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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF ALL WEST
COMMUNICATIONS, INC.'s
APPLICATION FOR USF ELIGIBILITY

(REDACTED)
APPLICATION FOR USF ELIGIBILITY
DOCKET NO. 11-2270-01

All West Communications, Inc. (“All West” or “Company”) pursuant to Utah Code Annotated §54-8b-11, §54-8b-15, and Rules R746-360 and R746-700 of the Commission’s Rules of Practice and Procedure, hereby applies to the Public Service Commission of Utah (“Commission”) for State Universal Service Fund (“USF”) eligibility for the purpose of defraying the cost for All West to provide basic telephone service within its geographic service area. All West represents and states as follows:

1. All West is a Utah corporation qualified to transact business and operate as a local exchange carrier providing telecommunications within the State of Utah under authority issued to All West. The Commission has jurisdiction over All West’s application and request for USF eligibility under Utah Code Title 54, § 54-1-1; §54-8b-15 and R746-360 and R746-700 of the

Commission's Rules of Practice and Procedure. 2. The purpose of this Application is to present financial and statistical information supporting All West's request for increased USF eligibility in compliance with Utah Administrative Code § R746-360; R746-700, and §54-8b-15 of the Utah Code.

3. This Application is based upon audited 2010 financial information, the 2010 National Exchange Carrier Association ("NECA") interstate cost study, and known and measurable changes to the operations for the 12 months ending December 31, 2010, ("test period"). In order to provide the financial and statistical information presented in this Application, All West's operations for the test period were analyzed to identify and remove non-regulated costs. All West's historical operations for the test period were then adjusted to reflect known and measurable changes in operations. All West's pro forma cost of providing Utah telecommunications services and including the necessary information to support the request for increased Utah USF support eligibility is reflected on the attached schedules.

4. All West's Application is supported by the following Schedules which are considered confidential subject to Utah Public Service Rule 746-100-16. The schedules have been organized to support the amount of All West's revenue deficiency provided in Schedule 1. The historical and Pro Forma results of operations are reflected in Schedule 2 through Schedule 5.

5. **Schedule 1 - Computation of Earnings Shortfall.** This schedule compares the Company's authorized return to the normalized revenue requirement. The Company's resultant revenue deficiency is then subject to an income tax "gross up," which results in a total company

revenue shortfall of \$2,039,339. Note that the Company's actual rate-of-return on regulated pro forma operations is [Begin Confidential *** End Confidential].

6. Schedule 2 – Rate Base Summary. This schedule calculates the Company's total rate base of [Begin Confidential *** End Confidential]. The schedule begins with historical book amounts and contains adjustments to produce a regulated rate base as of December 31, 2010. Finally, the schedule allocates the Company's regulated rate base to the appropriate jurisdiction based upon FCC Part 36 allocation rules for use in the Weighting Percentages of the Weighted Rate of Return calculation.

7. Schedule 3 - Rate Base Adjustments. This schedule identifies the individual adjustments contained in Schedule 2. Most of these adjustments were also made in conjunction with the Company's interstate cost study (column B) and primarily remove non-regulated investments in accordance with FCC Part 64 rules.

8. Schedule 4 – Income Statement Summary. This schedule calculates the Company's total normalized earnings of [Begin Confidential *** End Confidential], as specified in the Total Company Rule, R746-360-8 which became effective October 25, 2010. The schedule begins with historical book amounts and identifies and adjusts for fixed, known and measurable items necessary to produce a pro forma, regulated income statement.

9. Schedule 5 – Income Statement Adjustments. This schedule identifies the individual adjustments contained in Schedule 4. Most of the adjustments are also made in conjunction with the Company's interstate cost study (column B) and remove non-regulated revenues and expenses in accordance with FCC Part 64 rules. Column D includes the

normalizing adjustments, as discussed below, included to reach the normalized 2010 Pro Forma balances.

10. All West has experienced a decline in its basic local service access lines and related revenue from 2008 to 2010. Based upon this analysis, All West anticipates that local revenue will decline by [Begin Confidential *** End Confidential] from 2010 levels, which is supported by the decline in access lines. Pro Forma Income Statement Adjustment 1 (IS-1) provides the anticipated local revenue decrease.

