

ORIGINAL

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

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2016 APR 20 P 1:02

TO: THE COMMISSION

APR 20 2016

FROM: Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

DATE: April 20, 2016

DOCKETED BY	
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RE: IN THE MATTER OF THE APPLICATION OF QWEST CORPORATION DBA CENTURYLINK QC, FOR REVISIONS TO CENTURYLINKS COMPETITIVE EXCHANGE AND NETWORK SERVICES TARIFF TO INTRODUCE THE FACILITY RELOCATION COST RECOVERY SURCHARGE (DOCKET NO. T-01051B-15-0382)

INTRODUCTION

On November 9, 2015, Qwest Corporation dba CenturyLink QC ("CenturyLink" or "Company") filed tariff revisions for a proposed Facility Relocation Cost Recovery Surcharge ("FRS"). According to CenturyLink, the FRS is designed to recover the costs of government mandated relocations of CenturyLink's network facilities. CenturyLink proposed a maximum monthly charge of \$3.00 with an initial monthly charge of \$1.00. The FRS would be assessed on all residential and commercial customers. The cover letter accompanying the proposed tariff revisions indicates that CenturyLink intends to recalculate and update the FRS annually. CenturyLink sent a notice to all affected customers in December, 2015.

Staff recommends approval of a \$3.00 increase to the headroom available in the residential access line rate to cover CenturyLink's request. No increase to the headroom in CenturyLink's business rates is necessary. Staff also recommends approval of the Company's recent proposal to set the initial unbundled monthly surcharge at \$.80.

BACKGROUND

CenturyLink is an incumbent local exchange carrier ("ILEC") providing telecommunications services throughout much of Arizona. As a result of earlier decisions of the Commission, all of CenturyLink's retail services have been classified as "competitive."¹ This means that CenturyLink is

¹ In Decision No. 73354, dated August 21, 2012, the Commission approved a Settlement Agreement entered into by the Commission's Utilities Division ("Staff"), CenturyLink, the Residential Utility Consumer Office ("RUCO") and the Arizona Investment Council ("AIC") to settle disputed issues related to CenturyLink's application in Docket No. T-01040B-11-0378 to Classify and Regulate Retail Local Exchange Telecommunications Services as Competitive and to Classify and Deregulate Certain Services as Nonessential. The Settlement Agreement and the Commission's Order provided that CenturyLink would be entitled to request increased rates under A.A.C. R14-2-1110 ("Rule 1110") of the Commission's rules. Under the terms of the Settlement Agreement, CenturyLink was authorized to file a request for additional pricing flexibility for retail services that were subject to more stringent terms and conditions under the Agreement after the expiration of two years from the effective date of the Commission's Order. CenturyLink filed a

no longer subject to the traditional monopoly ratemaking formula and A.A.C. R14-2-103. Public service corporations providing competitive telecommunications services in Arizona are subject to Article 11 of the Arizona Administrative Code ("A.A.C."). R14-2-1109 governs the pricing of competitive telecommunications services.² It provides generally that competitive telecommunications services may be priced at any level at or below the maximum rate stated in the company's tariff on file with the Commission, so long as the price is not less than the company's total service long-run incremental cost of providing service. No Commission approval of price changes up to the maximum rate is required; however, companies must provide the Commission with concurrent, written notice of the price change. A.A.C. R14-2-1110 governs changes to the maximum rates of competitive telecommunications carriers. Changes to the maximum rates of providers require Commission approval. Prior to 2012, CenturyLink was subject to an Alternative Form of Regulation ("AFOR"), which established price caps for the Company's services. The original Price Cap Plan for CenturyLink was approved in Decision No. 63487 (March 30, 2001), and CenturyLink's Renewed Price Cap Plan was approved in Decision No. 68604 (March 23, 2006).

The language in CenturyLink's proposed FRS tariff states: "This surcharge is for the recovery of the costs for the relocation of the network facilities or infrastructure mandated by the City, County, State or Federal authorities, or any other governmental entity of any kind." It further states that "[t]his incremental charge is billed monthly per retail access line and will be identified on the bill as a Facility Relocation Cost Recovery Fee." The Company proposed a maximum charge of \$3.00 and an initial charge of \$1.00. On April 15, 2016, the Company filed a revision to its proposed tariff reducing the initial charge from \$1.00 to \$.80. The Company stated that it was making this change because "consumer concerns expressed by comments filed in the docket have caused the Company to reconsider the amount of the fee." The fee is to be recalculated on an annual basis.

