

**CONFIDENTIAL FILING**

July 23, 2015

**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: **2015 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 2015 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".



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

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

DOCKET NO.  
PETITION FOR SUPPORT

15 COMES NOW Mashell Telecom, Inc. [d/b/a Rainier Connect] (the "Company") and,  
16 pursuant to Chapter 480-123 of the Washington Administrative Code ("WAC") including, but not  
17 limited to, WAC 480-123-110, hereby petitions the Washington Utilities and Transportation  
18 Commission (the "Commission") to receive support from the State Universal Communications  
19 Services Program established in RCW 80.36.650 (the "Program") for the Program year 2016.

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

- 21 1. WAC 480-123-100(1)(a): The Company is a local exchange company as defined in WAC  
22 480-120-021 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 -

REDACTED - FOR PUBLIC INSPECTION

- 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 1<sup>1</sup> recorded in the Company's operating accounts is attached hereto as Exhibit 2.<sup>2</sup>

- 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, 2014, and December 31,  
12 2013, and copies of the Company's statements of income and retained earnings or margin for  
13 the years ended December 31, 2014 and December 31, 2013.  
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, 2014 and December 31, 2013, 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.

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

23 <sup>2</sup> [Exhibit 2 also includes transactions between the Company and AO and LD Haynes Management Trust and Carrera  
24 GT. Pursuant to agreement with the Commission Staff, Exhibit 2 is limited to transactions other than employment  
25 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-150063 filed on or about July 1, 2015.  
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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, 2014, was 2,217, 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, 2013, was 2,306, 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  
7 511, 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, 2013, was 523, 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, 2014, was \$16.00. The monthly  
12 recurring rate charged by the Company for residential local exchange access service on  
13 December 31, 2013, was \$14.00. The rate charged by the Company for single line business  
14 local exchange access service on December 31, 2014, was \$24.00. The rate charged by the  
15 Company for single line business local exchange access service on December 31, 2013, was  
16 \$24.00. (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.)  
19  
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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 Respectfully submitted this 23rd day of July, 2015.

