

OPEN MEETING ITEM



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ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

DATE: SEPTEMBER 29, 2014

DOCKET NO.: T-01847A-13-0457

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:

VALLEY TELEPHONE COOPERATIVE, INC.
(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

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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 VALLEY TELEPHONE COOPERATIVE, 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-01847A-13-0457

DECISION NO. _____

OPINION AND ORDER

DATE OF HEARING: March 27, 2014
PLACE OF HEARING: Tucson, Arizona
ADMINISTRATIVE LAW JUDGE: Jane Rodda
APPEARANCES: Mr. Craig A. Marks, CRAIG A. MARKS, PLC, on behalf of Applicant; 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 December 19, 2013, Valley Telephone Cooperative, Inc. ("Valley Telephone" or "Cooperative") filed 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*

1 Order.¹ In its Application, Valley Telephone requested that the Commission approve a basic local
 2 access line rate of the lesser of \$19.00, or the floor rate to be set by the FCC. In order to avoid the
 3 loss of federal funding for high-cost loop support, Valley Telephone requested that the new rates go
 4 into effect by June 1, 2014.²

5 2. On January 6, 2014, Valley Telephone filed copies of the schedules that were
 6 inadvertently omitted from the docketed copy of its Application.

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

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

14 5. By Procedural Order dated January 23, 2014, the matter was set for hearing on March
 15 27, 2014, and other procedural guidelines established.

16 6. On January 29, 2014, Valley Telephone docketed a "Supplemental Filing" that shows
 17 the effect on Valley Telephone's rate of return if the FCC's Wireline Competition Bureau were to set
 18 \$17.50 as the monthly residential rate floor to be in effect for June 1, 2014.⁴

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21 _____
 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, 2011) ("*USF/ICC Order*").

23 ² Six rural Arizona incumbent local exchange carriers ("ILECs") filed similar rate case applications around the same time
 24 period in order to comply with the FCC's *USF/ICC Order*. All six were represented by the same legal counsel and several
 25 of the 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);
 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.

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

28 ⁴ On January 30, 2014, Valley Telephone filed a Notice of Errata to correct the calculated return at the estimated \$17.50
 rate floor. At that time, the ILECs expected that the FCC's new rate floor would be close to \$17.50.

1 7. On February 28, 2014, Valley Telephone filed a “Proof of Mailing” and on March 13,
2 2014, filed a “Corrected Notice” that includes a copy of the notice that was mailed to its customers on
3 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 its 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, Valley Telephone filed a Response to Staff Request. Because the
20 effect of the pending motion before the FCC was unknown, Valley Telephone supported Staff’s
21 request only with the understanding that if the FCC required compliance with a new benchmark by
22 June 1, 2014, or shortly thereafter, that Staff and the Hearing Division would work with the affected
23 companies to resume the hearings as expeditiously as necessary in order to avoid any potential loss of
24 federal funds.

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28 ⁵ The FCC’s July 1 reporting date requires carriers to report 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 Valley
7 Telephone's request to increase its residential local exchange service rate from \$14.00 to the lower of
8 \$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, Valley Telephone 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 27, 2014, before a duly authorized
15 Administrative Law Judge, at the Commission's offices in Tucson, Arizona. Valley Telephone and
16 Staff appeared through counsel; Troy Judd, Chief Financial Officer, testified for Valley Telephone;
17 and Wilfred Shand, Analyst Manager in the Utilities Division, testified for Staff. No members of the
18 public filed comments or appeared at the hearing to make public comment.

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

21 16. On April 23, 2014, the FCC met in open meeting and adopted a *Seventh Order on*
22 *Reconsideration of its USF/ICC Order.*⁷ Statements made during the FCC's open meeting indicated
23 that the FCC was going to adopt a lower rate floor than previously announced, waive that portion of
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27 ⁶ The original Rate Case Procedural Order had set March 14, 2014, as the date to file the Staff Report.

28 ⁷ *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 its rules that would have required the new rate floor go into effect on June 1, 2014, and phase-in the
2 rates over a number of years. The FCC's open meeting discussion did not provide the specifics of its
3 decision.

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

15 18. The FCC's *Seventh Reconsideration Order* was released on June 10, 2014. This Order
16 grants a waiver of the provision that would cut FHCLS for carriers if their local residential rates are
17 \$14.00 or higher as of June 1, 2014. In addition, it establishes a phase-in of the floor rate that calls
18 for residential local exchange rates to be at or above \$16.00 by December 1, 2014, at or above \$18.00
19 by June 1, 2016, and at or above \$20.00 by June 1, 2017, in order to preserve current levels of
20 FHCLS.⁸

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

23 20. On July 31, 2014, Valley Telephone and Staff each filed Responses to the July 1,
24 2014, Procedural Order.

