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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

MARC SPITZER, Chairman
JIM IRVIN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON

IN THE MATTER OF THE APPLICATION)
OF ALLTEL COMMUNICATIONS, INC.,)
FOR DESIGNATION AS AN ELIGIBLE)
TELECOMMUNICATIONS CARRIER PUR-)
SUANT TO SECTION 214(e)(2) OF THE)
COMMUNICATIONS ACT OF 1934.)

DOCKET NO. T-03887A-03-0316

ARIZONA LOCAL EXCHANGE
CARRIERS ASSOCIATION'S
NOTICE OF FILING DIRECT
TESTIMONY

Counsel for Arizona Local Exchange Carriers Association, Inc. hereby files the Direct
Testimony of Judy D. Bruns and Steven D. Metts in the above-referenced matter.

RESPECTFULLY submitted this 29th day of December, 2003.

SNELL & WILMER

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Incorporated

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1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

**MARC SPITZER, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES**

**IN THE MATTER OF THE APPLICATION)
OF ALLTEL COMMUNICATIONS, INC.) DOCKET NO. T-03387-03-0316
FOR DESIGNATION AS AN ELIGIBLE)
TELECOMMUNICATIONS CARRIER)**

**DIRECT TESTIMONY OF STEVEN D. METTS
ON BEHALF OF THE
ARIZONA LOCAL EXCHANGE CARRIERS ASSOCIATION
DECEMBER 29, 2003**

1 **Q-1. Please state your name and business address.**

2 A-1. My name is Steven D. Metts. My business address is 2270 La Montana Way,
3 Colorado Springs, Colorado 80918.

4 **Q-2. By whom are you employed and in what capacity?**

5 A-2. I am a Consulting Manager with GVNW Consulting, Inc. GVNW is a consulting
6 firm that specializes in rural telecommunications issues.

7 **Q-3. Please describe your business experience.**

8 A-3. I have been in the rural telecommunications industry for over 17 years, including
9 11 years with two operating telephone companies and 6 years as a consultant.
10 While I was employed by operating companies, I had overall responsibility for
11 accounting, cost separations and settlements, information services, human
12 resources, regulatory and legislative affairs, customer service, and billing. As a
13 consultant, I primarily assist clients with regulatory and legislative affairs,
14 separations and settlements, and acquisitions.

15 **Q-4. On whose behalf are you testifying in this case?**

16 A-4. I am testifying on behalf of the Arizona Local Exchange Carriers Association
17 ("ALECA") and those of its members that are participating in ALECA's
18 intervention in this case.

19 **Q-5. Please describe ALECA.**

20 A-5. ALECA is comprised of small telephone companies, including a member-owned
21 cooperative and several tribally-owned companies, all of which are providing
22 local exchange telecommunications services to customers in rural, high-cost areas
23 of Arizona. For purposes of intervention in this case, the members of ALECA
24 are: Arizona Telephone Company, CenturyTel, Copper Valley Telephone,
25 Frontier, Midvale Telephone Exchange, Navajo Communications, South Central
26 Communications, Southwestern Telephone Company, Table Top Telephone

1 Company and Valley Telephone Cooperative. In addition, Fort Mojave
2 Telephone Company, Gila River Telecommunications, San Carlos Apache
3 Telecom Utility and Tohono O'Odham Utility Authority are tribally-owned
4 companies that concur in this testimony, however are not subject to regulation by
5 the Arizona Corporation Commission.

6 **Q-6. What is the purpose of your testimony?**

7 A-6. ALLTEL Communications, Inc.'s ("ALLTEL") petition seeks to have ALLTEL
8 designated as an eligible telecommunications carrier ("ETC") for federal
9 universal service fund ("USF") support for a large area of Arizona, including
10 extensive rural high-cost areas served by members of ALECA. I will describe
11 the critical role that federal universal service funding plays in the ability of rural
12 local exchange carriers ("RLECs") to provide high quality, reasonably priced
13 telecommunications services to customers in high-cost rural areas of Arizona. I
14 will also explain why ALECA believes it would not be in the public interest for
15 the Commission to grant ALLTEL's petition insofar as it seeks ETC designation
16 in the areas served by RLECs in Arizona.

17 **Q-7. Are you aware that the Commission has previously granted ETC status to
18 Smith- Bagley, Inc.**

19 A-7. Yes.

20 **Q-8. Did ALECA intervene in the case that resulted in Smith-Bagley being
21 granted ETC status?**

22 A-8. No. However, Table Top Telephone Company, a member of ALECA, did
23 intervene in the earlier Smith-Bagley case. It is my understanding that Table Top
24 and Smith-Bagley entered into a settlement agreement in the case.

25 **Q-9. Does ALECA believe this case is different than the prior case considered by
26 the Commission?**

1 A-9. In certain aspects, yes.

2 **Q-10. Please Explain.**

3 A-10. Smith-Bagley's petition for ETC designation focused on providing
4 telecommunications services to unserved or under-served areas, primarily on
5 Native American lands. Smith-Bagley contended that ETC designation would
6 enable it to provide a wireless option to customers in areas where wireline
7 household penetration is low.

8 ALLTEL, on the other hand, has stated from the outset that if it is granted
9 ETC status it intends to report all of its current wireless customers, as well as
10 future customers, in its designated ETC area and claim federal USF support for
11 those customers. ALLTEL argues that customers will benefit by having a choice
12 of providers, even though it is undisputed that customers in the areas where
13 ALLTEL seeks designation already have that choice. The wireless network
14 owned by ALLTEL was built and its customers were being served well before the
15 Commission started granting ETC status to wireless carriers. ALECA is
16 concerned that ALLTEL is attempting to increase value to its shareholders
17 through its proposed ETC designation rather than provide new or improved
18 service for customers in rural areas. ALECA is also concerned because, if
19 ALLTEL is designated an ETC in the rural areas it requests, it will be the third
20 ETC in some of those areas. ALECA believes that continued approval by this
21 Commission of multiple competitive ETCs in high-cost rural areas eventually
22 will result in severe financial hardship for rural telephone customers. For these
23 reasons, and the other reasons discussed in my testimony, ALECA opposes
24 ALLTEL's petition for ETC designation in areas served by rural telephone
25 companies as being contrary to the public interest.