2  
3 Mashell Telecom, Inc.  
4 d/b/a Rainier Connect

5  
6 CERTIFICATION

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

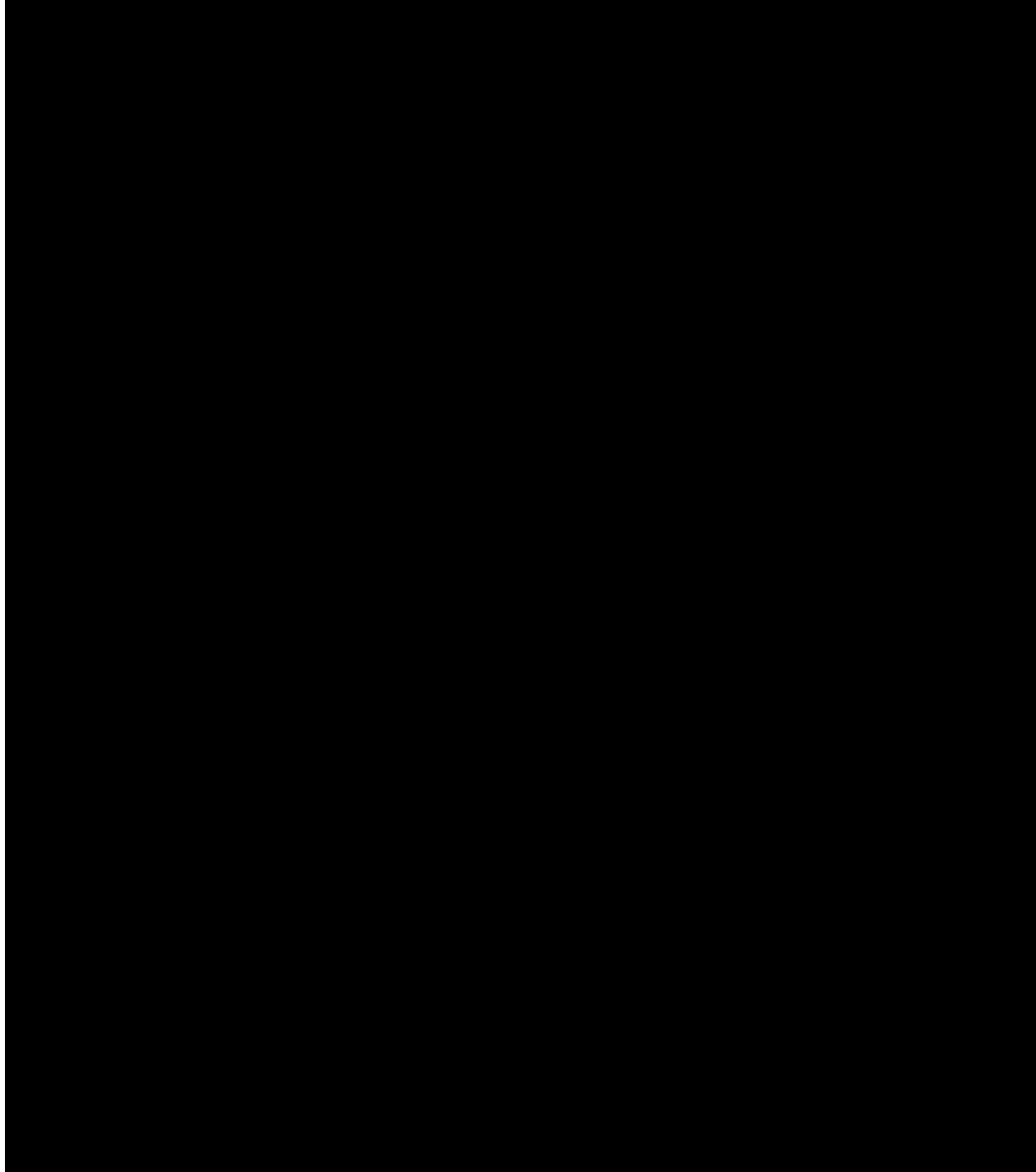
12 By: \_\_\_\_\_

13 Title: President/CEO



EXHIBIT 1

CORPORATE ORGANIZATION CHART



## EXHIBIT 2

### AFFILIATED TRANSACTIONS

Mashell Telecom, Inc. leases a warehouse and central office facility building from its majority owner, AO and LD Haynes Management, LLC. The lease is 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.

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/or attributes] of advanced services offered by the Company, including broadband. This has resulted in the Company making additional investments [in regulated plant] of approximately [REDACTED] during the period 2011 through 2014. As a result, the Company has a substantial debt obligation to cover the investment that has been made. [REDACTED]

[REDACTED] These decreases are attributed in large part to loss of local network services revenue and network access revenue.

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 2014, the Company's total regulated revenue [REDACTED] from 2011 through 2014. 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. [REDACTED]

[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.<sup>1</sup> The USF/ICC 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 2016, including additional reductions that will occur July 1, 2016, the Company has seen a reduction in support from the base line revenue amount of approximately \$111,307 for 2016.

On top of all this, during the four-year period ended December 31, 2014, the Company has seen its Federal high cost loop support undergo a significant reduction, declining from \$571,335 in 2011 to \$227,426 in 2014. This loss has not been made up by increases in other federal USF support programs.

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.

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<sup>1</sup> *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*).

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

REDACTED - FOR PUBLIC INSPECTION

Mashell Telecom, Inc.

Account Description				Account Description			
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
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Footnotes:  
 (A) - As reported on RUS Form 479  
 (B) - Part 64 adjustments from regulated to nonregulated.

Footnotes:  
 (B1) - Part 64 offset to nonreg investment  
 (B2) - Part 64 offset to retained earnings  
 (C) - Includes deferred taxes

Explanation: There are slight differences in category presentation from the prior year's state USF filing. These changes are not significant.  
 Prior year part 64 adjustment to accumulated depreciation should have included amortization.

