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BEFORE THE ARIZONA CORPORATION C

COMMISSIONERS

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

Arizona Corporation Commission
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IN THE MATTER OF THE APPLICATION OF TABLE TOP TELEPHONE COMPANY, INC. A NEVADA 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-02724A-13-0416 DECISION NO. 74830 **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; Ms. Linda Sharp, *pro per*, intervenor (appearing telephonically); 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:

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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 4, 2013, Table Top Telephone Company, Inc. ("Table Top" or "Company") 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 Order*.[1] Table Top requested that the Commission approve a basic 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, Table Top requested that the new rates go into effect by June 1, 2014.[2]

2. On December 17, 2013, Table Top 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 Table Top to file all of the schedules normally required under A.A.C. R14-2-103 for rate applications because of the short time frame when new rates must be in effect under the FCC directive.[3]

4. On January 6, 2014, Table Top filed copies of the schedules that were inadvertently omitted from the docketed copy of its Application.

5. 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. Table Top and Staff appeared through counsel and agreed on a process to govern this matter.

6. On January 21, 2014, Table Top filed Revised Schedules that corrected errors.

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

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

[2] Six rural Arizona incumbent local exchange carriers ("ILECs") filed similar rate case applications around the same time period 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; adjustments; year 2 *USF/ICC Order* impacts; rate base; working capital; and rate design.

8. On January 29, 2014, Table Top 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 set $17.50 as the monthly residential rate floor to be in effect as of June 1, 2014.[4]

9. On February 28, 2014, Table Top filed a "Proof of Mailing," attaching an Affidavit of Mailing indicating that the public notice of the hearing in this matter was mailed to its customers on February 4, 2014.

10. On March 5, 2014, Linda Sharp, a customer of Table Top, filed a request to intervene, which request was granted on March 17, 2014.

11. 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 for June 1, 2014, which resulted in uncertainty about the level of the rate floor and the 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") filed a request with the FCC asking that the effective reporting date for the as yet unannounced 2014 local service 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 these developments, 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.

12. On March 17, 2014, Table Top filed a Response to the Staff Request. Because the effect of the pending motion by the Associations before the FCC was unknown, Table Top could support Staff's request only with the understanding that if the FCC required compliance with a new

[4] At that time, the rural ILECs believed that the FCC's new floor rate would be close to $17.50 per month.
[5] The FCC's July 1 reporting date relates to the rates in effect on June 1.

benchmark by June 1, 2014, or shortly thereafter, that Staff and the Hearing Division would work with the Company to resume the hearings as expeditiously as necessary in order to avoid the loss of federal funds.

13. By Procedural Order dated March 18, 2014, Staff's Request was denied in order to provide the Commission with sufficient time 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]

14. 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.

15. On March 21, 2014, Staff filed its Staff Report, recommending approval of Table Top'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.

16. Also on March 21, 2014, Table Top 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.

17. The hearing convened as scheduled on March 25, 2014, before a duly authorized Administrative Law Judge, at the Commission's offices in Phoenix, Arizona. Table Top and Staff appeared through counsel; Mathew Boos, General Manager, testified for Table Top;[7] and Wilfred Shand, Analyst Manager with the Utilities Division, testified for Staff. Ms. Sharp appeared telephonically and testified on her own behalf. No members of the public appeared at the hearing to make public comment.

18. The Commission received two comments from Table Top customers in response to the notice of the hearing – both objecting to the increase and one also addressing service quality issues.[8]

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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] Table Top is a subsidiary of Ponderosa Communications, a family-owned corporation. Table Top Hearing Transcript ("Tr.") at 39.

[8] Table Top responded to the complaint as part of the rate hearing, *see* Tr. at 50-54, and by its April 15, 2014 filing.

19. On April 1, 2014, Table Top filed Post-hearing Exhibits, consisting of pro forma results of operations under two different rate scenarios, a bill impact schedule, and the level of employee compensation in the test year.[9]

20. On April 15, 2014, Table Top filed a Response to Customer Comment, addressing the complaint raised by one of the public commenters in this matter.