11. High Cost Loop Support (“HCLS”) revenue is projected to increase by [Begin Confidential *** End Confidential] to [Begin Confidential *** End Confidential]. This amount was calculated by annualizing the most recent monthly projected disbursements of [Begin Confidential *** End Confidential]. This information was obtained from the Universal Service Administrative Company (“USAC”) Appendix HC-01. This adjustment is included as Pro Forma Income Statement Adjustment 2 (IS-2).

12. All West performed an analysis of intrastate access minutes from 2008 to 2010, which reflected a continuing trend of decreasing minutes and the resultant access revenues. All West has included an intrastate access service revenue loss of [Begin Confidential *** End Confidential] in Pro Forma Income Statement Adjustment 3 (IS-3) based on a continuing decrease of the intrastate access minutes.

13. In 2010 All West made an audit adjustment to write off an amount assumed to be uncollectible from the Utah Fiber Network. Subsequently this amount is now believed to be collectible in 2011.

14. Pro Forma Income Statement Adjustment 5 (IS-5) provides for the 3% wage increase for all employees that occurred in January of 2011 as well as a budgeted increase of an additional 2% in July. The adjusted 2010 wages were normalized to recognize these wage increases. IS-5 also reduces costs associated with the retirement of key personnel during 2010. The adjustment recognizes the departure of two separate employees.

15. All West provides healthcare coverage for its employees through a benefit plan established with Gallagher Benefit Services, Inc (“GBS”). All West has experienced increased health insurance cost in 2010 and thus far into 2011, based on data supplied by GBS, the cost of insurance is expected to increase further in 2011. Pro Forma Income Statement Adjustment 6 (IS-6) provides for the known increase in healthcare costs for 2011.

16. Pro Forma Income Statement Adjustment 7 (IS-7) normalizes depreciation expense as of the end of the test period. Normalized depreciation expense was determined by applying the prescribed depreciation rates to end of test period plant in service amounts used in this Application. The supporting documentation for this adjustment is provided.

17. Pro Forma Income Statement Adjustment 8 (IS-8) includes the cost of hiring one additional employee during 2011. The total cost is based on anticipated job functions, and includes benefit costs based on historical benefit loading factors. This adjustment increases regulated expenses by the total cost on one new employee.

18. Pro Forma Income Statement Adjustment 9 (IS-9) represents the anticipated amount of expenses related to All West’s costs of filing this application, amortized over a period of two years. It is estimated that the rate case expense will be [Begin Confidential *** End

Confidential]. Therefore, [Begin Confidential *** End Confidential] for the adjusted test period has been added to the State expenses.

19. To correctly apply income taxes to the normalized income for the test period, Income Statement Adjustment 10 (IS-10) applies a tax factor that incorporates both state and federal tax rates to taxable income. Related to this adjustment, a net gross multiplier is included in the deficiency calculation in schedule 1. This multiplier is applied to project the impact of and include additional taxes that the additional state USF would elicit.

20. **Schedule 6 – Cost of Capital.** All West utilizes a total company rate-of-return (“ROR”) of 9%, which represents the weighted average of the interstate ROR of 12.33% and the state ROR 7.14%. All West’s intrastate cost of capital was derived using an imputed capital structure of 35% equity and 65% debt. For the individual components of its capital structure, All West has used a cost of debt of 4.26% and a cost of equity of 12.5%, which results in a composite intrastate rate-of-return of 7.14%. The Company’s cost of debt was derived from the most recent RUS interest rates for 20 year notes. The cost of equity is consistent with recent authorized equity returns proposed by Staff.

21. The interstate return of 12.33% is derived from NECA’s most recent FCC form 492 interstate return for the period of January 1, 2009 through December 31, 2009 that was provided to the Federal Communications Commission (“FCC”) on September 30, 2010 for Carrier Common Line (“CCL”) and Traffic Sensitive (“TS”) pool participants.