REDACTED - FOR PUBLIC INSPECTION



State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)  
 Prior and Current Year Balance Sheet

Company Name: (Below)  
 \_\_\_\_\_

	2013	2014		2013	2014
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
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Footnote:  
 Adjusted Balances represents balances  
 after Part 64 adjustments

REDACTED - FOR PUBLIC INSPECTION





State USF Petition Filing Requirement - WAC 480-123-110 (1)(e)  
 Prior and Current Year Access Lines

Company Name: (Below)

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
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REDACTED - FOR PUBLIC INSPECTION









State USF Petition Filing Requirement - WAC 480-123-110 (1)(e)  
Out-of-Period Adjustments

Description of Out-of-Period - 2014 (As Recorded)	Part 32 Account	
	Debit	Credit
Adjustment #1:		
Adjustment #2:		
Adjustment #3:		
Adjustment #4		

REDACTED - FOR PUBLIC INSPECTION

State USF Petition Filing Requirement - WAC 480-123-110 (1)(e)  
Rate of Return and Consolidated Return on Equity

Company Name: (Below)

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]
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[REDACTED]	[REDACTED]	[REDACTED]

Footnote:  
(A) Source: Line 31 from Out-of-Period Adjustment work sheet

REDACTED - FOR PUBLIC INSPECTION



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

Company Name: (Below)

██████████

██████████	██████████ ██████████ ██████████	██████████ ██████████ ██████████	██████████ ██████████ ██████████	██████████ ██████████ ██████████
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Explanation: Prior year number is different from prior year application because last year's application included cable modem service. This year I have included only DSL broadband connections.  
 Prior year application reported capital expenditures did not include nonregulated capital investments.  
 I have revised the amount this year to include all company capital expenditures.

REDACTED - FOR PUBLIC INSPECTION

Report of Independent Auditors and  
Consolidated Financial Statements for

**Mashell, Inc. and Subsidiary**  
dba Rainier Connect

December 31, 2014 and 2013

## CONTENTS

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FINANCIAL STATEMENTS	
Consolidated balance sheets	3-4
Consolidated statements of operations	5
Consolidated statements of stockholders' equity	6
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Notes to consolidated financial statements	9-20

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders  
Mashell, Inc. and Subsidiary  
dba Rainier Connect

We have audited the accompanying consolidated financial statements of Mashell, Inc. and its subsidiary, dba Rainier Connect (Company), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

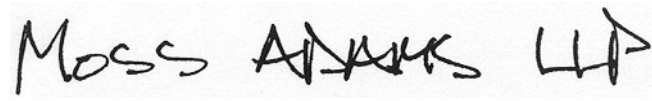
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

**REPORT OF INDEPENDENT AUDITORS  
(continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mashell, Inc. and its subsidiary, dba Rainier Connect, as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, slightly slanted style.

Spokane, Washington  
April 30, 2015

[REDACTED]