21. By Procedural Order dated April 21, 2014, Table Top was requested to supplement the record concerning officer and director compensation.

22. On April 23, 2014, the FCC met in open meeting and adopted a *Seventh Order on Reconsideration* of its *USF/ICC Order.*[10] Statements made during the FCC's open meeting indicated that the FCC was going to adopt a lower rate floor than previously announced, waive that portion of its rules 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, however, provide the specifics of its decision.

23. On April 28, 2014, Table Top filed a Revised Post-hearing ExhibitA-6, indicating that the total test year compensation included $93,344 paid to officers and directors of the Company for daily operational responsibilities as well as officer and director responsibilities allocated to Arizona intrastate operations.

24. On April 28, 2014 and May 7, 2014,[11] Table Top 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

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[9] The amount of employee compensation was requested by the intervenor in this matter. Tr. at 5-18.

[10] *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*").

[11] The April 28, 2014 Procedural Conference was instigated by the Administrative Law Judge in order to assess from the parties if they had any information whether the FCC had extended the June 1, 2014 implementation date for new rates. Because of the potentially short time frame for Commission action if the FCC had not extended the deadline, the parties were invited to participate in the telephonic procedural conference by Email sent on April 25, 2014. The May 7, 2014 telephonic Procedural Conference was scheduled by Procedural Order dated April 28, 2014, which was sent to all parties.

actions were known. However, without knowing the details of the forthcoming order, Table Top 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, Table Top agreed that the Commission could delay taking action on its rate application until the FCC's Order was released.

25. 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.[12]

26. 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*.

27. On July 31, 2014, Table Top and Staff each filed Responses to the July 1, 2014, Procedural Order.

28. Table Top 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 1, 2017, without re-opening the hearing or requiring a new hearing. Table Top 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. Table Top recommended that it be required to provide notice of each rate increase before it is implemented.

29. 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

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

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.[13] In addition, Staff recommended 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 $20.00 floor.

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

31. On August 22, 2014, Table Top 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.

32. 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.

33. Prior to issuing the Recommended Opinion and Order for this matter it was discovered that the intervenor was inadvertently omitted from the service list for the July 1, 2014 and August 7, 2014 Procedural Orders,[14] and was not included on the service lists for the Company's filings on April 1, 2014, April 28, 2014, July 31, 2014 and August 22, 2014.[15] By Procedural Order dated September 29, 2014, Ms. Sharp was afforded an opportunity to file any updated recommendations

[13] 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.

[14] These Procedural Orders sought updated recommendations from the parties after the FCC issued its *Seventh Reconsideration Order*. The record shows that the Intervenor was included on the service list for earlier post-hearing Procedural Orders.

[15] The record shows that Staff included Ms. Sharp on the service list for all of their filings.

given the FCC's *Seventh Reconsideration Order*.[16]

34. No responses to the September 29, 2014 Procedural Order were received.

Background

35. Table Top is an Arizona public service corporation engaged in the business of providing telephone utility service to the public in six Arizona exchanges—Ajo, Inception Ranch, Seligman, Sanders, Bagdad and Aguila.[17] In the test year ended December 31, 2012 ("test year"), Table Top had an average of 2,482 residential lines.[18]

36. Table Top's current rates were authorized in Decision No. 73875 (May 8, 2013). In that Decision, also based on streamlined procedures, the Commission authorized Table Top to increase its residential local exchange rate from $13.55 to $14.00 in order to comply with the FCCs *USF/ICC Order*. In addition to the $14.00 local exchange rates, Decision No. 73875 authorized a Zone 1 charge of $0.80 and a Zone 2 charge of $2.80.[19] Thus, in effect, residents in Zone 1 currently have a local exchange rate of $14.80 and those in Zone 2 have a rate of $16.80.[20]

37. The rates in effect prior to Decision No. 73875 were authorized in Decision No. 62840 (August 24, 2000). In Decision No. 62840, which was a full rate filing under A.A.C. R14-2-103, the Commission approved a settlement agreement between Table Top, Staff and the Residential Utility Consumer Office which provided for a rate of return on Table Top's Arizona Fair Value Rate Base ("FVRB") of 7.44 percent.

