

CONFIDENTIAL FILING

August 11, 2017

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: **2018 Petition to Receive USF Support Revised Pages**

Dear Mr. King:

MASHELL TELECOM, INC. DBA RAINIER CONNECT ("MASHELL"), a privately-held rate of return carrier receiving high cost support, has electronically submitted revised pages to the 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,

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

Enclosures

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 \$3,691,711 during the period January 1, 2011 through December 31, 2016.

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 2016, the Company's total regulated revenue decreased by 5.9 percent from 2011 through 2016. 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 has lost 582 access lines. 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 Transformation Order has built in an automatic decline in the Company's intrastate and interstate access

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*).

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 year ending June 30, 2018, including reductions that will occur July 1, 2017, the Company has seen a reduction in support from the base line revenue of approximately \$130,343.

On top of all this, during the six-year period ended December 31, 2016, the Company has seen its total federal high cost support undergo a significant reduction, declining from \$1,392,951 in 2011 to \$1,298,443 in 2016.

Also contributing to the Company's risk of rate instability and potential for service interruption is the increase in amortization payments and interest expense associated with the \$11.1 million in long-term debt incurred in 2015 and 2016 to fund significant capital investments in plant expansions of fiber-to-the-home. These debt service payments will require in excess of \$1 million of the company's operating cash flow during 2017 and 2018. The Company will also see continued investments related to this project in 2017 and 2018 with a projected associated additional long-term debt of \$11 million.

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.

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 2018.

Dated this 11th day of August, 2017.

Brian Haynes / President & CEO

State USF Petition Filing Requirement - WAC 480-123-110(e)
Prior and Current Year Broadband and Gross Capital Expenditures

CONFIDENTIAL PER 480-07-160

Company Name: (Below)

Mashell Telecom, Inc.

