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BEFORE THE ARIZONA CORPORATION COMMISSION

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2014 JUL 31 P 3:49

AZ CORP COMMISSION
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Arizona Corporation Commission

DOCKETED

JUL 31 2014

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IN THE MATTER OF THE APPLICATION OF
SOUTHWESTERN TELEPHONE COMPANY,
AN ARIZONA CORPORATION, FOR A
HEARING TO DETERMINE THE EARNINGS
OF THE COMPANY, THE FAIR VALUE OF
THE COMPANY FOR RATEMAKING
PURPOSES, AND TO INCREASE
RESIDENTIAL RATES AS NECESSARY TO
COMPENSATE FOR THE RATE IMPACTS
OF THE FCC'S USF/ICC
TRANSFORMATION ORDER.

DOCKET NO. T-01072A-13-0412

**STAFF'S RESPONSE TO JULY 1, 2014
PROCEDURAL ORDER**

On November 27, 2013, Southwestern Telephone Company ("Southwestern Telephone") or the ("Company") filed an application with the Commission to increase residential local service rates to meet the new local service Rate Floor established by Federal Communications Commission ("FCC"). At the time the Company filed its application, the FCC had not yet set the 2014 local Rate Floor, so the Company requested that the Commission approve a basic residential local access line rate of the lesser of \$19.00, or the Rate Floor ultimately set by the FCC. Under the FCC's November 18, 2011 USF/ICC Transformation Order ("Transformation Order"), carriers must report in July of each year, the number of access lines that fall below the floor set by the FCC, for federal USF funding purposes. The carriers lose federal funding on a dollar for dollar basis to the extent that their local service rates fall below the local service Rate Floor set by the FCC.

On March 20, 2014, the FCC issued Public Notice DA 13-384 announcing a new local Rate Floor of \$20.46. An evidentiary hearing was held at the Commission on March 25, 2014, with cross-examination of Company and Staff witnesses. At the hearing, the Company requested that its residential local exchange rates be set at the FCC Rate Floor of \$20.46. The witnesses discussed a motion filed by the United States Telephone Association ("USTA"), the Eastern Rural Telecom Association ("ERTA"), the Independent Telephone & Telecommunications Alliance ("ITTA"),

1 (“NECA”), and WTA – Advocates for Rural Broadband (“WTA”) (collectively “the USTA Motion”)
2 with the FCC asking for a delay in implementation of the Rate Floor and other proposals to phase-in
3 the Rate Floor because of the magnitude of the increase and a concern over rate shock. At the March
4 25, 2014 hearing, the witnesses discussed the impact of this proposal on the Company’s pending
5 application.

6 The FCC considered the USTA Motion and suggestions provided by commenters at its April
7 23, 2014 Open Meeting and at that time indicated that it would be delaying implementation of the
8 new Rate Floor and that the Rate Floor would be phased in over a period of time. The FCC’s Order
9 was released on June 10, 2014, delaying implementation of the Rate Floor and establishing a phase-in
10 of the Rate Floor over the next four years.

11 In its July 1, 2014 Procedural Order, the Commission’s Hearing Division seeks revised
12 substantive and procedural recommendations for how to proceed in this Docket. More specifically,
13 the Order requests that parties respond to the following questions:

14
15 Specifically, what rates and time frame for implementation, do the parties now
16 recommend? Can, or should, the Commission implement the recommended
17 rates without re-opening the hearing? Given intervening events and any new
18 recommendations, have these matters been adequately noticed? What are the
19 procedural recommendations for addressing future rate increases beyond
20 December 1, 2014?