38. Staff confirmed that Table Top is in compliance with Commission Orders.[21]

39. Table Top is a rate-of-return ILEC eligible to receive FHCLS.

40. On November 18, 2011, the FCC issued the *USF/ICC Order*, which provides for a transition from then-existing 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.

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[16] Copies of the filings that were not originally mailed to her were included with the Procedural Order, and copies of the documents were mailed and emailed to her addresses of record.
[17] Tr. at 58.
[18] Ex A-1.
[19] The original request sought to eliminate all zone charges. Tr. at 65.
[20] Tr. at 34.
[21] Ex S-1 Staff Report at 3.

The CAF provides revenues to carriers as a means to help the transition from a reliance on access charges and/or reciprocal compensation. Recovery from the CAF will phase out over time at 5 percent annually. In addition to CAF revenues, the *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, 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.

41. 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."[22] 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 rate floor at $14.00 as of June 1, 2013, with the floor thereafter being determined annually by the FCC's Wireline Competition Bureau.

42. Under the *USF/ICC Order*, to continue receiving FHCLS, Table Top must increase its residential local rates to the FCC-mandated residential rate floors, or 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, Table Top 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.[23]

Rate Request

43. Table Top 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

[22] *Seventh Reconsideration Order* at ¶ 73.
[23] The FCC may revise the 2016 and 2017 floor rates based on new survey data. *Seventh Reconsideration Order* at ¶ 84.

of the FCC benchmark rate or $20.00 on June 1, 2017.[24] Under this proposal the first phase increase on December 1, 2014, would eliminate the Zone 1 charge and reduce the Zone 2 charge to $0.80.

44. According to the schedules Table Top presented, the Company has an Arizona intrastate FVRB at the end of the test year of $11,808,512.[25]

45. In the test year, Table Top had total Arizona intrastate operating revenues of $4,388,717 (including FHCLS of $2,579,847), and total intrastate operating expenses of $3,585,940, resulting in operating income of $802,777, a 6.8 percent rate of return on its FVRB.[26]

46. According to Table Top, 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 $44,486 of FHCLS, resulting in operating income of $775,462, a 6.57 percent rate of return on FVRB.[27] Based on the test year, increasing Table Top's local rates to $16.00 would preserve its current FHCLS, and increase its revenues by $44,486, which would result in operating income of $830,092, a 7.03 percent rate of return on its Arizona FVRB.[28]

47. According to Table Top, 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 $98,352 over test year revenues (or $53,866 over revenues if the local rates are increased to $16.00 on December 1, 2014), it would preserve its FHCLS, which would result in operating income of $863,166, a 7.31 percent rate of return on its Arizona FVRB.[29]

48. According to Table Top, 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 $157,920 over test year revenues (or $59,568 over revenues if the local rates are increased to $18.00 on June 1, 2016), it would retain its current FHCLS, and have operating income of $899,742, a 7.62 percent rate of return on its Arizona FVRB.[30]

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[24] Table Top's Response to Procedural Order filed July 31, 2014. At the hearing, Table Top was requesting to increase its local exchange rates to the announced FCC mandated floor of $20.46 effective June 1, 2014. Tr. at 28.
[25] Ex A-1.
[26] Ex A-1.
[27] Table Top's August 22, 2014 Response.
[28] *Id.*
[29] *Id.*
[30] *Id.*

Intervenor Concerns

49. At the hearing, Ms. Sharp argued that Table Top does not need the requested rate increase because its revenues and profits are sufficient for the Company to provide adequate service.[31] Mr. Sharp, who owns property served by the Ajo exchange, was also concerned that the economic recovery had not reached the Ajo area, and residents could not afford a rate increase in the amount requested.[32]

50. Ms. Sharp questioned whether the Company or Staff had given sufficient consideration to the effect on the rate payers and whether the other parties had done an analysis of the Company's need for the full amount of FHCLS.[33]