25 21. Valley Telephone recommended that the Commission authorize it to increase its
26 residential rates to \$16.00 effective December 1, 2014, to the lower of \$18.00 or the new national
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28 ⁸ *Seventh Reconsideration Order* at ¶ 80.

1 benchmark effective June 1, 2016, and to the lower of \$20.00 or any new national benchmark by June
2 1, 2017, without re-opening the hearing or requiring a new hearing. Valley Telephone believed that
3 because the notice sent to residential customers concerning its rate request stated that it was
4 requesting new rates up to the lower of \$19.00 or the FCC's approved residential rate floor and also
5 provided that the final rates approved by the Commission may be higher or lower than the rates
6 requested by the Cooperative, that no additional notice is required prior to Commission action on the
7 Application. Valley Telephone recommended that it be required to provide notice of each rate
8 increase before it is implemented.

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

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

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28 ⁹ 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.

1 24. On August 22, 2014, Valley Telephone filed a Response to the August 7, 2014
2 Procedural Order, attaching updated schedules reflecting the effect of the FCC's revised directive for
3 the phase-in of local service rates.¹⁰

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

6 **Background**

7 26. Valley Telephone is a non-profit member-owned cooperative that provides telephone
8 utility service to members in Arizona and New Mexico. The Cooperative has six Arizona
9 exchanges—Bowie, San Simeon, Pearce, Sunsites, Sunizona and Portal.¹¹ In the test year ended
10 December 31, 2012 ("test year"), Valley Telephone had an average of 1,740 residential lines in
11 Arizona.¹²

12 27. Valley Telephone's current rates were authorized in Decision No. 73872 (May 8,
13 2013).¹³ In that Decision, also a streamlined proceeding, the Commission authorized Valley
14 Telephone to increase its local exchange service charge from \$13.75 to \$14.00 in order to comply
15 with the FCC's *USF/ICC Order*.

16 28. Staff confirmed that Valley Telephone is in compliance with Commission Orders.¹⁴

17 29. Valley Telephone is a rate-of-return ILEC eligible to receive FHCLS.

18 30. On November 18, 2011, the FCC issued the *USF/ICC Order*, which provides for a
19 transition from then-existing federal universal service programs and most intercarrier compensation
20 systems to a new Connect America Fund ("CAF"). In its *USF/ICC Order*, the FCC states that by
21 July 1, 2020, intercarrier compensation rates for rate of return companies will be reduced to zero. The
22 CAF provides revenues to carriers as a means to help the transition away from access charges and/or

23
24 ¹⁰ The schedules correct an error in the test year operating results schedule introduced at the hearing as Ex A-1. The
correction increased Valley Telephone's test year operating income from \$123,215 to \$688,125.

25 ¹¹ Valley Telephone Hearing Transcript ("Tr.") at 21.

26 ¹² Ex A-1. In the first six months of 2013, the Cooperative's average residential lines dropped to 1,646. No adjustments
were made in its schedules for line loss.

27 ¹³ Valley Telephone's rates were originally set at the time of its formation in 1962 and residential rates were reset to
\$12.00 in 1970. See Decision No. 40707 (June 23, 1970). According to Decision No. 73872, the rates were increased
from \$12.00 to \$13.75 when Touch Tone service was added in the mid to late 1990s. Historically, because of Valley
Telephone's status as a rural cooperative, the Commission has not relied on a rate of return analysis to set rates.

28 ¹⁴ Ex S-1 Staff Report at 2.

1 reciprocal compensation. Recovery from the CAF will phase out over time at 5 percent annually. In
 2 addition to CAF revenues, the *USF/ICC Order* allows ILECs to implement an Access Recovery
 3 Charge (“ARC”) on the residential end user’s bill. In the first year, starting July 1, 2012, ILECs could
 4 impose an ARC in the amount of \$0.50 per residential line; in the second year (July 1, 2013 to June
 5 30, 2014) the ARC could increase to \$1.00 per residential line; and in year three, the ARC could
 6 increase to \$1.50, up to a maximum ARC of \$3.00 in year six.

7 31. The *USF/ICC Order* also adds new rules that reduce FHCLS to carriers by the amount
 8 that their flat-rate residential local service rates fall below a specified local service rate floor. The rate
 9 floor is intended “to ensure that states are contributing to support and advance universal service and
 10 that consumers are not contributing to the Fund to support customers whose rates are below a
 11 reasonable level.”¹⁵ The rate floor includes state subscriber line charges, state universal service fees,
 12 and mandatory extended area service charges, if any. The *USF/ICC Order* established the rate floor at
 13 \$14.00 as of June 1, 2013, with the floor thereafter being determined annually by the FCC’s Wireline
 14 Competition Bureau.