While this matter was pending, Staff became aware of H.B. 2486, which had been introduced in the Arizona Legislature. This measure would require a municipality to reimburse a telecommunications utility for facility relocation costs if certain conditions are met. The conditions include 1) any construction project in the municipality is undertaken individually or jointly by an intergovernmental contract; 2) the contract is funded in whole or in part by voter-approved bond proceeds; and 3) the construction project requires the telecommunications utility to adjust or relocate facilities. H.B. 2486 has passed both the House and the Senate, with an amendment in the Senate Finance Committee. The bill will need to be sent back to the House for a Final Read before going to the Governor's Office for signature. CenturyLink stated that this new law would cover some but not all of these relocation costs in the future.

request and Staff filed a memorandum on March 11, 2015, verifying that the Company had met the criteria set out in the Agreement for additional pricing flexibility under the rules.

² R14-2-1104 Subpart A.4. provides for "A tariff for each service to be provided that states the maximum rate as well as the initial price to be charged, and that also states other terms and conditions that will apply to provision of the service by the telecommunications company. The telecommunications company shall provide economic justification or cost support data if required by the Commission or by Staff. Subpart D provides that, "[i]f it appears, based upon Staff review or upon comments filed with Commission Docket Control Center, that a rate, term, or condition of service stated in a tariff may be unjust or unreasonable, or that a service to be offered by the applicant may not be competitive, the Commission or Staff may require further information and/or changes to the application or to the tariff."

There has been a great deal of consumer interest in CenturyLink's proposed FRS. The Company notified customers of the proposed charge in December, 2015.

Since the proposed tariff revision was filed, Staff has sent various data requests to the Company related to its application, consumer concerns, and other issues. The Staff has also met with the Company to discuss various aspects of its request.

CUSTOMER COMMENTS

Since sending its notice in December, 2015, the Company indicated in response to a Staff data request that it had received 677 calls in December, 2015 and 383 calls in January, 2016. In response to CenturyLink's notice, the Commission received approximately 250 public comments opposing CenturyLink's request. The comments received by the Commission can be summarized as follows:

- Relocating facilities is a cost of doing business and should not be recovered through an additional charge.
- The notice letter inadequately described the proposal.
- CenturyLink is in good financial condition and does not deserve or need a rate increase.
- The proposed surcharge will cause the customer to drop landline and use wireless only.
- CenturyLink's poor service should not be rewarded with more money.
- The surcharge is a back door way of increasing rates.
- Other companies handle such "mandatory" expenses in the normal course of business and budget accordingly. CenturyLink should as well.
- Customers should not be held responsible to cover the costs of their having to relocate because of either poor planning or some city/county/state decision to force them out for any reason.

A significant number of comments were received that indicated that the Company representatives did not have accurate information regarding the proposal, or had no information. One customer indicated that he was transferred to several different CenturyLink representatives and he finally gave up when no one knew what he was talking about. Staff's Consumer Services Section later made a cold call to the same phone number at CenturyLink and similarly found that the CenturyLink consumer representatives were unfamiliar with the proposed charge and unable to respond to questions. Staff informed CenturyLink about what had transpired, and since then, the problems have evidently been corrected. The number of complaints that Staff has been receiving has declined. Staff made another cold call on April 15, 2016 and found that the service representative was able to field most of the questions posed on the surcharge.

STAFF ANALYSIS

In its filing, the Company effectively requests an increase to its maximum residential and business access-line rates. CenturyLink's services have been classified as competitive, and are now subject to the Commission's Competitive Telecommunications Services Rules. Under those Rules, rates for competitive services are not set according to the traditional monopoly ratemaking formula. Instead, the Company is allowed to establish rates within a range of rates, which is approved by the Commission. To determine the appropriate range, the Commission may consider various factors, including cost support data, economic justifications, or other indicia indicating that the proposed range of rates is just and reasonable.³

CenturyLink's last cost-of-service rate case occurred in 1995 with a test year ending March 31, 1993. CenturyLink's last AFOR case occurred in 2006. CenturyLink's last maximum rate increase for residential and business access-line rates was in Decision No.73781 issued on March 21, 2013. The Company reports that it has no headroom to make any changes to its residential access line rate to accommodate the proposed FRS charge. The Company does have headroom between its maximum and current business access line rate, to make the proposed rate changes.