Staff Recommendations

51. 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.[34] Given the particular circumstances of this case, Staff accepted Table Top's financial results as presented, and did not audit the numbers reported by the Company.[35]

52. Based on the FCC's *Seventh Reconsideration Order*, Staff recommends that Table Top'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.[36]

53. 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.[37] 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.[38]

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[31] Tr. at 21-23. At that time, Table Top was requesting a residential local exchange rate of $20.46 to be implemented June 1, 2014, which was a $6.46 increase in the basic current residential rate.
[32] Tr. at 72-76.
[33] Tr. at 90-92.
[34] Ex S-1 Staff Report at 4.
[35] *Id.* at 3, 4, and 5.
[36] Staff's July 31, 2014 Response and Staff's August 29, 2014 Response.
[37] *Id.*
[38] Staff's July 31, 2014 Response.

54. At the time of the hearing, Staff argued that the Company's 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 Table Top pursuant to the FCC's rules;

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

(d) The increase will allow Table Top to receive matching funds from the Federal USF.[39]

55. Staff states that if the Company does not adjust its local service rates to the FCC rate floors on the dates indicated, it will lose FHCLS on a dollar-for-dollar basis which would lower the Company's rate of return. Staff notes that the Company claims that not increasing local service rates to the FCC's benchmark rates would result in reducing the rate of return to 6.57 percent on December 1, 2014, to 6.29 percent on June 1, 2016, and to 5.98 percent on June 1, 2017.[40]

56. Based on the FCC's directives, the relatively small impact the increase has on Table Top's total revenues, the diminished rates of return that would result from the loss of FHCLS, Staff believes that increasing Table Top's rates to the FCC's minimum benchmark floors between December 1, 2014 and June 1, 2017, results in fair and reasonable rates.[41]

57. Staff states that its recommendation in these unique circumstances should not be viewed as precedent for the processing of future rate case applications.[42]

Conclusion

58. 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'

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[39] Ex S-1 Staff Report at 5-6; Tr. at 48-49.
[40] Staff's August 29, 2014 Response at 3.
[41] Staff's August 29, 2014 Response. *See also* Ex S-1 Staff Report at 5 where Staff determined that a rate floor of $19.00 (the initial request) would provide additional annual revenue of $128.136, which would increase the Company's return on its FVRB from 6.80 percent to 7.46 percent. 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 Table Top's FVRB would be *de minimus*.
[42] Ex S-1 Staff Report at 6.

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.

59. 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 Table Top.

60. At the current $14.00 local exchange rate, a typical basic residential phone bill is $25.09 per month.[43] If local residential rates are increased to $16.00, the basic bill would increase by $2.21 to $27.30; if local rates were increased to $18.00, the current typical basic residential bill would increase by $4.41 to $29.50; and if local rates are increased to $20.00, the current typical basic residential bill would increase by $6.60 to $31.69.[44]

61. Neither Staff nor the Company submitted an analysis of the effect of losing FHCLS on Table Top's operations. However, the record shows that the loss of FHCLS that would occur if Table Top's residential rates are not increased to the national average as determined by the FCC, will reduce Table Top's operating income. The phase-in of rates addresses one of the concerns expressed by the Intervenor -- that the immediate bill impact was too great for rate payers. The phase-in does not address Ms. Sharp's concerns that there has been no analysis of whether Table Top needs the entire amount of FHCLS.[45] According to the evidence presented, an increase in residential local exchange rates up to $20.00 would result in a 7.62 percent rate of return based on Table Top's test year results. All pro forma rates of return prior to the last phased-in increase in 2017, indicate a rate of return that would be lower than the 7.44 percent rate of return authorized by the Commission in the last full rate proceeding in 2000.[46] There has been no new cost of capital analysis or audit of the Company's financials in this proceeding, and Table Top has not met its burden of proving that the rate increase requested for June 1, 2017 would result in fair and reasonable rates. We do not find that it is equitable or in the public interest to approve rates that would produce a return greater than approved in the last full rate proceeding. Because the evidence indicates that the proposed increase

[43] Table Top's August 22, 2014 Response; includes taxes. The current rates on the bill analysis do not include zone charges. Under the Company's proposal, residents in Zone 1 would see an increase of $1.20 from $14.80 to $16.00, and residents in Zone 2 would not see an increase from the current charge of $16.80.