26 **Q-11. Why do you believe ALLTEL is attempting to increase shareholder value**

1 **with this application rather than to expand or provide service in rural areas?**

2 A-11. ALECA believes this is the case because for several reasons. First, ALLTEL is
3 very vague in its application, testimony, and responses to data requests in this
4 proceeding. Although ALLTEL asserts that it needs funding to expand its service
5 into rural areas, it provides no detail regarding any specific construction plans,
6 construction timelines, or projected customers in rural areas. When asked to
7 identify construction projects planned for 2004, 2005, and 2006, ALLTEL's
8 response was that the company has not finalized construction plans for any of the
9 years requested (ALLTEL Response 1-12 to ALECA's First Set of Data
10 Requests). When asked to provide a projection of new local customers that
11 ALLTEL expects to add in the rural portion of its requested ETC area for the
12 years 2004 through 2008, ALLTEL responded that it has not projected the
13 number of new customers in rural areas for these years (ALLTEL Response 1-14
14 to ALECA's First Set of Data Requests). It is clear from these responses that
15 ALLTEL has not developed, or is not willing to provide, even a basic business
16 plan for serving rural areas, and yet is requesting the Commission to make a
17 determination that granting ETC status and ultimately universal service funding
18 in the rural areas is in the public interest.

19 In response to a line of questioning in the Staff's First Set of Data
20 Requests regarding lifeline service, ALLTEL is equally vague. In response to
21 Staff's question MK 1-8, ALLTEL states that it has not finalized a lifeline
22 program. In response to Staff's question MK 1-18, ALLTEL states that it has not
23 yet determined a process it will employ to determine a customer's eligibility for
24 lifeline service, or to determine whether a customer requesting lifeline service is
25 already receiving lifeline service from the ILEC.

26 Based on ALLTEL's responses, it appears that the only item that

1 ALLTEL has established or finalized with regard to providing universal is to
2 express their desire to receive funding.

3 Furthermore, ALLTEL is requesting funding for its existing customer
4 base and then asserts that the receipt of federal universal service funding will
5 provide the customers in rural areas with a choice of telecommunications
6 providers. Obviously, if ALLTEL is requesting funding for its existing customer
7 base, competition exists in rural areas already and this competition developed
8 without universal service funding. This is a clear indication that the reason
9 ALLTEL is requesting funding for its existing customer base—a customer base
10 that was obtained without universal service funding—is to maximize the revenue
11 that the company will receive from the universal service fund. This is very
12 similar to the strategy deployed by Western Wireless in several other states.

13 **Q-12. What relevance does Western Wireless have to this Docket?**

14 A-12. Western Wireless has been a leader in the wireless industry in obtaining ETC
15 status and federal universal service funding. In many states, Western Wireless
16 requested ETC status stating that it was going to provide a “universal service”
17 offering using a fixed wireless phone that was going to be a replacement for
18 wireline telephone service. After being granted ETC status, Western Wireless
19 began reporting all traditional mobile phones to the Universal Service
20 Administrative Company (“USAC”) for the purpose of receiving universal
21 service funding which is exactly what ALLTEL is proposing to do in Arizona.
22 The lines that are currently being reported by Western Wireless are, at least in
23 large part, customers that had their service well before ETC status was granted.
24 The apparent end result of this is that the current federal USF support being
25 received by Western Wireless has done more to improve the bottom line of
26 Western Wireless than it has to improve telecommunications services in rural

1 areas. This is illustrated by the following statement taken from the 10K form (at
2 page 5) included in the 2002 Annual Report of Western Wireless:

3 “Initially on September 30, 2002, and again on December 31,
4 2002, we submitted our requests to receive funding for certain of
5 our **traditional mobile services customers** that reside in areas in
6 which we are eligible to receive federal universal service funding.
7 We expect to submit similar requests on a quarterly basis
8 throughout 2003 and believe it is likely that in 2003 we will
9 receive most, if not all, of the requested funding. Depending on
10 the amounts received, such funding could have a **significant**
11 **beneficial impact on our 2003 subscriber revenues, ARPU**
12 **and cash flow.**” (Emphasis added.)

13 This point is further illustrated by the following statement made by Western
14 Wireless in the 10K report filed with the Securities and Exchange Commission
15 for the second quarter of 2003:

16 “The increase in subscriber revenues for the three and six month
17 periods ended June 30, 2003, compared to the same periods one
18 year ago, was partly due to an increase in average revenue per unit
19 (“ARPU” defined as subscriber revenues divided by average
20 subscribers) and due partly to growth in subscribers. ARPU was
21 \$47.37 for the three months ended June 30, 2003, a \$3.78, or 8.7%,
22 increase from \$43.59 for the three months ended June 30, 2002.
23 ARPU was \$46.14 for the six months ended June 30, 2003, a
24 \$3.77, or 8.9%, increase from \$42.37 for the six months ended
25 June 30, 2002. **The increase in ARPU was due to many factors**
26 **including the receipt of federal universal service fund**
payments as an Eligible Telecommunications Carrier for
certain of our traditional mobile service customers which
contributed \$1.88 and \$2.00 to the increase in ARPU for the
three and six months ended June 30, 2003, respectively.”
(Emphasis added.)

It is clear that Western Wireless is communicating to its shareholders and
potential investors that obtaining federal universal service funding for traditional
mobile services creates shareholder value. ALECA is concerned that ALLTEL
has the same intentions given its lack of willingness to provide relevant
information regarding use of the funding it will receive if granted ETC status.

