

CONFIDENTIAL FILING

July 26, 2016

VIA ELECTRONIC FILING SYSTEM

Mr. Steven V. King, Acting Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 South Evergreen Park Drive SW
Olympia, WA 98504-7250

RE: **2017 Petition to Receive USF Support**

Dear Mr. King:

MASHELL TELECOM, INC. DBA RAINIER CONNECT ("MASHELL"), a privately-held rate of return carrier receiving high cost support, has electronically submitted a 2017 Petition to Receive USF Support to the Commission with redacted financial data. MASHELL respectfully provides the Commission with its confidential financial data so that all its reporting obligations are satisfied.

MASHELL, by its authorized representative, respectfully submits confidential information in compliance with WAC 480-07-160. MASHELL requests confidential treatment of certain information submitted with its annual reporting requirements as a privately-held rate of return carrier. The confidential information is required by WAC 480-123-110 and includes detailed financial information that is competitively sensitive. Disclosure of this confidential information would have a substantial negative impact on MASHELL. Such information would not normally be made available to the public for inspection because of the financial information and should be afforded confidential treatment under WAC 480-07-160.

As specified in the WAC 480-07-140, copies of the redacted confidential information are being filed simultaneously with the non-redacted confidential information. The redacted information for this filing and each page of the file where confidential information has been omitted is marked "REDACTED - FOR PUBLIC INSPECTION" and the confidential submission is marked "CONFIDENTIAL PER WAC 480-07-160".

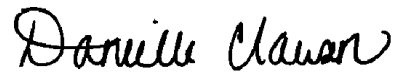


THINK INSIDE THE BOX
Business and Residential Communications

REDACTED - FOR PUBLIC INSPECTION

Please feel free to contact me with any questions regarding this particular matter.

Sincerely,

A handwritten signature in black ink that reads "Danielle Clause". The signature is written in a cursive, flowing style.

Danielle Clause, Controller
For Mashell Telecom Inc. dba Rainier Connect

Enclosures

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6 **BEFORE THE WASHINGTON**
7 **UTILITIES AND TRANSPORTATION COMMISSION**

8 IN RE

9
10 PETITION OF MASHELL TELECOM, INC.
11 [D/B/A RAINIER CONNECT] TO
12 RECEIVE SUPPORT FROM THE STATE
UNIVERSAL COMMUNICATIONS
SERVICES PROGRAM

DOCKET NO.
PETITION FOR SUPPORT

13
14 COMES NOW Mashell Telecom, Inc. [d/b/a Rainier Connect] (the "Company") and,
15 pursuant to Chapter 480-123 of the Washington Administrative Code ("WAC") including, but not
16 limited to, WAC 480-123-110, hereby petitions the Washington Utilities and Transportation
17 Commission (the "Commission") to receive support from the State Universal Communications
18 Services Program established in RCW 80.36.650 (the "Program") for the fiscal year ending June 30,
19 2017.

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21 **I. Demonstration of Eligibility under WAC 480-123-100**

- 22
23 1. WAC 480-123-100(1)(a): The Company is a local exchange company as defined in WAC
24 480-120-021 that serves less than forty thousand access lines within the state.

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26 PETITION OF MASHELL TELECOM, INC.
[D/B/A RAINIER CONNECT]_TO RECEIVE
SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM -

- 1 2. WAC 480-123-100(1)(b): The Company is an incumbent local exchange carrier as defined
2 in 47 U.S.C. Sec. 251(h)
- 3 3. WAC 480-123-100(1)(c): The Company offers basic residential and business exchange
4 telecommunications services as set forth in WAC 480-120-021 and RCW 80.36.630.
- 5 4. WAC 480-123-100(1)(d): The Company's rates for residential local exchange service, plus
6 mandatory extended area service charges, are no lower than the local urban rate floor
7 established by the Commission as the benchmark rate based on the Federal Communications
8 Commission's national local urban rate floor pursuant to 47 C.F.R. Sec. 54.318 in effect on
9 the date of this Petition.
- 10 11 5. WAC 480-123-100(1)(e): The Company has been designated by the Commission as an
12 eligible telecommunications carrier for purposes of receiving federal universal services
13 support pursuant to 47 C.F.R. Part 54 Subpart D - Universal Service Support for High Cost
14 Areas with respect to the service area for which the Company is seeking Program support.
15