[44] *Id.*

[45] Unlike the other five rural ILECs that have filed similar rate requests, by its own schedules, Table Top is not suffering from an operating loss or only very small positive operating income.

[46] *See* Decision No. 62840.

projected for June 1, 2017, would cause the Company to earn more than the 7.44 percent rate of return authorized in the last full rate case, we do not authorize the last step of the proposed rate increase. We authorize the increase in residential local exchange rates to $16.00 on December 1, 2014, and the increase to the lower of $18.00 or the FCC benchmark floor on June 1, 2016, because the evidence indicates that the Company would not be over-earning at these rates. Table Top must file a rate case under A.C.C. R14-2-103 to implement any increase in rates beyond the increase in local exchange rates of the lower $18.00 or the FCC's benchmark floor to be effective June 1, 2016.[47]

62. There is adequate time for the Company to file a rate case to have new rates in effect by June 1, 2017. The Company should file any future rate case in full compliance with the rules so that the new rates can be authorized by the Company's chosen implementation date.

63. 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 Table Top 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, Table Top shall re-notify its customers by mail of the rates to become effective June 1, 2016, at least thirty days in advance of their implementation date.

CONCLUSIONS OF LAW

1. Table Top 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. Table Top's FVRB is $11,808,512.

5. Under the particular circumstances of this proceeding, in order to assure continued

[47] Based on the Company's schedules, we estimate that if its residential rates are not increased to $20.00 in June 2017 (after an increase to $18 in June 2016), Table Top would lose annual FHCLS of $44,486, which after the effect of taxes, would lower its net operating income by $27,315, and result in net operating income of $835,851, a rate of return of 7.07 percent, which is higher than its test year rate of return of 6.80 percent. *See* Table Top's August 22, 2014 Response.

FHCLS for Table Top's services, it is appropriate to increase Table Top's rates for residential local service from the currently tariffed rate of $14.00 to the FCC residential local exchange rate floor of $16.00, eliminate the current $0.80 Zone 1 charge, and reduce the current Zone 2 charge to $0.80; and thereafter to increase Table Top's rates for residential local exchange service effective June 1, 2016, to the lower of $18.00 or the FCC's benchmark rate, with the elimination of the Zone 2 charge for any new benchmark rate that exceeds $16.80.

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 Table Top Telephone Company, Inc. is authorized to increase its residential local exchange rates to $16.00, eliminate the current Zone 1 charge, and reduce the current Zone 2 charge to $0.80, all 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 Table Top Telephone Company, Inc. is authorized to increase its residential local exchange rates to the lower of $18.00 or the FCC's benchmark rate floor effective June 1, 2016, and to eliminate the $0.80 Zone 2 charge if that benchmark rate exceeds $16.80.

IT IS FURTHER ORDERED that Table Top Telephone Company, Inc.'s request to increase its residential local exchange rates to the lower of $20.00 or the FCC's benchmark floor to be effective June 1, 2017, is denied.

IT IS FURTHER ORDERED that Table Top Telephone Company, Inc. shall, by November 28, 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 Table Top Telephone Company, Inc. 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 Table Top Telephone Company, Inc. 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.

IT IS FURTHER ORDERED that any increases to Table Top Telephone Company, Inc.'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 Table Top Telephone Company, Inc. may file a full rate case under A.A.C. R14-2-103 at any time.

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 13th day of November 2014.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

JR:ru

SERVICE LIST FOR: TABLE TOP TELEPHONE COMPANY, INC.

DOCKET NO.: T-02724A-13-0416

Craig A. Marks
Craig A Marks, PLC
10645 N. Tatum Blvd, Ste. 200-676
Phoenix, AZ 85028
Attorney for Table Top Telephone Company, Inc.

Linda Sharp
P.O. Box 865
Ajo, AZ 85321

Janice Alward, Chief Counsel
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

Steven M. Olea, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007