1 **Q-13. What is the Commission's role in the ETC designation process?**

2 A-13. Under Section 214(e)(2) of the Telecommunications Act of 1934, as amended by
3 the Telecommunications Act of 1996 (the "1996 Act"), a state commission must
4 designate more than one carrier as an ETC in a *non-rural area* if the carrier
5 requesting designation meets the requirements of Section 214(e)(1). However, a
6 state commission may designate more than one carrier in a *rural area only if* the
7 commission finds that (i) the designation is consistent with the public interest,
8 convenience and necessity; (ii) the carrier offers each of the services supported
9 by the universal service support mechanism as delineated in 47 C.F.R. §
10 54.101(a); and (iii) the carrier advertises the availability of those services. In
11 other words, this Commission's authority to designate ALLTEL as an ETC in
12 rural areas served by RLECs is, to a large degree, discretionary, in that such
13 designation may only occur upon a finding by the Commission that the
14 designation is consistent with the public interest, convenience and necessity.

15 The most critical role that the Commission plays in this ETC designation
16 process is its determination of whether granting ETC status to a competitive
17 carrier seeking designation in an area already served by a RLEC is in the public
18 interest. In addition, while the Commission does not have a role in determining
19 how much support each carrier receives or how the support is calculated for a
20 competitive ETC, it is responsible for annually certifying to the FCC that federal
21 USF funds received by ETCs in Arizona are being used for the proper purposes.

22 **Q-14. Does the Commission have authority to deny ALLTEL's petition?**

23 A-14. Yes, the Commission may deny ALLTEL's petition if it finds that granting ETC
24 status would not be consistent with the public interest, convenience and necessity.
25 In fact, the Utah Public Service Commission decided it was not in the public
26 interest to add a second ETC in the service territories of Utah's rural carriers in

1 its order issued July 21, 2000, in Docket No. 98-2215-01. This order was
2 subsequently upheld by the Utah Supreme Court in WWC Holding Co. v. Public
3 Service Commission of Utah, 44 P.3d 714 (2002).

4 **Q-15. If ALLTEL is granted ETC status, how will the amount of support it will**
5 **receive from the Federal USF be calculated?**

6 A-15. Under current FCC rules, a competitive ETC receives federal USF support based
7 on the incumbent carrier's costs, not its own costs. The incumbent carrier
8 receives support based on its actual embedded costs of providing the service and
9 making investments in high-cost areas. This support is based on annual or
10 quarterly cost filings prepared by the incumbent carrier to reflect expenditures
11 made in the prior year and submitted to USAC for review and determination of
12 the appropriate per line amount of support to be distributed to the incumbent.
13 There is a significant delay between the time that an incumbent carrier incurs
14 costs and when funding is actually received. For example, if an incumbent
15 carrier makes an investment in January 2004, this investment would be reported
16 to USAC in July of 2005, and the carrier would not receive any funding for this
17 investment until January 2006. At a minimum, there is one-year delay between
18 the time that a company incurs a cost and receives any reimbursement of the cost
19 from the federal fund. A competitive ETC, on the other hand, merely reports the
20 number of customers it is serving in its designated ETC area and then
21 immediately receives the same amount of support per line as the incumbent.

22 **Q-16. Does granting ETC status to a competitor provide a disincentive for an**
23 **incumbent to make additional investments?**

24 A-16. Unfortunately, it may. Under the current environment, when there is more than
25 one ETC, an incumbent that makes the decision to make more investment in
26 telecommunications infrastructure must take into consideration that the increased

1 investment will result in more cash flow to the competitive ETC. The critical
2 difference is that the incumbent will be getting the funding to recover a portion of
3 the actual cost of the investment already made, while the competitor gets the
4 money as a windfall.

5 **Q-17. Has ALLTEL sufficiently justified its assertion that designation as a**
6 **competitive ETC in areas served by RLECs is in the public interest?**

7 A-17. No, ALLTEL has not satisfied its burden in this regard. ALECA believes that, in
8 order to make the required finding that a competitive ETC designation would be
9 in the public interest, the Commission necessarily must find that granting
10 ALLTEL ETC designation in these areas would enhance universal service.
11 However, ALLTEL has not made a sufficient factual showing that would allow
12 the Commission to make such a finding.

13 ALLTEL has provided only generalized comments focused on the
14 supposed benefits of competition. For example, ALLTEL states that it will offer
15 consumers in its ETC designated area the benefit of choice. (Krajci Direct
16 Testimony at page 7.) ALECA does not dispute this, but ALLTEL has been
17 providing wireless service, with mobility, multiple rate plans, and expanded local
18 calling areas, to tens of thousands of customers in these areas for some time now.
19 ALLTEL correctly notes that the FCC has identified nine services and
20 functionalities to be supported by universal service support mechanisms. (Krajci
21 Direct Testimony at page 2.) In response to Staff's First Set of Data Requests
22 (MK1-35), ALLTEL correctly asserts that handsets are not a supported service
23 and therefore any evaluation of handset pricing in determination of public interest
24 would be inappropriate. Likewise, choice of rate plans, expanded calling areas,
25 and long distance offerings do not appear anywhere on that list of supported
26 services. Therefore, it would be totally inappropriate for ALLTEL to seek USF

1 funding to support offering these features. ALLTEL's flexible rate plans and
2 enhanced service features do not constitute an enhancement of universal service.

3 ALLTEL also states that it will use the federal high-cost support it
4 receives to operate, expand and maintain its facilities in Arizona that are integral
5 components in the provision of cellular service to rural and low population areas
6 (Krajci Direct Testimony at page 8.) However, ALLTEL provides no specifics.
7 It does not allege or demonstrate that the incumbent RLECs are providing
8 inadequate service or establish that any of its proposed rural areas of designation
9 have underserved or unserved consumers. Moreover, ALLTEL has been
10 providing cellular service for quite some time in its licensed areas in Arizona, and
11 it has made no showing that it needs federal USF support to continue to provide
12 service or improve its service in these areas today. Nor has it provided a
13 commitment to expand beyond its currently served areas or to provide any
14 services not already available. Without an enforceable commitment, there is no
15 way to ensure that ALLTEL will actually use monies from the federal USF to
16 serve rural Arizona. ALLTEL should describe with some specificity what
17 facilities it will construct, where they will be constructed, how they will be
18 financed, and the timetable for completing construction.