22. **Schedule 7 – 2010 NECA Cost Study.** In accordance with Utah Rule R746-700-40-A.5, All West has provided a copy of its 2010 NECA Cost Study. All West has completed its 2010 interstate cost study and has included the Part 36 jurisdictional separations calculations

along with adjustments and supporting documentation. The 2010 interstate cost study was prepared using audited balances, which were adjusted to remove non-regulated investments and expenses in accordance with FCC Part 64 rules, as discussed previously.

23. **Schedule 8 – Auditor Management Letters and Audit Entries.** In accordance with Utah Rule R746-700-40, All West has provided a copy of the 2010 management letter (R746-700-40-A.7) from the Company’s external auditors and copies of the adjusting audit journal entries (R746-700-40-A.6) in Schedule 8. Also included is the Audited Trial Balance as of December 31, 2010, which reflects that All West recorded all of the recommended 2010 audit adjustments.

24. **Schedule 9 - Summary of Bad Debts.** The Summary of Bad Debts provides the bad debt expense detail required by Rule 746-700-40-A.11, including the amount written off, the recoveries, the reserve adjustment, other charges and credits, and the ending reserve balance write offs for the two years prior to the historical period. In accordance with Rule 746-700-40-A.12, All West has not changed collection policies or write-off policies.

25. **Schedule 10 – Organizational Charts.** In accordance with Utah Rule R746-700-40, All West has provided a copy of the affiliate’s organization chart and the personnel organization chart outlining names and line of authority as prescribed by 746-700-40-A. 9.

26. In accordance with Rule R746-700-40-A.4, All West has not made any significant changes in accounting policies or procedures for the 12-month period prior to the historical period or through the date of the general rate case application. In accordance with Rule R 746-700-40-A.13, All West has paid no penalties or fines in the historical period or in the test period.

In accordance with Rule 746-700-40-A.8 and A.10, All West has conducted no internal audits nor have there been any corporate restructuring or changes in affiliate relationships.

27. All West's current local rates are \$16.50 for residential customers and \$26.00 for business, which meet the current Utah Affordable Base Rate for basic telecommunications service. Accordingly, All West does not propose to revise basic local service rates. All West's cost to provide basic telephone service to its customers is in excess of the Affordable Base Rate. Therefore, All West requests that its entire revenue deficiency of \$2,055,907 be recovered through Utah Universal Service Fund support.

28. **Schedule 11-Depreciation Rates and Depreciation Lives.** In accordance with U.C.A. §54-7-12.1, Schedule 11 contains All West's Depreciation Rates and Depreciation Lives, and All West requests that the Commission approve the depreciation rates and lives in accordance with Utah Code §54-7-12.1.

WHEREFORE, All West Communications, Inc. respectfully submits this Application for USF eligibility.

DATED this _____ day of May, 2011.

BLACKBURN & STOLL, LC

Stanley K. Stoll
Kira M. Slawson
Attorneys for South Central Utah Telephone
Association, Inc.

STATE OF UTAH)
) ss.
COUNTY OF SUMMIT)

CERTIFICATION

The undersigned, Jenny Prescott, Vice President of Customer Service and Finance of All West Communications Inc., being duly sworn upon his oath hereby certifies, pursuant to Commission Rule R746-700-40-C that the following documents have been prepared and are available:

1. Financial audit work papers for the most recent completed financial audit;
2. Any revenue ruling requests, IRS responses, and correspondence between the utility and the IRS since the last general rate case; and
3. Copies of the most recent State and Federal income tax returns in which the utility participated.

Copies of this information are being contemporaneously delivered as Confidential Documents to the Division of Public Utilities.

Jenny Prescott
Vice President of Customer Service and Finance
All West Communications, Inc.

Subscribed and sworn to before me on this _____ day of May, 2011.

Notary Public

My Commission Expires:

CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the (Redacted) All West Communications, Inc. Application for USF Eligibility, Docket No. 11-2270-01 was sent to the following individuals by electronic mail, this 10th day of May, 2011.

Patricia Schmid
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Paul Proctor
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Kira M. Slawson