15 32. Under the *USF/ICC Order*, in order to continue receiving FHCLS, Valley Telephone
 16 must increase its residential local rates to the FCC-mandated residential rate floors. Otherwise, the
 17 amount of FHCLS received will be reduced dollar-for-dollar for each customer by the difference
 18 between the existing local rate and the new rate floor. Pursuant to the FCC’s *Seventh Reconsideration*
 19 *Order*, in order to preserve current FHCLS revenue levels, Valley Telephone must increase its
 20 residential local exchange rate to \$16.00 by December 1, 2014, to \$18.00 by June 1, 2016, and to
 21 \$20.00 by June 1, 2017.¹⁶

22 Rate Request

23 33. Valley Telephone requests that it be authorized to raise its residential local rates from
 24 \$14.00 to \$16.00 effective December 1, 2014, and thereafter to increase its residential local exchange
 25 rate to the lower of the FCC benchmark rate or \$18.00 as of June 1, 2016, and to the lower of the
 26 FCC benchmark rate or \$20.00 as of June 1, 2017.¹⁷

27 ¹⁵ *Seventh Reconsideration Order* at ¶ 73.

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

¹⁷ Valley Telephone’s Response to Procedural Order filed July 31, 2014.

1 34. According to Valley Telephone's schedules, at the end of the test year, the
2 Cooperative had an Arizona intrastate Fair Value Rate Base ("FVRB") of \$17,938,103.¹⁸

3 35. In the test year, Valley Telephone reported total Arizona intrastate operating revenues
4 of \$4,637,184 (including FHCLS of \$3,378,696), and total Arizona intrastate operating expenses of
5 \$3,949,059, resulting in operating income of \$688,125, a 3.84 percent rate of return on its reported
6 Arizona FVRB.¹⁹

7 36. According to Valley Telephone, if its current residential local exchange rate of \$14.00
8 is not increased to the FCC floor rate of \$16.00 by December 1, 2014, it would lose \$41,748 of
9 FHCLS, resulting in operating income of \$646,377, a 3.60 percent rate of return on its FVRB.²⁰
10 Based on the test year, increasing Valley Telephone's local rates to \$16.00 would preserve its current
11 FHCLS, and increase its Arizona revenues by \$41,748, which would result in operating income of
12 \$729,873, a 4.07 percent rate of return on its FVRB.²¹

13 37. According to Valley Telephone, based on the test year, if its residential local exchange
14 rates are increased to \$18.00 as of June 1, 2016, its revenue would increase by \$83,496 over test year
15 revenues (or \$41,748 over revenues if the local rates are increased to \$16.00 on December 1, 2014), it
16 would preserve its FHCLS, and result in operating income of \$771,621, a 4.30 percent Rate of return
17 on its FVRB.²²

18 38. According to Valley Telephone, based on the test year, if its residential local exchange
19 rates are increased to \$20.00 as of June 1, 2017, its Arizona revenues would increase \$126,244 over
20 test year revenues (or \$41,748 over revenues if the local rates are increased to \$18.00 on June 1,
21 2016), it would retain its current FHCLS, and result in operating income of \$813,369, a 4.54 percent
22 rate of return on FVRB.²³

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26 ¹⁸ Ex A-1.

¹⁹ Valley Telephone's August 22, 2014 Response.

27 ²⁰ *Id.*

²¹ *Id.*

²² *Id.*

28 ²³ *Id.*

1 **Staff Recommendations**

2 39. Staff notes that because the Cooperative's filing was based on streamlined
3 requirements to meet the FCC's deadline for federal USF funding, it does not include rate
4 adjustments typical of a revenue requirement analysis.²⁴ Given the particular circumstances of this
5 case, Staff accepted Valley Telephone's financial results as presented, and did not audit the numbers
6 reported by the Cooperative.²⁵

7 40. Based on the FCC's *Seventh Reconsideration Order*, Staff recommends that Valley
8 Telephone's residential local exchange rates be set at \$16.00 effective December 1, 2014; \$18.00 or
9 the 2016 rate floor set by the FCC, whichever is lower, as of June 1, 2016; and \$20.00, or the 2017
10 rate floor set by the FCC, whichever is lower, as of June 1, 2017.²⁶

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

16 42. At the time of the hearing, Staff argued that its then-recommended rate of \$19.00 to
17 be implemented June 1, 2014, was just, fair and reasonable, and necessary because:

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

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

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

22 (d) The increase will allow Valley Telephone to receive matching funds from the
23 Federal USF.²⁹

24 ...
25 _____
26 ²⁴ Ex S-1 Staff Report at 4.