19 ALLTEL implies that if granted ETC status it may be able to offer a
20 universal service offering that is priced lower than the incumbent carriers.
21 (Krajci Direct Testimony at page 7.) However, this would seem to be a hollow
22 commitment, since ALLTEL offers no pricing information for its so-called
23 universal service offering.

24 ALLTEL simply has not demonstrated any enhancement of universal
25 service or other public benefit that justifies designating it as eligible to receive
26 federal USF funds in the rural areas served by RLECs in Arizona, particularly in

1 view of the probable detriment that I discuss later in my testimony.

2 **Q-18. Is increased competition sufficient by itself to justify the designation of an**
3 **additional ETC in a rural area?**

4 A-18. No. First, the introduction of a competitor into a rural environment does not
5 necessarily lead to lower costs or higher quality service for consumers. A high-
6 cost market, by definition, is still high-cost even after the introduction of
7 competition. The primary reason the incumbent RLECs are eligible to receive
8 funding from the federal USF is that they are providing service in geographic
9 areas where it is not economically feasible to serve at reasonable rates. With the
10 introduction of a competitive ETC, the only difference is that the market has to
11 support multiple entrants with limited financial resources. As I explained earlier,
12 under current rules, federal universal service support is calculated using the
13 incumbent's embedded costs averaged over the company's entire study area,
14 except in those limited circumstances when a RLEC may have disaggregated
15 some or all of its cost data by zone. This cost-averaging methodology disguises
16 the cost of serving the truly high-cost customers in RLEC study areas, which is
17 of little consequence when only one carrier serves the entire study area.
18 However, when an additional ETC enters the area, its distribution of federal
19 support is not based upon the new entrant's relative costs of providing service.
20 Thus, an additional ETC is over-compensated if it secures a low-cost customer,
21 which encourages the competitive ETC to cream skim -- in other words, to focus
22 its attention on serving the low cost customers.

23 Moreover, every new entrant in the service territory of a RLEC can
24 successfully make the claim that its presence increases competition. If increased
25 competition was deemed to constitute public interest in every instance, all new
26 entrants in rural service areas could have been lumped together with all new

1 entrants in non-rural service areas for purposes of ETC designations. In other
2 words, there would have been no need for a state commission to make a
3 determination of public interest prior to designating an additional ETC in an area
4 served by a RLEC. However, this is not what Congress envisioned. Congress
5 incorporated an explicit requirement of a public interest finding into Section
6 214(e)(2). The proposition that a new entrant means increased competition, and
7 increased competition by itself constitutes a satisfaction of the public interest test,
8 would render the public interest requirement in Section 214(e)(2) meaningless.
9 Therefore, "public interest" as used in Section 214(e)(2) must mean something
10 more than merely increased competition. ALECA believes the "public interest"
11 requirement can be satisfied only in those instances where the public benefits
12 created by supporting multiple carriers exceed the public costs created by
13 supporting multiple networks.

14 In addition, the intent of federal USF support is to enable carriers in high-
15 cost rural areas to provide the nine supported services at reasonable rates. In the
16 case of incumbent carriers, these rates are established and regulated by the
17 Commission. At the present time, residential local service rates offered by
18 incumbent carriers in Arizona are in the approximate range of \$9.25 to \$24.00 per
19 month. The FCC's rationale for allowing competitive wireless carriers access to
20 USF support is because it would be difficult for a wireless carrier to compete if
21 the incumbent has a local service rate that is subsidized. However, the
22 information provided by ALLTEL in this case indicates that it offers calling plans
23 ranging from \$29.95 to \$299.95 per month. Clearly, ALLTEL is charging much
24 higher rates than the incumbents for the supported services. If ETC designation is
25 granted as proposed, ALLTEL will be receiving a subsidy in addition to charging
26 a higher rate than the incumbents. Furthermore, the local rates offered by the

1 incumbents include unlimited local service usage compared to the limited number
2 of minutes included in the ALLTEL plans. It is difficult to find the public benefit
3 from this form of competition, let alone find a basis for providing public support
4 for such services. ALECA believes that, if ALLTEL is to be granted ETC status,
5 it should be required to develop a separate "universal service offering" that will
6 be offered at rates similar to those charged by the incumbents, and should be
7 restricted from reporting any lines other than those included in this universal
8 service offering to USAC for the purpose of receiving federal funds.

9 Finally, because wireless phones are mobile, competition from a wireless
10 ETC receiving federal USF support may actually lead to use of USF supported
11 services in low cost areas, contrary to the intent of universal services support
12 mechanisms and, ultimately, to the interest of the rural customers of RLECs.
13 Clearly, a customer can use his or her wireless service anywhere the wireless
14 signal is available. For many wireless providers, this geographic area is large and
15 includes both low cost and high-cost areas. However, the high-cost support
16 necessary to support the incumbent RLEC's network is very different between
17 low and high-cost areas. The wireless ETC receives USF support if its
18 customer's billing address is located in a high-cost area, even though the
19 customer might actually use the service primarily in a low cost area for which
20 universal service support is not necessary. To the extent the RLEC's customers
21 drop off the wireline network to rely only on wireless service, the continuing
22 network cost to the RLEC of serving the high-cost areas must be spread among
23 the remaining RLEC customers – in all likelihood at higher rates.