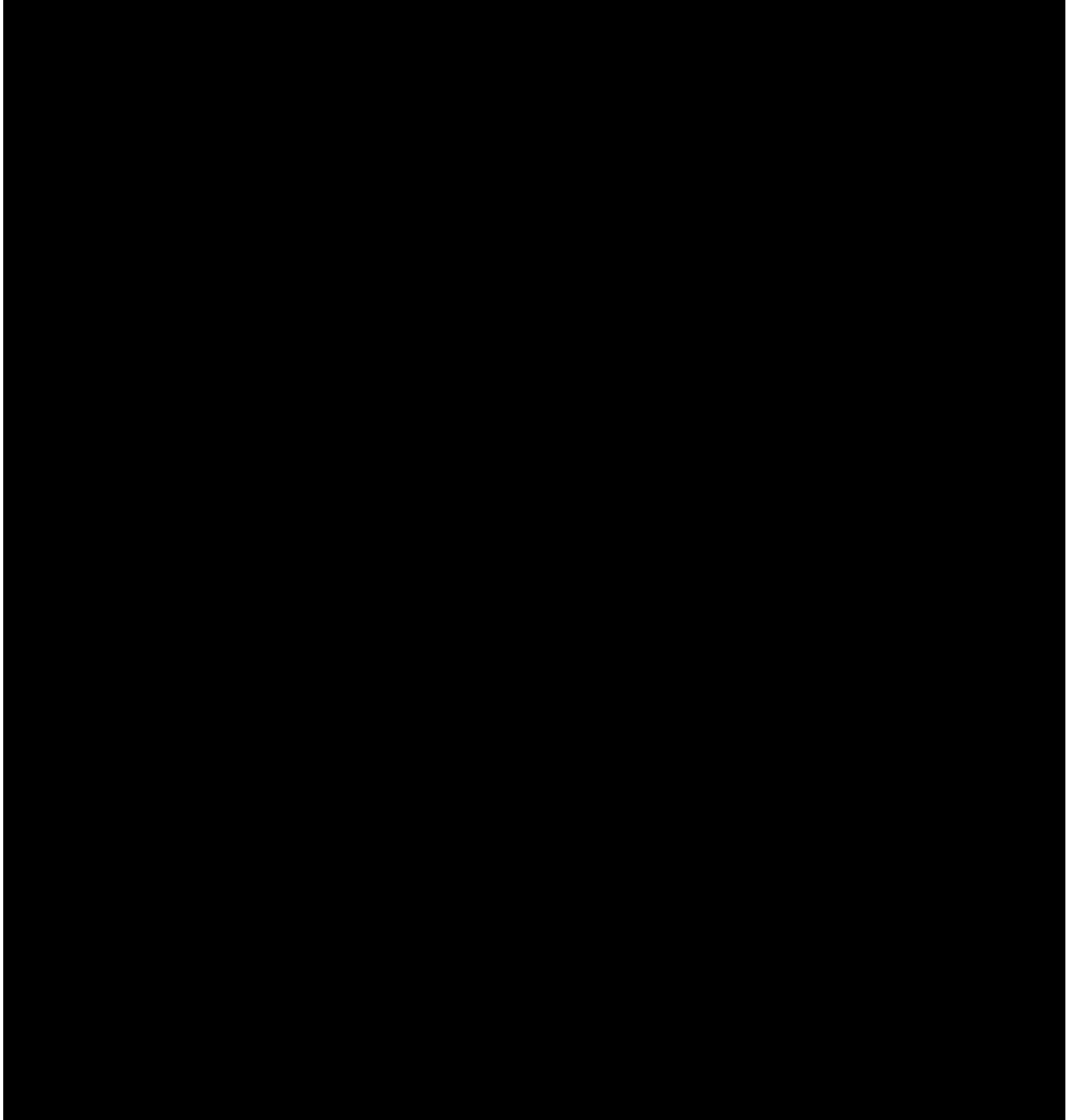
### ASSETS

December 31,

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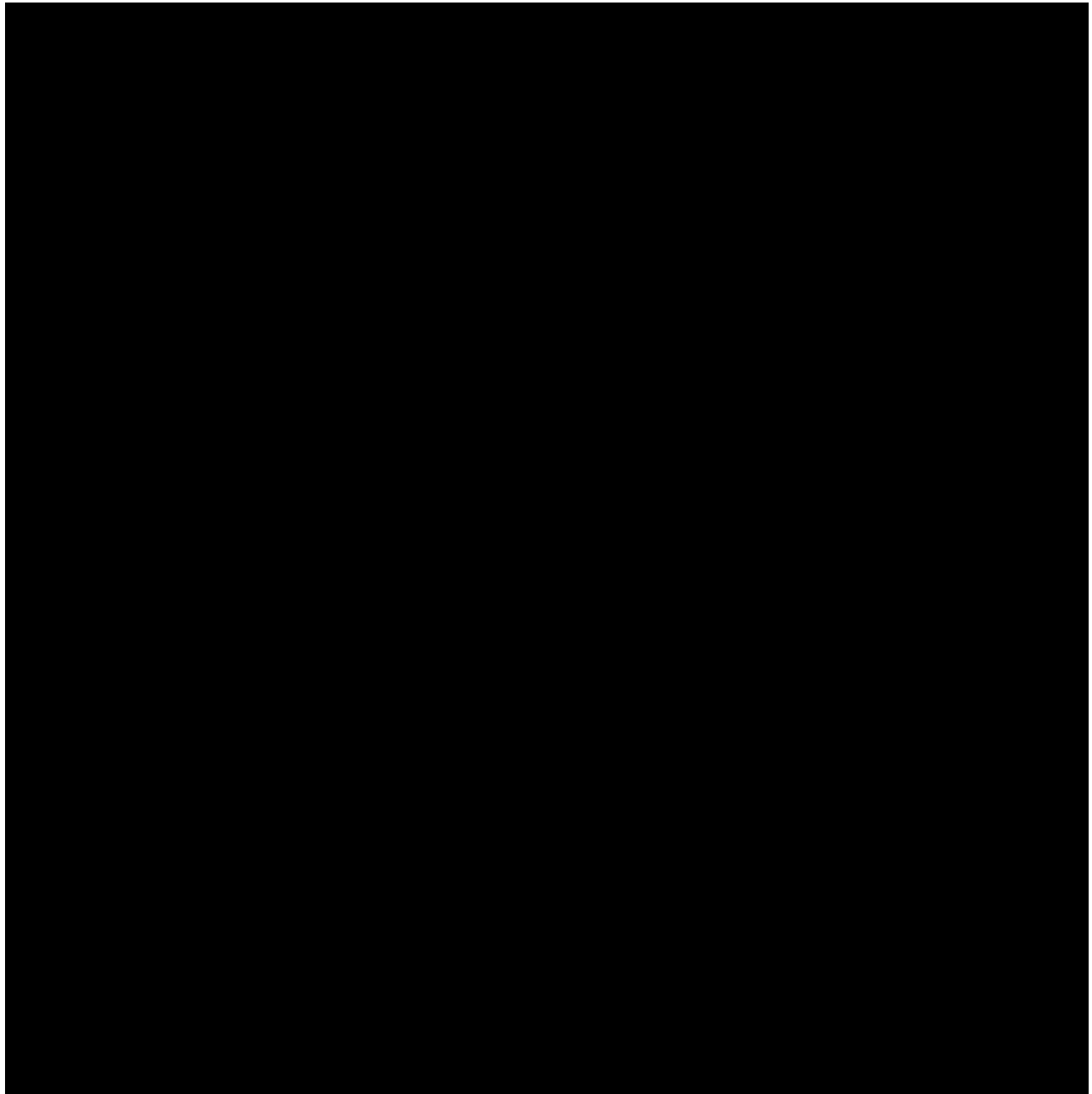
**MASHELL, INC. AND SUBSIDIARY dba RAINIER CONNECT  
CONSOLIDATED BALANCE SHEETS**

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**MASHELL, INC. AND SUBSIDIARY dba RAINIER CONNECT**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