The Company indicated to Staff that it has historically incurred some amount of facility relocation expenses, but that the amount of such costs has risen dramatically over the last few years due to various stimulus programs. CenturyLink also stated that, in some cases, it is no longer reimbursed by entities that used to reimburse it because of changes in policies and ordinances.

The Company also maintains that its costs and technology now are entirely different than what existed the last time these costs were examined by the Commission. The Company states that the cost of copper has skyrocketed, and fiber and digital technology have an entirely different cost structure. Further, the Company states that there are fewer access-line customers from which to recover the Company's costs. In this regard, the Company states that any "analysis of the costs recovered in rates that were set over 20 years ago that does not also adjust for the difference in the number of customers from whom those costs are being recovered would lead to false conclusions." There is no question that the wireline access line counts of CenturyLink has decreased in recent years, and continues to decrease.

To determine the reasonableness of CenturyLink's request, Staff asked CenturyLink to provide information on the levels of reimbursed and unreimbursed facility relocation expenses for the years 2010, 2011, 2012, 2013 and 2014. Initially, CenturyLink was only able to provide information for 2013 and 2014, because it did not track those costs in prior years. In a letter dated March 17, 2016, CenturyLink stated that unreimbursed facility relocation costs for years prior to 2012 is not obtainable because the Company did not track those costs separately prior to that time. In a letter dated March 28, 2016, CenturyLink provided total unreimbursed Arizona Relocation Costs that also included additional information for 2012 and 2015. Although this data is limited, it does not support the conclusion that facility-relocation costs are increasing. It does, however, identify a significant level of unreimbursed costs.

³ See A.A.C. R14-2-1104; see also A.A.C. R14-2-1110(B)(1) and (4).

Staff also reviewed financial information from CenturyLink. According to the Company's most recent Annual Report, its Arizona jurisdictional fair value rate base is now \$1,360,278,766. CenturyLink provided information indicating that, if it set the actual rate at the proposed maximum rate requested in this docket, the expected effect of this filing would be an increase to CenturyLink's annualized Arizona revenues of less than 7.1 percent. The expected effect of this filing at the initial rate proposed by CenturyLink would be an increase to CenturyLink's annualized Arizona revenues of less than 1.88 percent. According to this analysis, the annual revenue that CenturyLink would receive with either the proposed surcharge amount of \$.80 or the maximum rate of \$3.00 would not result in the Company exceeding a reasonable rate of return.

As part of its analysis in evaluating the reasonableness of the proposed maximum rate, Staff additionally reviewed rates that have been approved for access lines for other companies whose services have been classified as competitive. Staff has concluded that the total of CenturyLink's current access line rates plus the proposed maximum FRS rate would fall within the range of the access line rates that the Commission has approved for other telecommunications providers whose rates have been classified as competitive.

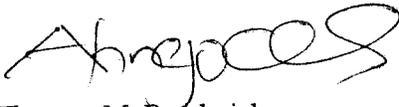
After considering the information discussed above, Staff concludes that the rates proposed by the Company are just and reasonable. The Company should thus be allowed to increase the headroom for its residential access lines by \$3.00. The business access line rate already has sufficient headroom to accommodate an increase to its unbundled maximum rate up to \$3.00. Therefore, there is no need to increase the maximum rate for business access lines at this time. The initial rate of \$.80 proposed by the Company is also reasonable.

The Company has indicated that it intends to allocate or unbundle the amount associated with its "Facility Relocation Charge," and set this out separately on customer bills. The Company also proposes to review the charges on an annual basis to ensure that it is tracking the facility relocation costs for unreimbursed projects for the prior year. The Company also states that the FRS will be updated annually. Although the manner in which the surcharge will be calculated was not included in the proposed tariff, CenturyLink, on January 27, 2016, offered to revise the proposed tariff to clarify the manner in which the surcharge is to be calculated.

Staff concludes that the unbundled charge is not inconsistent with A.A.C. R14-2-1104, -1109, and -1110, and is reasonable under the circumstances.