24 Costs and benefits must both be carefully weighed if limited state and
25 federal funding is to be managed for the optimal public benefit. The costs of
26 supporting multiple networks include both the increased funding requirements for

1 any additional ETC, and the decreased network efficiency of all carriers that
2 results when multiple carriers serve more sparsely populated areas. The public
3 interest is not served when high-cost support is provided to competitors that
4 cream skim and serve only low-cost or high-volume customers.

5 **Q-19. Do you believe that granting ETC status to ALLTEL will increase**
6 **competition?**

7 A-19. Not necessarily. I believe that most customers who desire to have a wireless
8 phone already have that option. As demonstrated in other states, allowing a
9 wireless carrier ETC status and allowing them to report their traditional wireless
10 customers has resulted in a duplication of support and ultimately higher USF
11 surcharges to all telecommunications users.

12 **Q-20. Can you offer any evidence that granting ETC status to a wireless carrier**
13 **has resulted in a duplication of support versus increased competition?**

14 A-20. Yes. Exhibit 1 attached to this testimony is an analysis that I prepared based on
15 lines reported by incumbent carriers and competitive carriers in New Mexico
16 since ETC status was granted. This analysis shows that between the 4th quarter of
17 2002 and the 4th quarter of 2003, the incumbent carriers serving areas where
18 there was a competitive ETC reporting lines lost 846 access lines. This represents
19 a total loss of .78%. At the same time, competitive ETC's showed an increase of
20 20,515 lines. I did a further analysis that shows the lines reported by individual
21 study area. This analysis shows that the study areas that had a competitive ETC
22 reporting lines showed an increase of 18.84% in one year. The largest study area
23 being served by Western Wireless (Valor Telecommunications LLC #1) showed
24 an increase of 35.68% while the incumbent lost .9%. It is clear that the lines
25 being reported by the wireless carrier are lines that are in addition to wireline
26 service rather than a substitution, therefore support is being duplicated.

1 **Q-21. Why is it crucial for the Commission to scrutinize closely the public interest**
2 **factor in considering ALLTEL's petition?**

3 A-21. History reflects the critical link between the provider of last resort's access to
4 sufficient and predictable federal USF funding and the provision of high quality
5 services in rural exchanges. In the absence of such funding, there is a real risk
6 that Arizona's rural telecommunications customers will experience dramatic rate
7 increases and will no longer benefit from further investments in the
8 telecommunications network. I point this out because the Commission's ruling
9 on ALLTEL's petition could well affect whether the incumbent carriers, the
10 providers of last resort in this State, will continue to have access to sufficient
11 federal USF support.

12 **Q-22. How would granting ETC status to ALLTEL threaten universal service in**
13 **Arizona's rural exchanges?**

14 A-22. As noted by numerous parties in the FCC's pending Federal-State Joint Board on
15 Universal Service proceeding (CC Docket No. 96-45, FCC 031-1), the
16 indiscriminate granting of ETC status to wireless carriers is causing an alarming
17 growth in the size of the federal USF. This is a view held not just by incumbent
18 RLECs, but has also been recognized and expressed by consumer groups. In the
19 Joint Board proceeding, the National Association of State Utility Consumer
20 Advocates filed Comments stating:

21 Under the current ETC designation rules, in the near future there will
22 likely be a sharp upward curve in the growth of the high-cost fund related
23 to the issues being examined here. A substantial portion of this growth is
24 a result of additional funds needed to support multiple lines per customer
and to support lines provided by new competitive eligible
telecommunications carriers ("CETCs"), **mostly wireless ETCs.**

25 * * * * *

26

1 Thus, under the current rules that provide support for all lines in high-cost
2 areas, a substantial portion of the growth of the high-cost fund will be
3 attributable to the support of additional lines provided by wireless
4 carriers.

5 * * * * *

6 The current and anticipated rate of growth in fund requirements needed to
7 support additional lines suggests that the current support mechanisms will
8 be strained unless the Commission makes substantial changes to the ETC
9 designation rules. (Emphasis added.)

10 There can be no doubt that growth in the federal fund necessitated by multiple
11 wireless ETC designations ultimately will jeopardize the sustainability of the
12 fund for all providers, including the incumbent providers of last resort.

13 **Q-23. What evidence do you have regarding the extent to which designation of**
14 **multiple ETCs is causing the size of the federal USF to increase?**

15 A-23. Upon review of data available on the USAC's website,
16 www.universalservice.org/overview/filings, I found the following: In the
17 Fourth Quarter of 2001, competitive ETCs drew approximately \$2.7 million per
18 quarter from the federal USF. By the Fourth Quarter of 2002 that amount had
19 grown to over \$41 million per quarter and as of the Fourth Quarter of 2003 the
20 amount drawn by competitive ETCs had grown to in excess of \$62 million per
21 quarter. As recently as the First quarter of 1999, the contribution percentage
22 assessed to carriers which then pass the charge on to their customers, was
23 approximately 3.2%. By the end of 2001, that percentage had increased to 6.9%,
24 by the end of 2002 it was up to 7.3%, and it currently is approximately 8.7%.

25 As more competitive ETCs are designated by state commissions, the
26 demand on the federal USF and the corresponding assessment to carriers and
their customers will continue to escalate.

Q-24. What is it about ALLTEL's ETC petition in this case that heightens this

1 **concern about growth in demands on the federal USF fund?**

2 A-24. ALECA is concerned that each additional ETC designation puts more and more
3 pressure on the limited resources of the federal USF and therefore jeopardizes the
4 sustainability of the fund and the support flowing to providers of last resort. If
5 ALLTEL's petition is granted, it would become the third ETC in some high-cost
6 areas of Arizona. ALECA believes the downside risk evolving from the
7 designation of multiple competitive ETCs in rural areas (*i.e.* impairment of the
8 ability of providers of last resort to provide basic service) is becoming
9 dangerously high. Consequently, ALECA believes that all state commissions,
10 including this Commission, must be particularly diligent in their review and
11 scrutiny of requests for ETC designation in areas served by RLECs so that quality
12 telephone services at reasonable rates can continue to be available for customers
13 in remote high-cost rural areas of the state.