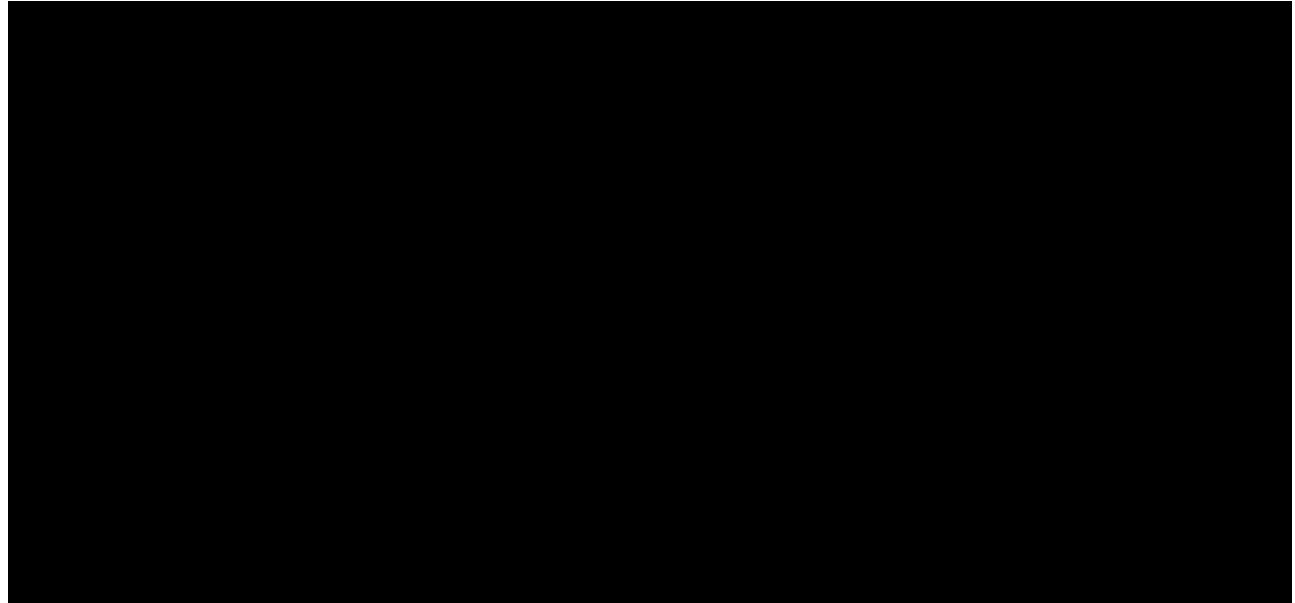
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**MASHELL, INC. AND SUBSIDIARY dba RAINIER CONNECT**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

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**MASHELL, INC. AND SUBSIDIARY** dba RAINIER CONNECT