STAFF RECOMMENDATION

CenturyLink has effectively requested an increase to its maximum residential access line rate of \$3.00 per month, with \$.80 of that rate increase identified as a Facility Relocation Charge. Staff recommends approval of this application with the initial surcharge set at \$.80 and an increase in the residential maximum access line rate of \$3.00. The initial surcharge for business lines shall also be set at \$.80 per access line. Staff further recommends that CenturyLink file a revised tariff consistent with the Commission's Order in this matter within 30 days of the effective date of that Order. The tariff shall also reflect that CenturyLink shall file any changes to its unbundled surcharge with the Commission in accordance with R14-2-1109, except that the tariff shall also incorporate the yearly process proposed by CenturyLink for updates to the FRS and also state that the Company shall provide the Commission Staff with any other information requested in support of its changes in FRS rates.



for

Thomas M. Broderick
Director
Utilities Division

TMB:WMS:red\ML

ORIGINATOR: Wilfred Shand

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BEFORE THE ARIZONA CORPORATION COMMISSION

- DOUG LITTLE
Chairman
- BOB STUMP
Commissioner
- BOB BURNS
Commissioner
- TOM FORESE
Commissioner
- ANDY TOBIN
Commissioner

IN THE MATTER OF THE APPLICATION
 OF QWEST CORPORATION DBA
 CENTURYLINK QC, FOR REVISIONS TO
 CENTURYLINKS COMPETITIVE
 EXCHANGE AND NETWORK SERVICES
 TARIFF TO INTRODUCE THE FACILITY
 RELOCATION COST RECOVERY
 SURCHARGE.

DOCKET NO. T-01051B-15-0382
 DECISION NO. _____
ORDER

Open Meeting
 May 3 and 4, 2016
 Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. On November 9, 2015, Qwest Corporation dba CenturyLink QC ("CenturyLink" or "Company") filed tariff revisions for a proposed Facility Relocation Cost Recovery Surcharge ("FRS"). According to CenturyLink, the FRS is designed to recover the costs of government mandated relocations of CenturyLink's network facilities. CenturyLink proposed a maximum monthly charge of \$3.00 with an initial monthly charge of \$1.00. The FRS would be assessed on all residential and commercial customers. The cover letter accompanying the proposed tariff revisions indicates that CenturyLink intends to recalculate and update the FRS annually. CenturyLink sent a notice to all affected customers in December, 2015.

2. Staff recommends approval of a \$3.00 increase to the headroom available in the residential access line rate to cover CenturyLink's request. No increase to the headroom in

1 CenturyLink's business rates is necessary. Staff also recommends approval of the Company's recent
2 proposal to set the initial unbundled monthly surcharge at \$.80.

3 **Background**

4 3. CenturyLink is an incumbent local exchange carrier ("ILEC") providing
5 telecommunications services throughout much of Arizona. As a result of earlier decisions of the
6 Commission, all of CenturyLink's retail services have been classified as "competitive."¹ This means
7 that CenturyLink is no longer subject to the traditional monopoly ratemaking formula and A.A.C.
8 R14-2-103. Public service corporations providing competitive telecommunications services in Arizona
9 are subject to Article 11 of the Arizona Administrative Code ("A.A.C."). R14-2-1109 governs the
10 pricing of competitive telecommunications services.² It provides generally that competitive
11 telecommunications services may be priced at any level at or below the maximum rate stated in the
12 company's tariff on file with the Commission, so long as the price is not less than the company's total
13 service long-run incremental cost of providing service. No Commission approval of price changes up
14 to the maximum rate is required; however, companies must provide the Commission with concurrent,
15 written notice of the price change. A.A.C. R14-2-1110 governs changes to the maximum rates of
16 competitive telecommunications carriers. Changes to the maximum rates of providers require
17 Commission approval. Prior to 2012, CenturyLink was subject to an Alternative Form of Regulation
18 ("AFOR"), which established price caps for the Company's services. The original Price Cap Plan for
19