14 **Q-25. Would granting ETC status to ALLTEL have an impact on**
15 **telecommunications carriers other than incumbent LECs?**

16 A-25. Yes, it would affect other carriers in at least two ways. First, under the current
17 rules, granting ETC status to ALLTEL would increase the demand on the federal
18 USF and therefore result in higher surcharges to all providers of interstate
19 services which in turn results in higher surcharges to end user customers. This
20 situation applies to interexchange carriers as well as wireless providers.

21 Second, granting ETC status to one wireless provider places other
22 wireless providers at a competitive disadvantage. There are at least two wireless
23 providers in each wireless service area. If one wireless provider is granted ETC
24 status and is receiving federal USF payments, it has an advantage over the
25 competing wireless carrier that is not. It is an advantage because the wireless
26 ETC is receiving payments from the federal USF that are not based on costs. In

1 effect, the funds are increased cash flow that can be used to reduce rates or
2 provide other packages and thereby compete more effectively than the other
3 wireless providers. As I mentioned earlier, Western Wireless has reported in its
4 annual report that it has been able to increase its ARPU by \$2.00 per customer
5 per month solely through USF payments. When taking into consideration that
6 the ARPU is an average number over the entire Western Wireless customer base,
7 including the non-rural areas for which it receives little or no USF support, it has
8 a significant financial advantage over other wireless providers who do not have
9 ETC status. This phenomenon is evidenced by the recent upsurge in ETC
10 applications in several states. Wireless providers cannot afford to allow their
11 competitors to receive this funding and gain the competitive advantage, a point
12 that is raised in this docket in the direct testimony of Judy Bruns. Thus, they are
13 seeking ETC designation so they also can obtain the federal USF funds. As a
14 result, the cycle continues and the time of the inevitable impact on rural
15 customers grows nearer.

16 **Q-26. Have you read the Staff Report in this Docket?**

17 A-26. Yes

18 **Q-27. Do you agree with the Staff's recommendation?**

19 A-27. I respectfully disagree with Staff's recommendation that the Commission find
20 that granting ALLTEL ETC status in areas served by rural carriers is in the public
21 interest. The basis for Staff's recommendation is that rural customers will have a
22 choice of telecommunications providers. However, it does not appear that Staff
23 or ALLTEL have presented any evidence that would show that customers do not
24 already have that choice. Furthermore, I believe that the public interest analysis
25 should consider several other factors other than consumer choice.

26 **Q-28. What public interest factors should the Commission consider in determining**

1 **whether to designate ALLTEL as an ETC in the rural areas served by**
2 **RLECs?**

3 A-28. ALECA believes that the Commission should consider at least the following
4 issues:

5 (1) Whether the service area in question is being adequately served by the
6 incumbent carrier;

7 (2) Whether customers in rural areas already have the ability to get service
8 from a wireless carrier if they choose to do so;

9 (3) Whether the introduction of ALLTEL as an additional ETC will enhance
10 universal service in the designated area;

11 (4) Whether providing additional funding to ALLTEL, which is already
12 providing wireless service to customers in the proposed areas of designation, will
13 benefit consumers in view of the fact that granting ETC status will result in
14 higher USF surcharges to all telecommunications customers in the state;

15 (5) Whether ALLTEL has demonstrated a commitment to provide service to
16 all customers throughout the areas for which it is seeking ETC status and whether
17 a customer requesting service from ALLTEL will receive such service in a
18 reasonable timeframe;

19 (6) Whether ALLTEL is qualified to provide high quality and reasonably
20 priced telecommunications services throughout its designated ETC service area if
21 the incumbent LEC were to withdraw its ETC status following ALLTEL's ETC
22 designation.

23 (7) Whether it is in the public interest for customers in low cost exchanges to
24 pay surcharges to help support wireless service in high-cost rural areas, in
25 addition to supporting the current wireline service.

26 **Q-29. Are there other areas in the Staff Report that cause concern?**

1 A-29. Yes. The recommendation for approval of the redefinition of the study areas of
2 Arizona Telephone Company, CenturyTel, Frontier, Midvale Telephone
3 Exchange, Navajo Communications, South Central Communications, and Table
4 Top Telephone Company causes concern. Staff correctly states that the
5 Commission must consider the administrative burden a rural ILEC could face as
6 a result of the proposed service area designation. The Staff bases its
7 recommendation in part on ALLTEL's assertion that redefining the study area
8 will have no impact on the way the ILECs calculate their costs. Staff further
9 states that the ILEC has the opportunity to disaggregate their study areas to
10 determine costs at less than a study area level so that support would be distributed
11 in a manner that more closely aligns the per-line support with the cost of
12 providing the service. Disaggregation allows an ILEC to receive more support in
13 higher cost areas and less support in lower cost areas which theoretically
14 eliminates the incentive for a competitor to engage in cream-skimming.

15 While disaggregating is a potential option for an ILEC, it is a substantial
16 burden. While ILECs generally track investment on a wire center basis, expenses
17 are kept on a study area basis. Furthermore, virtually all costing for small ILECs
18 is calculated using fully embedded and fully distributed costing. If an ILEC
19 chooses to disaggregate, it is generally done through the use of a forward looking
20 cost model. Therefore, disaggregating requires a total change in the way that
21 costs are calculated for an ILEC. Most rural ILECs would have to employ the
22 services of a consultant to prepare a disaggregation study and in addition to the
23 costs of the study, would incur the legal and regulatory expenses involved with
24 getting the study approved by the Commission. This causes small companies to
25 incur a substantial administrative burden and expense for a small company with
26 little or no benefit to its rate payers.