16 **II. Demonstration of Eligibility under WAC 480-123-110**

- 17 18 1. WAC 480-123-110(1)(a): The name of the legal entity that provides communications
19 services and is seeking Program support is as follows: Mashell Telecom, Inc. [d/b/a Rainier
20 Connect].
- 21 22 2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between
23 the Company and all affiliates as defined in RCW 80.16.010 is attached hereto as Exhibit 1.
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1 A detailed description of any transactions between the Company and the affiliates named in
2 Exhibit 1¹ recorded in the Company's operating accounts is attached hereto as Exhibit 2.²

- 3 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet Nos.
4 Fifth Revised Sheet No. 105 and Original Sheet No. 105.1 of the Company's Tariff WN U-3.
5
6 4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate
7 instability or service interruption or cessation in the absence of support from the Program is
8 attached as Exhibit 3.
9
10 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached as Exhibit 4,
11 are copies of the Company's balance sheet as of December 31, 2015, and December 31,
12 2014, and copies of the Company's statements of income and retained earnings or margin for
13 the years ended December 31, 2015 and December 31, 2014.
14
15 6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial
16 statements for the years ended December 31, 2015 and December 31, 2014, is attached as
17 Exhibit 5.
18
19 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of
20 return on a total Washington unseparated regulated operations basis for each of the two prior
21 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.

22 ¹ Pursuant to agreement with the Commission Staff, Exhibit 1 is limited to those affiliates having transactions with the
23 Company that are to be identified in Exhibit 2.

24 ² Exhibit 2 also includes transactions between the Company and AO And LD Haynes Management LLC and Carrera
25 GT. Pursuant to agreement with the Commission Staff, Exhibit 2 is limited to transactions other than employment
26 compensation and benefits pursuant to employee benefit plans.

- 1 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on
2 equity on a total company (regulated and non-regulated) Washington basis for each of the
3 two prior years, calculated in the manner prescribed by the Commission, is provided in
4 Exhibit 4.
- 5 9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues from the
6 statements of income and retained earnings or margin in the same format and detail as is
7 required to complete RUS Form 479 for the prior two years is presented on Exhibit 6.
- 8 10. WAC 480-123-110(1)(e)(vi): Information detailing the amounts of any corporate operations
9 adjustment to existing high-cost loop and interstate common line support mechanisms
10 required of the Company by the Federal Communications Commission for the past two
11 years is attached as Exhibit 7.
- 12 11. WAC 480-123-110(1)(e)(vii): Exhibit 4 contains additional supporting information
13 requested by the Commission.
- 14 12. WAC 480-123-110(1)(e)(viii): A statement under penalty of perjury from a Company
15 officer with personal knowledge and responsibility certifying that the Company complies
16 with state and federal accounting, cost allocation, and cost adjustment rules pertaining to
17 incumbent local exchange companies is attached as Exhibit 8.
- 18 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or
19 on its behalf with the Federal Communications Commission for the calendar year preceding
20 the current year has already been filed with the Commission. See the Company's filing in
21 Docket No. UT-160030 filed on or about July 1, 2016.
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1 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by
2 the Company as of December 31, 2015, was 2,084, all of which were within the geographic
3 area for which the Company is seeking support. The number of residential local exchange
4 access lines served by the Company as of December 31, 2014, was 2,123, all of which were
5 within the geographic area for which the Company is seeking support. The number of
6 business local exchange access lines served by the Company as of December 31, 2014, was
7 595, all of which were within the geographic area for which the Company is seeking
8 support. The number of business local exchange access lines served by the Company as of
9 December 31, 2014, was 575, all of which were within the geographic area for which the
10 Company is seeking support. The monthly recurring rate charged by the Company for
11 residential local exchange access service on December 31, 2015, was \$18.00. The monthly
12 recurring rate charged by the Company for residential local exchange access service on
13 December 31, 2014, was \$16.00. The rate charged by the Company for single line business
14 local exchange access service on December 31, 2015, was \$18.00. The rate charged by the
15 Company for single line business local exchange access service on December 31, 2014, was
16 \$16.00. (The Company has other business local exchange service rates, but the Company
17 understands that WAC 480-123-110(1)(g) is requesting the single line business local
18 exchange access service rate.)
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21 15. WAC 480-123-110(1)(h): The requested statement is attached as Exhibit 9.

