RAINIERconnect
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CONFIDENTIAL FILING

August 25, 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 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 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,

Danielle Clause

Danielle Clause, 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/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 $2 million during the period 2011 through 2014. As a result, the Company has a substantial debt obligation to cover the investment that has been made. The Company has seen operating margins decrease by 15% since 2011. 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 decreased by 11.8 percent 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. Since 2011, the Company has lost 496 ILEC and 548 CLEC 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 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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[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*).

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)
Prior Year Income Statement

Company Name: (Below)
Mashell Telecom, Inc.

Line #	Description	Prior Year 2013 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2013 (C)	
1	Local Network Services Revenues	652,675		652,675	
2	Network Access Services Revenues	2,298,937		2,298,937	
3	Long Distance Network Services Revenues	167,654	(167,654)	0	
4	Carrier Billing and Collection Revenues	41		41	
5	Miscellaneous Revenues	32,157		32,157	
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(13,577)		(13,577)	
7	**Net Operating Revenues (1 thru 6)**	**3,137,887**	**(167,654)**	**2,970,233**	
8	Plant Specific Operations Expense	1,430,757	(10,545)	1,420,212	
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	638,627	(248,776)	389,851	
10	Depreciation Expense	475,303	29,384	504,687	
11	Amortization Expense	59,314	(31,880)	27,434	
12	Customer Operations Expense	835,664	(193,587)	642,077	
13	Corporate Operations	1,279,813	12,331	1,292,144	
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ( )			(81,021)	(C)
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	1,279,813	12,331	1,211,123	
14	**Total Operations Expenses (8 thru 12 +13b)**	**4,719,478**	**(443,073)**	**4,195,384**	
15	Operating Income or Margins (7 less 14)	(1,581,591)	275,419	(1,225,151)	
16	Other Operating Income and Expenses ( )			0	
17	State and Local Taxes			0	
18	Federal Income Taxes **(A1)** - **(LINE IS ZERO IF COMPANY IS S CORP)**			0	
19	Other Taxes	242,528		242,528	
20	**Total Operating Taxes (17+18+19)**	242,528	0	242,528	
21	**Net Operating Income or Margins (15+16-20)**	(1,824,119)	275,419	(1,467,679)	
22	Interest on Funded Debt	379,157	-273436	105,721	
23	Interest Expense - Capital Leases	6,170	-6170	0	
24	Other Interest Expense	(301)	301	0	
25	Allowance for Funds Used During Construction (CR)			0	
26	**Total Fixed Charges (22+23+24-25)**	385,026	(279,305)	105,721	
27	Nonoperating Net Income	(58,692)	50260	(8,432)	
28	Extraordinary Items			0	
29	Jurisdictional Differences			0	
30	Nonregulated Net Income **(B1)**	1,744,856	(554,724)	1,190,132	
31	**Total Net Income or Margins (21+27+28+29+30-26)**	(522,981)	50,260	(391,700)	
32	Total Taxes Based on Income				
33	Retained Earning or Margins Beginning-of-Year	(5,954,180)		(5,954,180)	
34	Miscellaneous Credits Year-to-Date			0	
35	Dividends Declared (Common)			0	
36	Dividends Declared (Preferred)			0	
37	Other Debits Year-to-Date			0	
38	Transfers to Patronage Capital			0	
39	**Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38)(A2)**	(6,477,161)	50,260	(6,345,880)	
40	Patronage Capital Beginning-of-Year			0	
41	Transfers to Patronage Capital			0	
42	Patronage Capital Credits Retired			0	
43	**Patronage Capital End-of-Year (40+41-42)**	0	0	0	
44	Annual Debt Service Payments	806,692		806,692	
45	Cash Ratio ((14+20-10-11)/7)	1.4109	2.6279	1.3150	
46	Operating Accrual Ratio ((14+20+26)/7)	1.7040	4.3087	1.5297	
47	TIER ((31+26)/26)	(0.3583)	0.8201	(2.7050)	
48	DSCR ((31+26+10+11)/44)	0.4917	#DIV/0!	0.3051	

Footnotes:
(A) As reported on RUS Form 479
(A1) S Corps provide effective tax rate from Cost study on Page 8, Inc. Statement Summary Schedule Footnote
(A2) Column A, Line 39 must equal Column A, Line 57 of Page 1, Balance Sheet
(B) Part 64 adjustment from regulated to nonregulated
(B1) Part 64 offset to nonregulated income (No Impact to retained earnings)
(C) Corp. Op. Adj Exp. Reduction - See Exhibit 7 of Petition which takes
() amount * 65% to Line 13a, Column C
(Reduces total operating expense (L 14) and increases Operating Inc. (L15)

Explanation: Prior year numbers different from last years application because I entered all Part 64 adjustment this year and didn't include anything below Opearting Income or Margins last year. Also, the corporate expense adjustment was not included in last years filing.