20
21 ¹ In Decision No. 73354, dated August 21, 2012, the Commission approved a Settlement Agreement entered into by the
22 Commission's Utilities Division ("Staff"), CenturyLink, the Residential Utility Consumer Office ("RUCO") and the
23 Arizona Investment Council ("AIC") to settle disputed issues related to CenturyLink's application in Docket No. T-
24 01040B-11-0378 to Classify and Regulate Retail Local Exchange Telecommunications Services as Competitive and to
25 Classify and Deregulate Certain Services as Nonessential. The Settlement Agreement and the Commission's Order
26 provided that CenturyLink would be entitled to request increased rates under A.A.C. R14-2-1110 ("Rule 1110") of the
27 Commission's rules. Under the terms of the Settlement Agreement, CenturyLink was authorized to file a request for
28 additional pricing flexibility for retail services that were subject to more stringent terms and conditions under the
Agreement after the expiration of two years from the effective date of the Commission's Order. CenturyLink filed a
request and Staff filed a memorandum on March 11, 2015, verifying that the Company had met the criteria set out in the
Agreement for additional pricing flexibility under the rules.

² R14-2-1104 Subpart A.4. provides for "A tariff for each service to be provided that states the maximum rate as well as
the initial price to be charged, and that also states other terms and conditions that will apply to provision of the service by
the telecommunications company. The telecommunications company shall provide economic justification or cost support
data if required by the Commission or by Staff. Subpart D provides that, "[i]f it appears, based upon Staff review or upon
comments filed with Commission Docket Control Center, that a rate, term, or condition of service stated in a tariff may be
unjust or unreasonable, or that a service to be offered by the applicant may not be competitive, the Commission or Staff
may require further information and/or changes to the application or to the tariff."

1 CenturyLink was approved in Decision No. 63487 (March 30, 2001), and CenturyLink's Renewed
2 Price Cap Plan was approved in Decision No. 68604 (March 23, 2006).

3 4. The language in CenturyLink's proposed FRS tariff states: "This surcharge is for the
4 recovery of the costs for the relocation of the network facilities or infrastructure mandated by the
5 City, County, State or Federal authorities, or any other governmental entity of any kind." It further
6 states that "[t]his incremental charge is billed monthly per retail access line and will be identified on
7 the bill as a Facility Relocation Cost Recovery Fee." The Company proposed a maximum charge of
8 \$3.00 and an initial charge of \$1.00. On April 15, 2016, the Company filed a revision to its proposed
9 tariff reducing the initial charge from \$1.00 to \$.80. The Company stated that it was making this
10 change because "consumer concerns expressed by comments filed in the docket have caused the
11 Company to reconsider the amount of the fee." The fee is to be recalculated on an annual basis.

12 5. While this matter was pending, Staff became aware of H.B. 2486, which had been
13 introduced in the Arizona Legislature. This measure would require a municipality to reimburse a
14 telecommunications utility for facility relocation costs if certain conditions are met. The conditions
15 include 1) any construction project in the municipality is undertaken individually or jointly by an
16 intergovernmental contract; 2) the contract is funded in whole or in part by voter-approved bond
17 proceeds; and 3) the construction project requires the telecommunications utility to adjust or relocate
18 facilities. H.B. 2486 has passed both the House and the Senate, with an amendment in the Senate
19 Finance Committee. The bill will need to be sent back to the House for a Final Read before going to
20 the Governor's Office for signature. CenturyLink stated that this new law would cover some but not
21 all of these relocation costs in the future.

22 6. There has been a great deal of consumer interest in CenturyLink's proposed FRS. The
23 Company notified customers of the proposed charge in December, 2015.

24 7. Since the proposed tariff revision was filed, Staff has sent various data requests to the
25 Company related to its application, consumer concerns, and other issues. The Staff has also met with
26 the Company to discuss various aspects of its request.

27 ...

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1 Customer Comments

2 8. Since sending its notice in December, 2015, the Company indicated in response to a
3 Staff data request that it had received 677 calls in December, 2015 and 383 calls in January, 2016. In
4 response to CenturyLink's notice, the Commission received approximately 250 public comments
5 opposing CenturyLink's request. The comments received by the Commission can be summarized as
6 follows:

- 7 • Relocating facilities is a cost of doing business and should not be recovered through an
8 additional charge.
- 9 • The notice letter inadequately described the proposal.
- 10 • CenturyLink is in good financial condition and does not deserve or need a rate
11 increase.
- 12 • The proposed surcharge will cause the customer to drop landline and use wireless only.
- 13 • CenturyLink's poor service should not be rewarded with more money.
- 14 • The surcharge is a back door way of increasing rates.
- 15 • Other companies handle such "mandatory" expenses in the normal course of business
16 and budget accordingly. CenturyLink should as well.
- 17 • Customers should not be held responsible to cover the costs of their having to relocate
18 because of either poor planning or some city/county/state decision to force them out
19 for any reason.