27 ²⁵ *Id.* at 3, 4, and 5.

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

29 ²⁷ *Id.*

²⁸ Staff's July 31, 2014 Response.

²⁹ Ex S-1 Staff Report at 5-6.

1 43. Based on the revised schedules filed by Valley Telephone on August 22, 2014, Staff
2 concludes that if residential local exchange rates are not increased to the FCC's phased-in benchmark
3 rates, Valley Telephone would lose FHCLS of \$41,748 with each \$2.00 increase in the FCC's
4 benchmark floor, which would result in rates of return of 3.60 percent as of December 1, 2014, 3.37
5 percent as of June 1, 2016, and 3.14 percent as of June 1, 2017.³⁰

6 44. Based on the FCC's directives, the relatively small impact the increase has on Valley
7 Telephone's total revenues, and the negative impact on the Cooperative's rate of return that would
8 result from the loss of FHCLS, and because Valley Telephone would not be over-earning after the
9 increase, Staff believes that increasing Valley Telephone's rates to the FCC's minimum benchmark
10 floors between December 1, 2014 and June 1, 2017, results in fair and reasonable rates.³¹

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

13 Conclusion

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

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

21 48. At the current \$14.00 local exchange rate, a typical basic residential phone bill is
22 \$25.13 per month.³³ If local residential rates are increased to \$16.00, the basic bill would increase by
23 \$2.22 to \$27.35; if local rates were increased to \$18.00, the current typical basic residential bill

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

27 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
28 \$19.00 (the initial request) would provide additional annual revenue of \$104,370, on Valley Telephone's FVRB would be
de minimus.

³² Ex S-1 Staff Report at 6.

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

1 would increase by \$4.42 to \$29.55; and if local rates are increased to \$20.00, the current typical basic
2 residential bill would increase by \$6.62 to \$31.75.³⁴

3 49. Neither Staff nor the Cooperative submitted an analysis of the effect of losing FHCLS
4 on Valley Telephone's operations. However, the record shows that the loss of FHCLS that would
5 occur if Valley Telephone's residential rates are not increased to the national average as determined
6 by the FCC, will reduce Valley Telephone's operating income. According to the evidence presented,
7 an increase in residential local rates up to \$20.00 will not result in Valley Telephone over-earning on
8 its FVRB, and the phase-in schedule advocated in this case will result in fair and reasonable rates.

9 50. We find that under the particular circumstances of this proceeding, including that the
10 FCC is imposing the same requirements on all ILECs receiving FHCLS, and that the incremental
11 impact on Valley Telephone's returns are *de minimus*, it is in the public interest to increase the
12 Cooperative's rates for residential local exchange service from the currently tariffed rate of \$14.00 to
13 \$16.00 effective December 1, 2014; to the lower of \$18.00 or the FCC residential rate floor effective
14 as of June 1, 2016; and to the lower of \$20.00 or the FCC's residential rate floor in effective as of
15 June 1, 2017.

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

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

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28 ³⁴ *Id.*

CONCLUSIONS OF LAW

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

4 2. The Commission has jurisdiction over the Cooperative and over the subject matter of
5 this proceeding.

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

7 4. Valley Telephone's FVRB is \$17,938,103.

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

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

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

ORDER

18
19 IT IS THEREFORE ORDERED that Valley Telephone Cooperative, Inc. is authorized to
20 increase its residential local exchange rates to \$16.00 effective for billings on or after December 1,
21 2014, the implementation date for the new local exchange service rate floor as established by the
22 FCC.

23 IT IS FURTHER ORDERED that Valley Telephone Cooperative, Inc. is authorized to
24 increase its residential local exchange rates to the lower of \$18.00 or the FCC's benchmark rate floor
25 effective as of June 1, 2016, and to the lower of \$20.00 or the FCC's benchmark rate floor effective
26 as of June 1, 2017.

27 IT IS FURTHER ORDERED that Valley Telephone Cooperative, Inc. shall, by October 31,
28 2014, file revised schedules of rates and charges consistent with the Findings of Fact and Conclusions

1 of Law contained herein.

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

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

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1 IT IS FURTHER ORDERED that any increases to Valley Telephone Cooperative, Inc.'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

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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.

16 JODI JERICH
17 EXECUTIVE DIRECTOR

18 DISSENT _____

19
20 DISSENT _____
21 JR:tv

1 SERVICE LIST FOR: VALLEY TELEPHONE COOPERATIVE, INC.

2 DOCKET NO.: T-01847A-13-0457

3

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