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Years Ended December 31,

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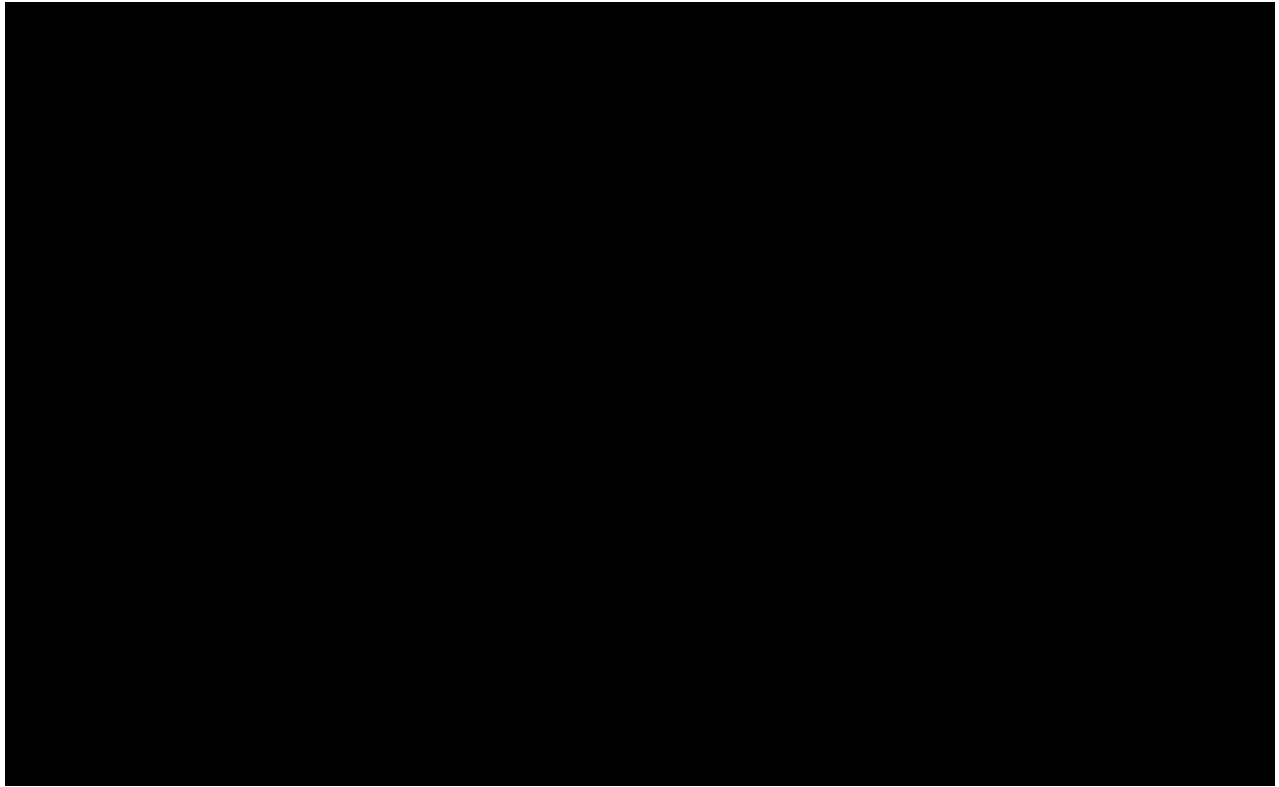
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**MASHELL, INC. AND SUBSIDIARY** dba RAINIER CONNECT  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