1 Furthermore, ALECA does not believe that disaggregating eliminates any
2 concern over cream-skimming. Disaggregating shifts costs away from higher
3 density areas and assigns more costs to lower populated areas. Although
4 disaggregating would result in the competitor receiving less support in the higher
5 density areas than it would in lower density areas, there is no reason to believe
6 that the higher support in lower density areas will be enough to ensure that the
7 competitor serves the entire area, which is the ultimate goal of the universal
8 service fund.

9 **Q-30. Is there another way to address this issue?**

10 A-30. Yes. Other than denying ALLTEL's application in the areas where the company
11 cannot serve the entire study area, one possible way to address this issue would
12 be to require ALLTEL to provide service throughout the study areas of the rural
13 carriers by leasing spectrum from the license holder in the areas where it
14 currently does not hold a license or through resale of another carrier's service.
15 Every RSA and MSA has at least two license holders. This would ensure that
16 service is provided throughout the study area as intended in the 96 Telecom Act
17 and places the burden on the beneficiary of the support, ALLTEL, rather than the
18 incumbent. Another way would be to simply deny ALLTEL's application in the
19 areas where it cannot serve the entire study area.

20 **Q-31. What are the implications of granting ETC status to ALLTEL in**
21 **relationship to the current regulatory scheme imposed on the ILECs?**

22 A-31. The current regulatory scheme imposed on the ILECs is based on the assumption
23 that the ILECs are monopoly providers of service and that regulation of the
24 services and prices of the ILEC offerings are necessary to protect the public
25 because of the lack of competition. When ETC status is granted to a competitive
26 carrier such as ALLTEL, the Commission is essentially determining that there is

1 more than one provider in the designated areas that is fully capable and willing to
2 provide basic telecommunications services throughout these areas and that will
3 be publicly supported in doing so. Once this occurs, the rationale for imposing
4 regulation on the ILECs is no longer valid and the whole purpose of regulation of
5 the ILEC by the Commission is subject to question. If regulation is to continue,
6 the incumbent should be regulated on the same basis as the competitor. This
7 could occur in one of three ways. Regulation of the ILEC could be relaxed or
8 eliminated; the wireless entrant could be regulated to the same extent the ILEC is
9 currently, or some middle ground of lessened regulation could be applied to both.
10 While this case is not the appropriate forum to address all of those issues, the
11 Commission should be aware that its decision in this case raises those types of
12 fundamental questions which may need to be addressed should it decide to grant
13 ETC status to ALLTEL.

14 **Q-32. Does ALECA believe the benefits of designating ALLTEL an ETC in the**
15 **rural areas it proposes outweigh the costs?**

16 A-32. No. To the contrary, ALECA believes:

17 (1) That ALLTEL has failed to demonstrate that granting it ETC designation
18 in the rural areas it proposes will enhance universal service or otherwise provide
19 additional benefit to consumers in those areas or that ALLTEL needs the federal
20 USF in these areas where it has provided wireless services to customers for some
21 time;

22 (2) That ALLTEL has failed to demonstrate with sufficient specificity that it
23 is committed to extend its network beyond the areas that it already serves;

24 (3) That ALLTEL would use the federal USF support to serve predominately
25 low cost customers in relatively densely populated areas, even though the support
26 it seeks is intended to cover the cost of serving customers in remote, sparsely

1 populated areas; and

2 (4) That ALLTEL would not be providing service throughout the "ETC
3 service area" and thus would be engaged in cream skimming;

4 **Q-33. What is the Federal-State Joint Board on Universal Service and what is the
5 current status of its work on USF issues?**

6 A-33. Issues relating to universal service have been referred by the FCC to the Federal-
7 State Joint Board on Universal Service in connection with the FCC's
8 longstanding docket considering universal service issues. CC Docket No. 96-45.
9 The Federal-State Joint Board on Universal Service is made up of commissioners
10 from the FCC and state commissions. It considers universal service matters and
11 makes recommendations to the FCC.

12 A number of critical universal service issues are under consideration by
13 the Federal-State Joint Board at this time including possible amendments to FCC
14 rules on universal service, including but not limited to the rules governing ETC
15 designations.

16 While a specific date for a decision from the Federal-State Joint Board
17 has not been announced, ALECA believes the Joint Board will issued
18 recommendations in January 2004 and that its recommendations are likely to
19 impact the manner in which state commissions are to conduct their ETC
20 designation proceedings. In a prepared statement made on October 30, 2003,
21 before the United States Senate Committee on Commerce Science and
22 Transportation, FCC Chairman Powell stated:

23 When it has finished considering the record, the Joint Board will make its
24 recommended decision to the FCC, which we anticipate receiving in early
25 January 2004. I look forward to reviewing it then.

26 **Q-34. What is ALECA's recommendation to the Commission in this case?**

1 A-34. ALECA submits that ALLTEL has failed to demonstrate that ETC designation in
2 the proposed rural areas served by RLECs will result in enhancement of universal
3 service or sufficient benefits to the public, and that a balancing of the public
4 interest factors supports denial of ALLTEL's petition as it pertains to the rural
5 areas served by RLECs.

6 **Q-35. Do you have any concluding remarks?**

7 A-35. Arizona relies heavily on the ability of the rural telecommunications carriers to
8 recover a portion of the cost of providing service in rural areas of Arizona from
9 the existing federal USF mechanisms. This Commission should give serious
10 consideration to the question of whether it is in the public interest to permit
11 subsidization of competition in sparsely populated rural areas of Arizona. The
12 dynamics of distance and density that make rural areas costly to serve do not
13 decrease as a result of the introduction of competition; they actually increase for
14 all market participants. The current federal USF mechanisms will not endure
15 indiscriminant and unrestricted demand on the USF funding base. The
16 unrestricted approvals by state commissions of ETC petitions in rural high-cost
17 areas perpetuates unsustainable incentives for the new entrant, in this case
18 ALLTEL, and disincentives for the incumbent. Over time, this prescription will
19 result in poor and/or inadequate service at higher cost rather than technological
20 innovation and efficiencies. Such a potentially unwelcome outcome was
21 envisioned in the 1996 Telecommunications Act and protections against such an
22 outcome were built in through its exemptions for rural providers and its mandate
23 to the states to protect the public interest. ALLTEL's petition for ETC
24 designation in areas served by RLECs is clearly not in the public interest and
25 should be denied.