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)
Current Year Income Statement

Company Name: (Below)
Mashell Telecom, Inc.

Line #	Description	Current Year 2014 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2014 (C)	
1	Local Network Services Revenues	630,448		630,448	
2	Network Access Services Revenues	2,485,848		2,485,848	
3	Long Distance Network Services Revenues	170,056		170,056	
4	Carrier Billing and Collection Revenues	32		32	
5	Miscellaneous Revenues	31,717		31,717	
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(18,247)		(18,247)	
7	**Net Operating Revenues (1 thru 6)**	**3,299,854**	**0**	**3,299,854**	
8	Plant Specific Operations Expense	1,404,448	(8,353)	1,396,095	
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	521,344	(115,375)	405,969	
10	Depreciation Expense	378,474	76,917	455,391	
11	Amortization Expense	27,252	(1,082)	26,170	
12	Customer Operations Expense	879,042	(240,149)	638,893	
13	Corporate Operations	1,263,579	8,353	1,271,932	
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ( )			(79,520)	(C)
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	1,263,579	8,353	1,192,412	
14	**Total Operations Expenses (8 thru 12 +13b)**	**4,474,139**	**(279,689)**	**4,114,930**	
15	Operating Income or Margins (7 less 14)	(1,174,285)	279,689	(815,076)	
16	Other Operating Income and Expenses ( )			0	
17	State and Local Taxes			0	
18	Federal Income Taxes **(A1)** - **(LINE IS ZERO IF COMPANY IS S CORP)**			0	
19	Other Taxes	196,714	1	196,715	
20	**Total Operating Taxes (17+18+19)**	196,714	1	196,715	
21	**Net Operating Income or Margins (15+16-20)**	(1,370,999)	279,688	(1,011,791)	
22	Interest on Funded Debt	350,277	-313785	36,492	
23	Interest Expense - Capital Leases	4,432	-4432	0	
24	Other Interest Expense			0	
25	Allowance for Funds Used During Construction (CR)			0	
26	**Total Fixed Charges (22+23+24-25)**	354,709	(318,217)	36,492	
27	Nonoperating Net Income	(104,528)	54005	(50,523)	
28	Extraordinary Items			0	
29	Jurisdictional Differences			0	
30	Nonregulated Net Income **(B1)**	1,255,097	(597,905)	657,192	
31	**Total Net Income or Margins (21+27+28+29+30-26)**	(575,139)	54,005	(441,614)	
32	Total Taxes Based on Income				
33	Retained Earning or Margins Beginning-of-Year	(6,477,161)		(6,477,161)	
34	Miscellaneous Credits Year-to-Date			0	
35	Dividends Declared (Common)			0	
36	Dividends Declared (Preferred)			0	
37	Other Debits Year-to-Date			0	
38	Transfers to Patronage Capital			0	
39	**Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38)(A2)**	(7,052,300)	54,005	(6,918,775)	
40	Patronage Capital Beginning-of-Year			0	
41	Transfers to Patronage Capital			0	
42	Patronage Capital Credits Retired			0	
43	**Patronage Capital End-of-Year (40+41-42)**	0	0	0	
44	Annual Debt Service Payments	1,515,716		1,515,716	
45	Cash Ratio ((14+20-10-11)/7)	1.2925	#DIV/0!	1.1607	
46	Operating Accrual Ratio ((14+20+26)/7)	1.5230	#DIV/0!	1.3177	
47	TIER ((31+26)/26)	(0.6214)	0.8303	(11.1017)	
48	DSCR ((31+26+10+11)/44)	0.1222	#DIV/0!	0.0504	

Footnotes:
(A) As reported on RUS Form 479
(A1) S Corps provide effective tax rate from Cost study on Page 8, Inc. Statement Summary Schedule Footnote
(A2) Column A, Line 39 must equal Column A, Line 57 of Page 2, Balance Sheet
(B) Part 64 adjustment from regulated to nonregulated
(B1) Part 64 offset to nonregulated income (No Impact to retained earnings)
(C) Corp. Op. Adj Exp. Reduction - See Exhiibt 7 of Petition which takes () amount * 65% to Line 13a, Column C (Reduces total operating expense (L 14) and increases Operating Inc. (L15)