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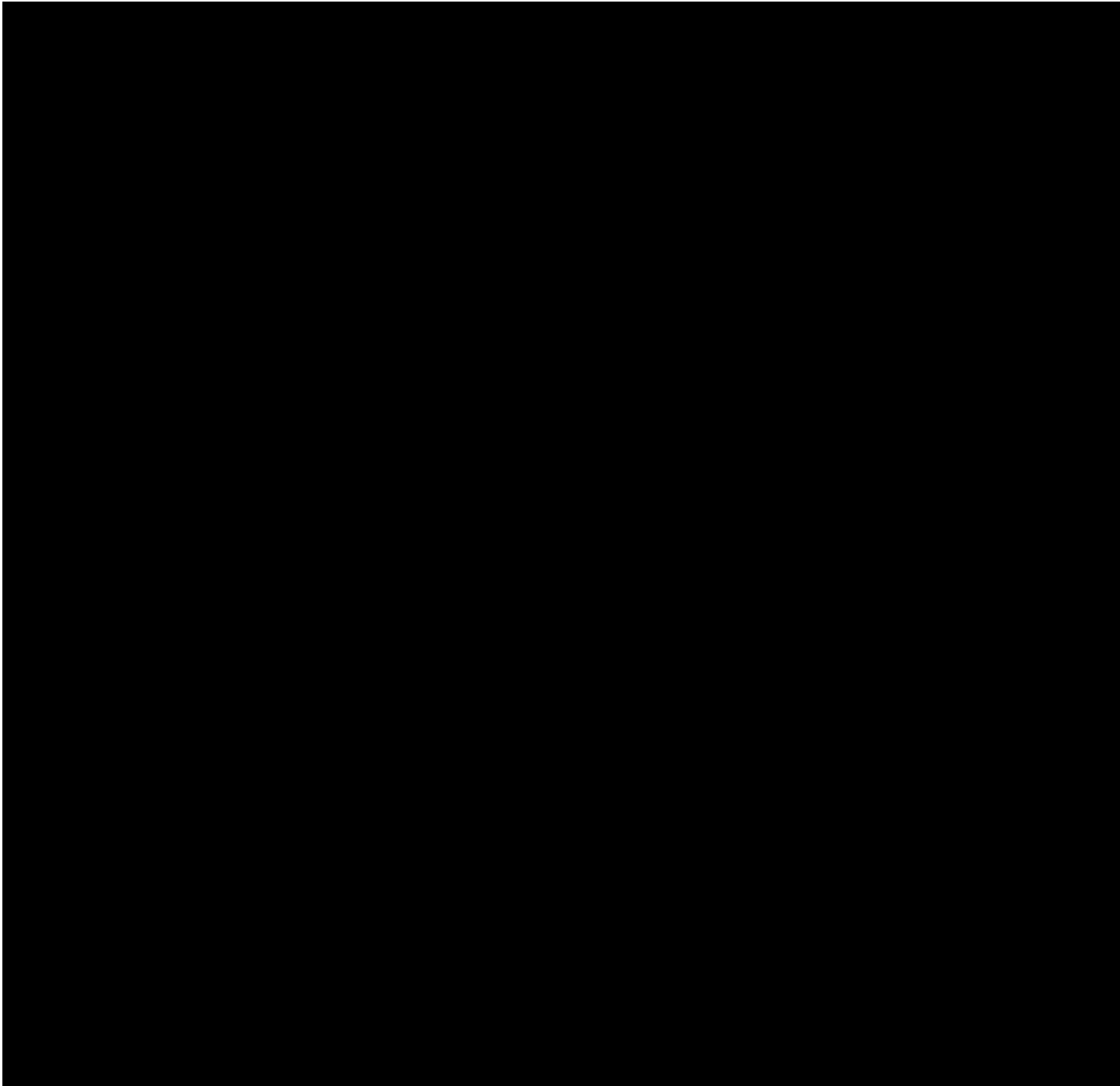
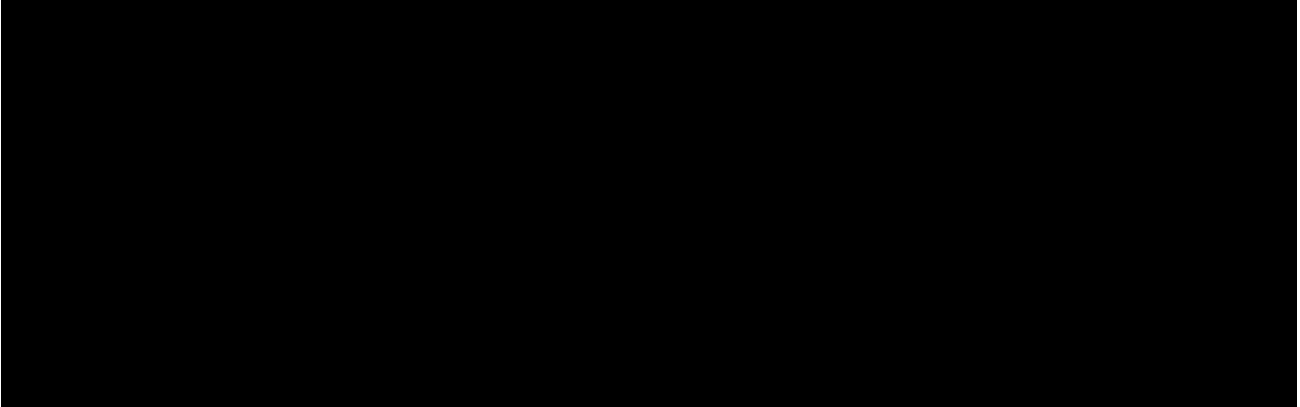




EXHIBIT 7

CORPORATE OPERATIONS EXPENSE ADJUSTMENT(S)



Note: THE ABOVE TABLE DOES NOT HAVE FORMULAS. Populate the amounts on Line 5 to Line 13a, Column C on the Prior Year and Current Year Income Statement (template pages 7 and 8). The amounts on Line 5 represent a decrease to expense (net of federal income tax) and increases regulated operating income.

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 23th day of July, 2015.

---

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 23<sup>th</sup> day of July, 2015.

---

Brian Haynes / President & CEO