20 9. A significant number of comments were received that indicated that the Company
21 representatives did not have accurate information regarding the proposal, or had no information. One
22 customer indicated that he was transferred to several different CenturyLink representatives and he
23 finally gave up when no one knew what he was talking about. Staff's Consumer Services Section later
24 made a cold call to the same phone number at CenturyLink and similarly found that the CenturyLink
25 consumer representatives were unfamiliar with the proposed charge and unable to respond to
26 questions. Staff informed CenturyLink about what had transpired, and since then, the problems have
27 evidently been corrected. The number of complaints that Staff has been receiving has declined. Staff
28 made another cold call on April 15, 2016 and found that the service representative was able to field
most of the questions posed on the surcharge.

26 Staff Analysis

27 10. In its filing, the Company effectively requests an increase to its maximum residential
28 and business access-line rates. CenturyLink's services have been classified as competitive, and are now

1 subject to the Commission's Competitive Telecommunications Services Rules. Under those Rules,
2 rates for competitive services are not set according to the traditional monopoly ratemaking formula.
3 Instead, the Company is allowed to establish rates within a range of rates, which is approved by the
4 Commission. To determine the appropriate range, the Commission may consider various factors,
5 including cost support data, economic justifications, or other indicia indicating that the proposed
6 range of rates is just and reasonable.³

7 11. CenturyLink's last cost-of-service rate case occurred in 1995 with a test year ending
8 March 31, 1993. CenturyLink's last AFOR case occurred in 2006. CenturyLink's last maximum rate
9 increase for residential and business access-line rates was in Decision No.73781 issued on March 21,
10 2013. The Company reports that it has no headroom to make any changes to its residential access line
11 rate to accommodate the proposed FRS charge. The Company does have headroom between its
12 maximum and current business access line rate, to make the proposed rate changes.

13 12. The Company indicated to Staff that it has historically incurred some amount of
14 facility relocation expenses, but that the amount of such costs has risen dramatically over the last few
15 years due to various stimulus programs. CenturyLink also stated that, in some cases, it is no longer
16 reimbursed by entities that used to reimburse it because of changes in policies and ordinances.

17 13. The Company also maintains that its costs and technology now are entirely different
18 than what existed the last time these costs were examined by the Commission. The Company states
19 that the cost of copper has skyrocketed, and fiber and digital technology have an entirely different cost
20 structure. Further, the Company states that there are fewer access-line customers from which to
21 recover the Company's costs. In this regard, the Company states that any "analysis of the costs
22 recovered in rates that were set over 20 years ago that does not also adjust for the difference in the
23 number of customers from whom those costs are being recovered would lead to false conclusions."
24 There is no question that the wireline access line counts of CenturyLink has decreased in recent years,
25 and continues to decrease.

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28 ³ See A.A.C. R14-2-1104; see also A.A.C. R14-2-1110(B)(1) and (4).

1 14. To determine the reasonableness of CenturyLink's request, Staff asked CenturyLink to
2 provide information on the levels of reimbursed and unreimbursed facility relocation expenses for the
3 years 2010, 2011, 2012, 2013 and 2014. Initially, CenturyLink was only able to provide information
4 for 2013 and 2014, because it did not track those costs in prior years. In a letter dated March 17,
5 2016, CenturyLink stated that unreimbursed facility relocation costs for years prior to 2012 is not
6 obtainable because the Company did not track those costs separately prior to that time. In a letter
7 dated March 28, 2016, CenturyLink provided total unreimbursed Arizona Relocation Costs that also
8 included additional information for 2012 and 2015. Although this data is limited, it does not support
9 the conclusion that facility-relocation costs are increasing. It does, however, identify a significant level
10 of unreimbursed costs.

11 15. Staff also reviewed financial information from CenturyLink. According to the
12 Company's most recent Annual Report, its Arizona jurisdictional fair value rate base is now
13 \$1,360,278,766. CenturyLink provided information indicating that, if it set the actual rate at the
14 proposed maximum rate requested in this docket, the expected effect of this filing would be an
15 increase to CenturyLink's annualized Arizona revenues of less than 7.1 percent. The expected effect
16 of this filing at the initial rate proposed by CenturyLink would be an increase to CenturyLink's
17 annualized Arizona revenues of less than 1.88 percent. According to this analysis, the annual revenue
18 that CenturyLink would receive with either the proposed surcharge amount of \$.80 or the maximum
19 rate of \$3.00 would not result in the Company exceeding a reasonable rate of return.

