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AZ CORP COMMISSION  
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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

RESPONSE TO PROCEDURAL ORDER  
Arizona Corporation Commission

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JUL 31 2014

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1 In the USF/ICC Transformation Order, the Federal Communications Commission  
2 ("FCC") adopted a rate floor "to ensure that states are contributing to support and advance  
3 universal service and that consumers are not contributing to the Fund to support customers  
4 whose rates are below a reasonable level."<sup>1</sup> To implement this requirement, the Wireline  
5 Competition Bureau was to survey urban rates for fixed voice and fixed broadband residential  
6 services.

7 On November 27, 2013, Arizona Telephone Company ("Arizona Telephone") filed an  
8 application in the above-captioned docket to raise rates to a level that was anticipated to be  
9 sufficient to comply with the USF/ICC Transformation Order and avoid losing high-cost loop  
10 support.

11 On March 20, 2014, the Bureau announced that the average local end-user rate plus state  
12 regulated fees of the surveyed incumbent LECs in urban areas is \$20.46. Under the  
13 Transformation Order, this would have required rural telecom companies to set residential rates  
14 at or above this level by June 1, 2014, or federal high-cost loop support would be reduced dollar  
15 for dollar by the difference between the approved rates and the \$20.46 rate floor.

<sup>1</sup> Connect America Fund, WC Docket No. 10-90, Order, 28 FCC Rcd 4242 (Wireline Comp. Bur./Wireless Tel. Bur. 2013) (Rate Floor Order).

1 A hearing was held on March 25, 2014, concerning Arizona Telephone's application to  
2 increase residential rates in response to the Transformation Order. At the hearing Arizona  
3 Telephone asked that its residential rates be raised to the \$20.46 rate floor by the then effective  
4 June 1, 2014 deadline set by the FCC.

5 On April 23, 2014, the FCC met and announced that it intended to delay the June 1, 2014,  
6 deadline and to further phase in rate increases. Arizona Telephone and ACC Staff recommended  
7 that the pending rate application be delayed until the FCC issued a final order containing detailed  
8 guidance.

9 On June 10, 2014, the Federal Communications Commission ("FCC") issued Order FCC  
10 14-54. Among other things, FCC 14-54 modified § 54.318(b) of *USF/ICC Transformation*  
11 *Order* as follows:

12 Therefore, we waive the application of section 54.318(b) for lines reported July 1,  
13 2014, with a rate of \$14 or above. Commencing January 2, 2015 (reflecting rates  
14 as of December 1, 2014), and thereafter, through June 30, 2016, we waive section  
15 54.318(b) to the extent reported lines are greater than or equal to \$16. For the  
16 period between July 1, 2016, and June 30, 2017, we waive section 54.318(b) to  
17 the extent reported rates are greater than or equal to \$18, or the 2016 rate floor,  
18 whichever is lower. For the period between July 1, 2017, and June 30, 2018, we  
19 waive section 54.318(b) to the extent reported rates are greater than or equal to  
20 \$20, or the 2017 rate floor, whichever is lower.<sup>2</sup>

21 Through a Procedural Order dated July 1, 2014, Judge Rodda asked the parties to respond  
22 to the following questions:

- 23 1. Specifically, what rates and time frame for implementation, do the parties now  
24 recommend?
- 25 2. Can, or should, the Commission implement the recommended rates without re-  
26 opening the hearing?
- 27 3. Given intervening events and any new recommendations, have these matters been  
28 adequately noticed?
- 29 4. What are the procedural recommendations for addressing future rate increases  
30 beyond December 1, 2014?

31 Arizona Telephone hereby responds to each of the four questions.

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<sup>2</sup> Order FCC 14-54, ¶ 80, as corrected by Second Erratum dated July 11, 2014.

1           1.     *Specifically, what rates and time frame for implementation, do the parties now*  
2 *recommend?* Arizona Telephone recommends that its residential rates be raised in accordance  
3 with the following schedule:

- 4           •     Effective on and after December 1, 2014, to \$16.
- 5           •     Effective on and after June 1, 2016, to the lower of \$18 or any new national  
6           benchmark.
- 7           •     Effective on and after June 1, 2017, to the lower of \$20 or any new national  
8           benchmark.

9           2.     *Can, or should, the Commission implement the recommended rates without re-*  
10 *opening the hearing?* The Commission can and should implement the recommended rates  
11 without reopening the hearing. The Commission has received all evidence needed to find that  
12 the recommended rates are just and reasonable.

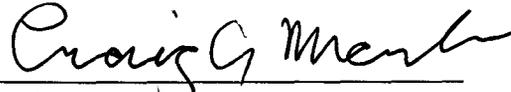
13          3.     *Given intervening events and any new recommendations, have these matters been*  
14 *adequately noticed?* The previously provided notice was adequate. It provided that Valley was  
15 “requesting authority to increase its residential monthly basic local access line rate from \$14.00  
16 to the lower of \$19.00 or the Federal Communications Commission’s (“FCC”) approved  
17 residential rate floor.” It further provided that:

18           The Commission is not bound by the proposals made by the Company, Staff, or  
19           any intervenors. Therefore, the final rates approved by the Commission may be  
20           higher or lower than the rates requested by the Company. (Emphasis added.)

21           The recommended rates would be lower than the originally requested \$19 maximum rate until at  
22           least June 1, 2017. Even after June 1, 2017, the recommended rate could be only \$1.00 more  
23           than the originally requested \$19 maximum. This possibility was clearly provided for in the  
24           notice, so the expense of additional notice is unwarranted

25          4.     *What are the procedural recommendations for addressing future rate increases*  
26 *beyond December 1, 2014?* The Recommended Opinion and Order should authorize each of the  
27 requested rate increases. The companies should be required to provide notice of each rate  
28 increase before it is implemented.

1 Respectfully submitted on July 31, 2014.

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4  
5 Craig A. Marks  
6 Craig A. Marks, PLC  
7 10645 N. Tatum Blvd., Ste. 200-676  
8 Phoenix, Arizona 85028  
9 (480) 367-1956 (Direct)  
10 (480) 304-4821 (Fax)  
11 [Craig.Marks@azbar.org](mailto:Craig.Marks@azbar.org)  
12 Attorney for Arizona Telephone Company

**Original and 13 copies filed**  
on July 31, 2014, with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

**Copies mailed and e-mailed**  
on July 31, 2014 to:

Maureen Scott  
Legal Division  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007  
[MScott@azcc.gov](mailto:MScott@azcc.gov)

Charles Hains  
Legal Division  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007  
[CHains@azcc.gov](mailto:CHains@azcc.gov)