenues if the local rates are increased to \$18.00 on June 1, 2016), it
 17 would retain its current FHCLS, resulting in operating income of \$32,329, a 1.5 percent rate of return
 18 on its Arizona FVRB.²³

19 **Staff Recommendations**

20 39. Staff notes that because the Company's filing was based on streamlined requirements
 21 to meet the FCC's deadline for federal USF funding, it does not include rate adjustments typical of a
 22 revenue requirement analysis.²⁴ Given the particular circumstances of this case, Staff accepted
 23 Southwestern's financial results as presented, and did not audit the numbers reported by the
 24 Company.²⁵

25 ¹⁹ Ex A-1; Southwestern's August 22, 2014 Response; Tr. at 26.

26 ²⁰ Southwestern's August 22, 2014 Response.

27 ²¹ *Id.*

28 ²² *Id.*

²³ *Id.*

²⁴ Ex S-1 Staff Report at 4.

²⁵ *Id.* at 3, 4, and 5.

1 40. Based on the FCC's *Seventh Reconsideration Order*, Staff recommends that
 2 Southwestern's residential local exchange rates be set at \$16.00 effective December 1, 2014; \$18.00
 3 or the 2016 rate floor set by the FCC, whichever is lower, effective June 1, 2016; and \$20.00, or the
 4 2017 rate floor set by the FCC, whichever is lower, on June 1, 2017.²⁶

5 41. In addition, Staff recommends that within 30 days of the effective date of this Order,
 6 the Company should be required to notify its customers of the new rate floor of \$20.00 to be
 7 implemented in 2017 and of the preceding step increases and their effective dates.²⁷ Staff further
 8 recommends that the Company should file a full rate case under A.A.C. R14-2-103 for any future rate
 9 increase beyond the \$20.00 rate floor currently mandated for June 1, 2017.²⁸

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

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

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

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

16 (d) The increase will allow Southwestern to receive matching funds from the Federal
 17 USF.²⁹

18 43. Based on the revised schedules filed by Southwestern on August 22, 2014, Staff
 19 concludes that if residential local exchange rates are not increased to the FCC's phased-in benchmark
 20 rates, Southwestern would lose FHCLS of \$34,944 with each \$2.00 increase in the FCC's benchmark
 21 floor, which would cause a negative rate of return of 2.40 percent as of December 1, 2014, a negative
 22 rate of return of 3.40 percent as of June 1, 2016, and a negative rate of return of 4.40 percent as of
 23 June 1, 2017.³⁰

24 44. Based on the FCC's directives, the relatively small impact the increase has on
 25 Southwestern's total revenues, the negative returns that would result from the loss of FHCLS, and

26 ²⁶ Staff's July 31, 2014 Response and Staff's August 29, 2014 Response.

27 ²⁷ *Id.*

28 ²⁸ Staff's July 31, 2014 Response.

²⁹ Ex S-1 Staff Report at 5-6; Tr. at 48-49.

³⁰ Staff's August 29, 2014 Response at 3.

1 because Southwestern would not be over-earning after the increase, Staff believes that increasing
2 Southwestern's rates to the FCC's minimum benchmark floors between December 1, 2014 and June
3 1, 2017, results in fair and reasonable rates.³¹

4 45. Staff states that its recommendation in these unique circumstances should not be
5 viewed as precedent for the processing of future rate case applications.³²

6 **Conclusion**

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

12 47. Under the particular circumstances of this proceeding, although we have considered
13 FVRB, a rate of return analysis alone is not helpful in setting rates for Southwestern.

14 48. At the current \$14.00 local exchange rate, a typical basic residential phone bill is
15 \$25.27 per month.³³ If local residential rates are increased to \$16.00, the basic bill would increase by
16 \$2.29 to \$28.01; if local rates were increased to \$18.00, the current typical basic residential bill
17 would increase by \$4.58 to \$30.30; and if local rates are increased to \$20.00, the current typical basic
18 residential bill would increase by \$6.87 to \$32.59.³⁴

19 49. Neither Staff nor the Company submitted an analysis of the effect of losing FHCLS on
20 Southwestern's operations. However, the record shows that notwithstanding any potential loss of
21 FHCLS, the Company is currently experiencing an operating loss, and that the loss of FHCLS that
22 would occur if Southwestern's residential rates are not increased to the national average as
23 determined by the FCC, will exacerbate the operating losses. According to the evidence presented, an
24

25 ³¹ Staff's August 29, 2014 Response. See also Ex S-1 Staff Report at 5 where Staff determined that at a rate floor of
26 \$19.00 (the initial request) would provide additional annual revenue of \$87,360, which would increase the Company's
27 return on its FVRB from a negative to 1.0 percent. Staff opined that compared to the Company's total revenues, any
28 impact on revenues from such rate increase would be small and any impact on the return on Southwestern's FVRB would
be *de minimus*.

³² Ex S-1 Staff Report at 6.

³³ Southwestern's August 22, 2014 Response; includes taxes.

³⁴ *Id.*

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

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

10 51. The rates and phase-in schedule approved herein were requested by the Company, and
11 the Company agrees that a phase-in of the increase to \$20.00 over a period of two and a half years,
12 from December 1, 2014, to June 1, 2017, is fair and reasonable.

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

20 CONCLUSIONS OF LAW

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

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

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

26 4. Southwestern's FVRB is \$2,138,418.

27 5. Under the particular circumstances of this proceeding, it is appropriate to increase
28 Southwestern's rates for residential local exchange service effective December 1, 2014, from the

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

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
6
7

8 CHAIRMAN _____ COMMISSIONER

9
10 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER

11
12 IN WITNESS WHEREOF, I, JODI JERICH, Executive
13 Director of the Arizona Corporation Commission, have
14 hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this _____ day of _____ 2014.

17 _____
18 JODI JERICH
19 EXECUTIVE DIRECTOR

20 DISSENT _____

21 DISSENT _____

22 JR:tv
23
24
25
26
27
28

1 SERVICE LIST FOR: SOUTHWESTERN TELEPHONE COMPANY

2 DOCKET NO.: T-01072A-13-0412

3
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