20 16. As part of its analysis in evaluating the reasonableness of the proposed maximum rate,
21 Staff additionally reviewed rates that have been approved for access lines for other companies whose
22 services have been classified as competitive. Staff has concluded that the total of CenturyLink's
23 current access line rates plus the proposed maximum FRS rate would fall within the range of the
24 access line rates that the Commission has approved for other telecommunications providers whose
25 rates have been classified as competitive.

26 17. After considering the information discussed above, Staff concludes that the rates
27 proposed by the Company are just and reasonable. The Company should thus be allowed to increase
28 the headroom for its residential access lines by \$3.00. The business access line rate already has

1 sufficient headroom to accommodate an increase to its unbundled maximum rate up to \$3.00.
2 Therefore, there is no need to increase the maximum rate for business access lines at this time. The
3 initial rate of \$.80 proposed by the Company is also reasonable.

4 18. The Company has indicated that it intends to allocate or unbundle the amount
5 associated with its "Facility Relocation Charge," and set this out separately on customer bills. The
6 Company also proposes to review the charges on an annual basis to ensure that it is tracking the
7 facility relocation costs for unreimbursed projects for the prior year. The Company also states that the
8 FRS will be updated annually. Although the manner in which the surcharge will be calculated was not
9 included in the proposed tariff, CenturyLink, on January 27, 2016, offered to revise the proposed tariff
10 to clarify the manner in which the surcharge is to be calculated.

11 19. Staff concludes that the unbundled charge is not inconsistent with A.A.C. R14-2-1104,
12 -1109, and -1110, and is reasonable under the circumstances.

13 **Staff Recommendation**

14 20. CenturyLink has effectively requested an increase to its maximum residential access
15 line rate of \$3.00 per month, with \$.80 of that rate increase identified as a Facility Relocation Charge.
16 Staff recommends approval of this application with the initial surcharge set at \$.80 and an increase in
17 the residential maximum access line rate of \$3.00. The initial surcharge for business lines shall also be
18 set at \$.80 per access line. Staff further recommends that CenturyLink file a revised tariff consistent
19 with the Commission's Order in this matter within 30 days of the effective date of that Order. The
20 tariff shall also reflect that CenturyLink shall file any changes to its unbundled surcharge with the
21 Commission in accordance with R14-2-1109, except that the tariff shall also incorporate the yearly
22 process proposed by CenturyLink for updates to the FRS and also state that the Company shall
23 provide the Commission Staff with any other information requested in support of its changes in FRS
24 rates.

25 CONCLUSIONS OF LAW

26 1. Qwest Corporation dba CenturyLink QC is a public service corporation within the
27 meaning of Article XV of the Arizona Constitution and A.R.S. 40-285.

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3 IT IS FURTHER ORDERED that CenturyLink The tariff shall also reflect that CenturyLink
 4 shall file any changes to its unbundled surcharge with the Commission in accordance with R14-2-
 5 1109, except that the tariff shall also incorporate the yearly process proposed by CenturyLink for
 6 updates to the FRS and also state that the Company shall provide the Commission Staff with any
 7 other information requested in support of its changes in FRS rates.

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

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10 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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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 this
 Commission to be affixed at the Capitol, in the City of
 Phoenix, this _____ day of _____, 2016.

 JODI JERICH
 EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

TMB:WMS:red/ML

1 SERVICE LIST FOR: Qwest Corporation dba CenturyLink QC
2 DOCKET NO. T-01051B-15-0382

3 Mr. Reed Peterson
4 Director – State Regulatory Affairs
5 Qwest Corporation dba Century Link QC
6 20 East Thomas Road – 1st Floor.
7 Phoenix, Arizona 85012

8 Ms. Dawn Salaver
9 Qwest Corporation
10 1801 California Street, 10th Floor
11 Denver, Colorado 80202-0000

12 Mr. Norman G. Curtright
13 Associate General Counsel
14 Qwest Corporation dba Century Link QC
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