21 Below is Staff’s response to each of the questions posed by the ALJ.

22 **A. THE RATES AND TIME FRAMES FOR IMPLEMENTATION.**

23 Paragraph 80 of the FCC’s Order provides in relevant part as follows:

24 ...[W]e waive the application of section 54.318(b) for lines reported July 1,
25 2014 with a rate of \$14 or above. Commencing January 2, 2015 (reflecting rates
26 as of December 1, 2014), and thereafter, through June 30, 2016, we waive
27 section 54.318(b) to the extent reported lines are less than \$16. For the period
28 between July 1, 2016, and June 30, 2017, we waive section 54.318(b) to the
extent reported rates are less than \$18, or the 2016 rate floor, whichever is
lower. For the period between July 1, 2017, and June 30, 2018, we waive
section 54.318(b) to the extent reported rates are less than \$20, or the 2017 rate
floor, whichever is lower. We believe that this four-year transition should
provide sufficient time for carriers and state commissions to determine whether
and how to make adjustments, without unreasonable effects on carries and
consumers.

1 Staff recommends that the Commission adopt the following residential access line rates and
2 schedule for implementation for Southwestern Telephone Company. The new residential access line
3 rates should become effective on the dates listed below:

4	December 1, 2014	\$16
5	June 1, 2016	\$18, or the 2016 rate floor set by the FCC, whichever is lower
6	June 1, 2017	\$20, or the 2017 rate floor set by the FCC, whichever is lower

7 **B. SHOULD THE HEARING BE RE-OPENED?**

8 Staff does not believe that it is necessary to reopen the hearing in this matter. However, Staff
9 leaves this issue to the sound discretion of the Administrative Law Judge (“ALJ”). At the time that
10 the original hearing was held, many of these issues had not yet been resolved. Staff raised all of the
11 various options that were being considered by the FCC and those options were discussed at the
12 hearing.

13 The final Rate Floor did not increase beyond that originally set by the FCC. A phase-in of
14 rates and an extension of time in implementation of the rates was discussed at the hearing. However,
15 the ALJ should require the Company to file late-filed exhibits consisting of the various schedules
16 containing the calculations using the new step increases adopted by the FCC. This information,
17 together with the evidence already taken at the hearing, should provide sufficient evidence to
18 establish that the various step increases and final local exchange Rate Floor of \$20.00 are just and
19 reasonable.

20 **C. HAS THIS MATTER BEEN ADEQUATELY NOTICED?**

21 At the time the original notice was sent to customers, the FCC’s new Rate Floor was not
22 known. Thus, the original notice sent to customers informed them that Arizona Telephone was
23 requesting authority to increase its residential monthly local service rates from \$14.00 to the lower of
24 \$19.00 or the FCC’s approved residential Rate Floor. Accordingly, Staff believes that this matter has
25 been adequately noticed to residential customers for a rate up to \$19.00. Within thirty days of the
26 effective date of any Order addressing these issues, the Company should be required to re-notice
27 customers informing them of the new Rate Floor of \$20.00 to be implemented in 2017. The
28 Company should also include in that notice the various step increases provided for in the FCC’s

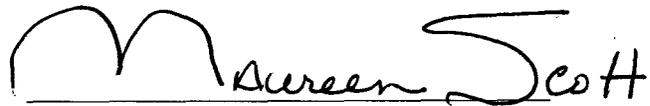
1 recent Order and their effective dates. The notice should explain that if the new FCC surveys in 2016
2 and 2017 result in Rate Floors that are lower than the step increases contained in the FCC Order, the
3 step increases will also be lower.

4 In addition, before each of the various rate phase-ins, the Company should be required to send
5 another notice to customers informing them of the step up in rates, at least 30 days prior to the
6 effective date of the increase in rates.

7 **D. PROCEDURAL RECOMMENDATIONS FOR ADDRESSING FUTURE RATE**
8 **INCREASES BEYOND DECEMBER 1, 2014.**

9 The Company should be required to notice customers at least 30 days before the effective date
10 of each of the rate steps provided for in the FCC's Order. With respect to future rate increases
11 beyond the \$20.00 Rate Floor adopted by the FCC, the Company should be required to file a full rate
12 case.

13 RESPECTFULLY SUBMITTED this 31st day of July, 2014.

14 

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23
24 Original and thirteen (13) copies of
25 the foregoing filed this 31st day of
26 July, 2014, with:

26 Docket Control
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1 Copy of the foregoing emailed/mailed this
2 31st day of July, 2014, to:

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