22 16. All exhibits attached hereto are incorporated in this Petition as though fully set forth.
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1 17. The amount on line 4, titled "2011 ROR Carrier Base Period Revenue", of the CAF ICC
2 Data Collection Report for the period July 1st, 2016 through June 30, 2017 has not changed
3 from prior filings.
4

5 Respectfully submitted this 27th day of July, 2016.
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7
8 Mashell Telecom, Inc.
9 d/b/a Rainier Connect

10 EXHIBIT 8
11 CERTIFICATION

12 I Brian Haynes, an officer of the Company that is responsible for the Company's business
13 and financial operations, hereby certify under penalty of perjury that the information and
14 representations set forth in the Petition, above, are accurate and the Company has not knowingly
15 withheld any information required to be provided to the Commission pursuant to the rules
16 governing the Program.

17 By: _____

18 Title: President/CEO
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26 PETITION OF MASHELL TELECOM, INC.
[D/B/A RAINIER CONNECT]_TO RECEIVE
SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM -

EXHIBIT 1

CORPORATE ORGANIZATION CHART

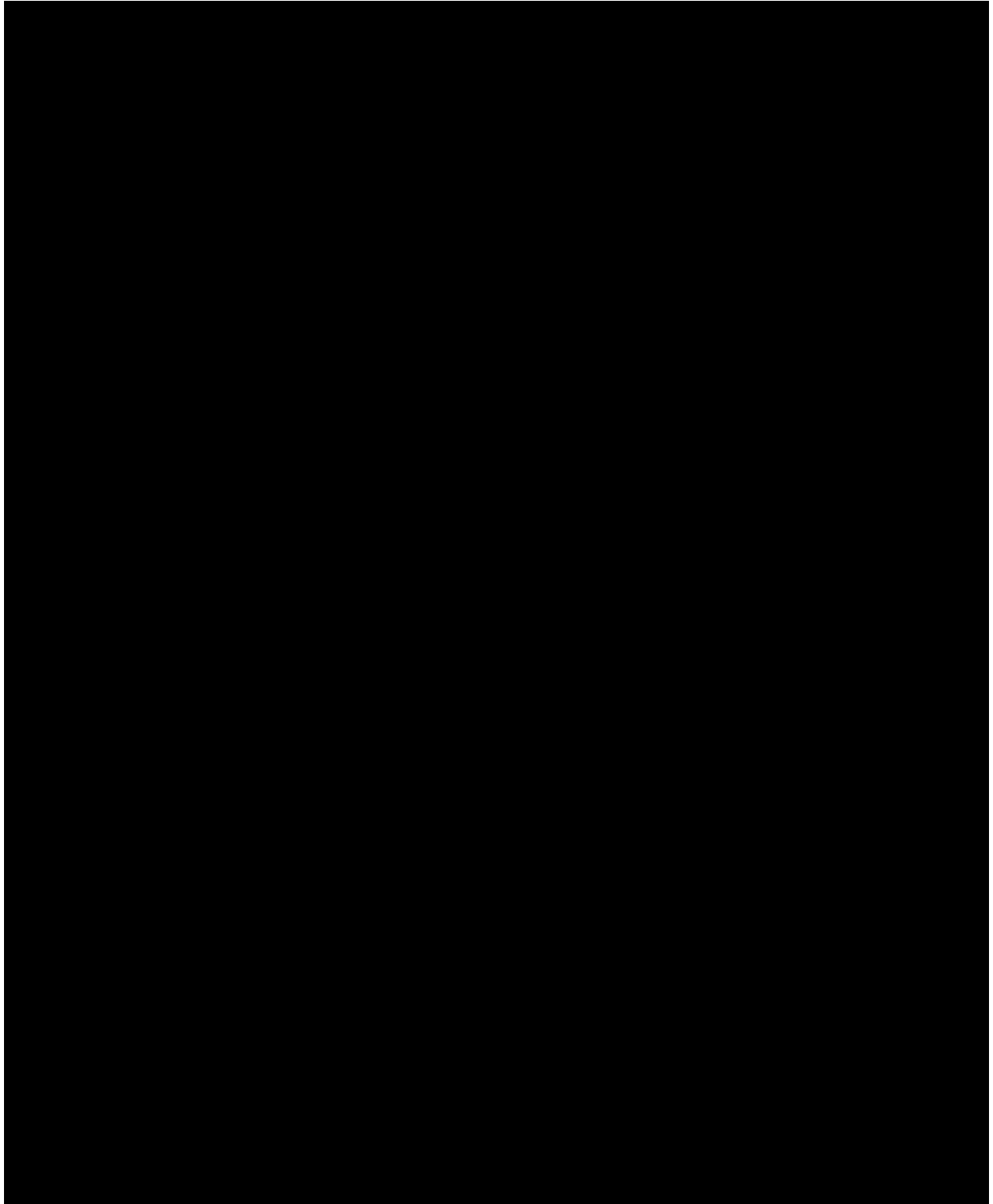


EXHIBIT 2

AFFILIATED TRANSACTIONS

Mashell Telecom, Inc. leased a warehouse and central office facility building from its majority owner, AO and LD Haynes Management, LLC until September, 2015 when the Company purchased these assets from the AO and LD Haynes Management, LLC. Prior to the purchase, the Company operated under a noncancellable operating lease expiring in 2019. These leased properties facilitate both the ILEC and CLEC operations of the business and are appropriately allocated between regulated and nonregulated operations using Part 64 factors and recorded in account 6121-3, Land & Building Expense-Rents.