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

Company Name:

Line #	Description	Adjusted Prior Year 2013	Adjusted Current Year 2014
1	Local Network Services Revenues	652,675	630,448
2	Network Access Services Revenues	2,298,937	2,485,848
3	Long Distance Network Services Revenues	0	170,056
4	Carrier Billing and Collection Revenues	41	32
5	Miscellaneous Revenues	32,157	31,717
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(13,577)	(18,247)
7	**Net Operating Revenues (1 thru 6)**	**2,970,233**	**3,299,854**
8	Plant Specific Operations Expense	1,420,212	1,396,095
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	389,851	405,969
10	Depreciation Expense	504,687	455,391
11	Amortization Expense	27,434	26,170
12	Customer Operations Expense	642,077	638,893
13	Corporate Operations	1,292,144	1,271,932
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ( )	(81,021)	(79,520)
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	1,211,123	1,192,412
14	**Total Operations Expenses (8 thru 12 +13b)**	**4,195,384**	**4,114,930**
15	Operating Income or Margins (7 less 14)	(1,225,151)	(815,076)
16	Other Operating Income and Expenses ( )	0	0
17	State and Local Taxes	0	0
18	Federal Income Taxes (A1) - **(LINE IS ZERO IF COMPANY IS S CORP)**	0	0
19	Other Taxes	242,528	196,715
20	**Total Operating Taxes (17+18+19)**	242,528	196,715
21	**Net Operating Income or Margins (15+16-20)**	(1,467,679)	(1,011,791)
22	Interest on Funded Debt	105,721	36,492
23	Interest Expense - Capital Leases	0	0
24	Other Interest Expense	0	0
25	Allowance for Funds Used During Construction	0	0
26	**Total Fixed Charges (22+23+24-25)**	105,721	36,492
27	Nonoperating Net Income	(8,432)	(50,523)
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	1,190,132	657,192
31	**Total Net Income or Margins (21+27+28+29+30-26)**	(391,700)	(441,614)
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	(5,954,180)	(6,477,161)
34	Miscellaneous Credits Year-to-Date	0	0
35	Dividends Declared (Common)	0	0
36	Dividends Declared (Preferred)	0	0
37	Other Debits Year-to-Date	0	0
38	Transfers to Patronage Capital	0	0
39	**Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38)**	(6,345,880)	(6,918,775)
40	Patronage Capital Beginning-of-Year	0	0
41	Transfers to Patronage Capital	0	0
42	Patronage Capital Credits Retired	0	0
43	**Patronage Capital End-of-Year (40+41-42)**	0	0
44	Annual Debt Service Payments	806,692	1,515,716
45	Cash Ratio ((14+20-10-11)/7)	1.3150	1.1607
46	Operating Accrual Ratio ((14+20+26)/7)	1.5297	1.3177
47	TIER ((31+26)/26)	(2.7050)	(11.1017)
48	DSCR ((31+26+10+11)/44)	0.31	0.0504

	Footnote	2013	2014
(A1)	S Corporation Effective Tax Rate (2 decimal places):		

Note:
Adjusted Income Statement reflects Part 64 Adustments (Regulated to Nonregulated).

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

Company Name: (Below)
Mashell Telecom, Inc.

Line #	Description	2014
1	Rate Base (Jan. 1)	1,809,899
2	Rate Base (Dec 31)	1,389,232
3	**Average Rate Base**	1,599,566
4	Net Operating Income	(1,011,791)
5	Out-of-Period Adjustments Net of FIT (A)	
6	**Adjusted Net Operating Income**	(1,011,791)
7	**Earned Regulated Rate of Return**	-63.25%
8	Consolidated Equity (Jan 1)	4,659,426
9	Consolidated Equity (Dec 31)	1,098,104
10	**Average Equity**	2,878,765
11	Consolidated Net Income	(575,139)
12	Out-of-Period Adjustments Net of FIT (B)	
13	**Adjusted Consolidated Net Income**	(575,139)
14	**Earned Return on Equity**	-19.98%

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

EXHIBIT 7

CORPORATE OPERATIONS EXPENSE ADJUSTMENT(S)

Description	2013	2014
1. High Cost Loop Support	$105,559	$102,119
2. Interstate Common Line Support	$19,089	$20,220
3. **Total** (Lines 1 & 2)	$124,648	$122,339
4. Decrease to Corporate Operations Expense (Line 3)	($124,648)	($122,339)
5. Line 4 * 65% (Net of FIT)	($81,021)	($79,520)

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.