The Company also rents office space, utilized as corporate headquarters and network operations center, from its affiliate, Carrera GT, LLC. This leased property facilitates both the ILEC and CLEC operations of the business and is appropriately allocated between regulated and nonregulated operations using Part 64 factors and recorded in account 6121-3, Land & Building Expense-Rents.

During 2015, the Company along with another Click Preferred ISP, NetVenture, transferred all Click Network Subscribers to an affiliate Tacoma's Best Internet, LLC. This transfer provided the Company with a 50% membership equity in TBI. The Company entered into a management agreement with TBI to provide support to TBI's entire subscriber base. This agreement applies only to CLEC operations and all associated expenses and revenue are properly allocated to nonregulated operations.

Certain shareholders holding five percent or more of the stock, directly or indirectly, of the Company are also employees of the Company and receive from the Company employment compensation together with employment-associated benefits in accordance with benefit plans that are in place.

EXHIBIT 3

DEMONSTRATION OF RISK OF RATE INSTABILITY OR SERVICE INTERRUPTION OR CESSATION

The operating environment in which the Company finds itself has created a climate of great financial uncertainty. The Company has been working over the past several years to address growing competition. The Company has taken steps to increase the availability and attributes of advanced services offered by the Company, including broadband. This has resulted in the Company making additional investments in regulated plant of approximately \$3,260,898 during the period January 1, 2011 through December 31, 2015.

The overall financial condition of the Company is detailed on other Exhibits to this Petition. What this information demonstrates is that, when adjusted to eliminate the support from the state Universal Communications Services Program that the Company received or accrued in 2015, [REDACTED] percent from 2011 through 2015. The Company has looked for ways to lower expenses. However, much of the Company's operating expenses are fixed obligations, such as debt-related payments.

At the same time, the Company is seeing increased competition. For example, the Company has seen some migration of customers "cutting the cord" to move to wireless or other service as their sole method of telecommunications. Since 2011, the Company access lines have [REDACTED]. A loss of customers equates to a loss of revenue without a corresponding reduction in expenses or corresponding increase in rates. This trend of access line loss is exacerbated by the Federal Communications Commission's requirement that the Company increase its rates to remain eligible for full federal USF support. Since 2012, the Company has increased its local exchange service rates in order to be in compliance with the national urban rate floor prescribed by the Federal Communications Commission. However, those increases have been insufficient to fully replace the revenues that have been lost due to the reduction in access lines. In addition, those rate increases have tended to stimulate a surge in disconnection of service by customers.

As an example of why state Program support is needed, the Company's receipt of revenue from the traditional Washington intrastate universal service access rate element and related pooling fund were terminated effective July 1, 2014. Since then, the loss of revenues derived from the traditional universal service access rate element has been off-set by revenues received by the Company as a result of its participation in the Program. Using 2012 as a base line, the Company is facing a loss of traditional universal service fund revenues of approximately \$69,116 per year if its participation in the Program is not renewed.

As another example, some of the financial uncertainty that the Company faces stems from the USF/ICC Transformation Order issued by the Federal Communications Commission.¹ The USF/ICC

¹ *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing an Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up, Universal Service Reform - Mobility Fun*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011)(*USF/ICC Transformation Order*).

Transformation Order has built in an automatic decline in the Company's intrastate and interstate access revenues. The intercarrier compensation portion of the Transformation Order introduces a concept of a base line year for calculating terminating access and reciprocal compensation revenues and provides support from the Connect America Fund ("CAF") based on the base line year. However, the base line year revenues (from which the level of CAF support is derived) are reduced iteratively by five percent each year. The CAF support reduction began in July 2012. Projecting through the calendar year 2017, including additional reductions that will occur July 1, 2016, the Company has seen a reduction in annual base line revenue from \$492,032 at July 2012 to \$380,725 at June 30, 2017 or a total reduction of approximately \$111,307.

On top of all this, during the four-year period ended December 31, 2014, the Company has seen its total federal support undergo a significant reduction, declining from \$1,392,951 in 2011 to \$1,165,393 in 2015.

These factors, among others, have led to the strained financial condition of the Company as reflected in the financial reports that are part of the Petition.

The combination of factors noted above creates a situation in which, without support from the state universal communications services program, the Company may be faced with a choice of increasing rates further or reducing service in order to be able to match expenses to revenues. Neither choice presents a viable path for providing continued high quality service to customers. The dilemma presented by these choices reflects the risk of rate instability or service interruption or cessation to which the Company is subject.

STATE USF FILING
FINANCIAL TEMPLATE
NON-"S CORP" COMPANIES

Report of Independent Auditors and
Consolidated Financial Statements for

Mashell, Inc. and Subsidiary
dba Rainier Connect

December 31, 2015 and 2014

EXHIBIT 7

CORPORATE OPERATION EXPENSE ADJUSTMENT AND CERTIFICATION
As Required in WAC 480-123-110(e)(vi)

I, Brian Haynes, an officer of Mashell Telecom, Inc. with personal knowledge and responsibility, under penalty of perjury, hereby certify that a corporate operations adjustment(s) to existing high-cost loop and/or interstate common line support mechanisms, as required by the Federal Communications Commission applied to the Company in the amount of [REDACTED] 14.

Dated this 27th day of July, 2016

Brian Haynes / President and CEO

EXHIBIT 8

FINANCIAL ACCOUNTING CERTIFICATE

I, Brian Haynes, an officer of Mashell Telecom, Inc. with personal knowledge and responsibility, based upon my discussions with Company staff and outside consultants retained by the Company to handle such matters, under penalty of perjury, state that the Company complies with state and federal accounting, cost allocation and cost adjustment rules pertaining to incumbent local exchange companies.

Dated this 27th day of July, 2016.

Brian Haynes / President and CEO

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

I, Brian Haynes, an officer of the Company, under penalty of perjury, hereby certify that if the Company receives Program support, the Company will continue to provide communications services pursuant to its tariffs on file with the Commission throughout its service territory in Washington for which the company is seeking and receives Program support during the entirety of 2016.

Dated this 27th day of July, 2016.

Brian Haynes / President & CEO