26 **Q-36. Does this conclude your direct testimony?**

1 A-36. Yes it does. I may offer additional testimony at the hearing in this case, after
2 having the opportunity to review any further testimony submitted by other
3 parties.

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EXHIBIT 1

Arizona Local Exchange Carriers Association
Exhibit 1 to the Testimony of Steven D. Metts
Analysis of Lines Reported to USAC for New Mexico

Study Area Name	3rd Quarter 2002 (1)	4th Quarter 2002 (2)	1st Quarter 2003 (3)	2nd Quarter 2003 (4)	3rd Quarter 2003 (5)	4th Quarter 2003 (6)	Annual Gain (Loss) (6) - (2)	Percentage Change
Valor Telecommunications LLC #1	47,882	47,882	47,453	47,453	47,453	47,453	-429	-0.90%
Valor Telecommunications LLC #2	49,384	49,384	48,995	48,995	48,995	48,995	-389	-0.79%
Dell Telephone Cooperative	472	472	478	478	478	478	6	1.27%
Leaco Telephone Cooperative	2,446	2,446	2,348	2,348	2,371	2,371	-75	-3.07%
Tularosa Basin Telephone Company	5,150	5,150	5,194	5,194	5,194	5,194	44	0.85%
Penasco Valley Telephone Cooperative	3,538	3,538	3,448	3,448	3,535	3,535	-3	-0.08%
Total Incumbent Reported Lines	108,872	108,872	107,916	107,916	108,026	108,026	-846	-0.78%
Western Wireless	0	0	19,645	20,683	21,008	21,008	21,008	
Leaco Telephone Cooperative (CLEC)	0	0			353	353	353	
Total CETC Reported Lines	0	0	19,645	20,683	21,361	21,361	21,361	
Total Reported Lines	108,872	108,872	127,561	128,599	129,387	129,387	20,515	

CETC Lines Reported By Study Area - New Mexico

	4th Quarter 2003			Study Area Total	4Q 2002 Study Area Total	Percent Change
	Incumbent Lines	Western Wireless	Leaco CLEC			
Valor Telecommunications LLC #1	47,453	17,158	353	64,964	47,882	35.68%
Valor Telecommunications LLC #2	48,995	2,425		51,420	49,384	4.12%
Dell Telephone Cooperative	478	4		482	472	2.12%
Leaco Telephone Cooperative	2,371	599		2,970	2,446	21.42%
Tularosa Basin Telephone Company	5,194	490		5,684	5,150	10.37%
Penasco Valley Telephone Cooperative	3,535	332		3,867	3,538	9.30%
Totals	108,026	21,008	353	129,387	108,872	18.84%

Data Source: <http://www.universalservice.org/overview/filings/>

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

**MARC SPITZER, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES**

**IN THE MATTER OF THE APPLICATION)
OF ALLTEL COMMUNICATIONS, INC.)
FOR DESIGNATION AS AN ELIGIBLE)
TELECOMMUNICATIONS CARRIER)**

DOCKET NO. T-03387-03-0316

DIRECT TESTIMONY OF JUDY D. BRUNS

ON BEHALF OF THE

ARIZONA LOCAL EXCHANGE CARRIERS ASSOCIATION

DECEMBER 29, 2003

1 **Q-1. Please state your name and business address.**

2 **A-1.** My name is Judy D. Bruns. My business address is 752 East Maley, Willcox, Arizona
3 85644.

4 **Q-2. What is your business or occupation?**

5 **A-2.** I am employed by Valley Telephone Cooperative, Inc., ("VTC") as its Chief Executive
6 Officer. I am also the Chief Executive Officer of Copper Valley Telephone ("Copper
7 Valley") and the Chief Executive Officer of Valley Telecommunications Company
8 (doing business as "Valley Telecom Cellular"), both of which are subsidiaries of VTC.

9 **Q-3. Please briefly describe the business of VTC, Copper Valley and Valley Telecom.**

10 **A-3.** VTC was formed in 1962 in order to bring basic telephone services to rural areas of
11 Arizona and New Mexico where costs and demographic considerations discouraged
12 investment by larger telecommunications companies. VTC provides local exchange
13 service and other telecommunication services to rural customers in the Arizona
14 exchanges of Portal, Sunizona, Pearce, Bonita, Bowie and San Simon, which are located
15 in portions of Cochise and Graham Counties. VTC also provides telecommunications
16 services to customers in the New Mexico exchanges of Playas, Columbus, Animas and
17 Rodeo, and in the Mexican exchange of Las Polomas. VTC's operations are spread over
18 a large geographic area with a subscriber-per-route-mile density of only 1.5 and a
19 subscriber-per-square-mile density of only 0.5.

20 VTC has met and maintained its objective to bring universal service to the
21 communities it serves. VTC is committed to maintaining universal service in the
22 customer-owned cooperative service area as technology advances and the definition of
23 universal service evolves. VTC's commitment to bring wireless service to rural areas is
24 reflected by the company's investment and deployment of cellular service in some of the
25 most rural areas of Arizona. VTC's service quality attests to the fact that, unlike larger
26

1 non-LEC wireless service providers, the company's signal does not disappear as you get
2 off the main highways.

3 VTC's commitment to rural universal service is further evidenced by its
4 formation of subsidiary Copper Valley to acquire the Arizona exchanges of Clifton,
5 Duncan, Elfrida and York Valley from Qwest Corporation ("Qwest") in 1995, and the
6 subsequent investment in those exchanges to upgrade the quality of universal service
7 available to Copper Valley subscribers.

8 Valley Telecom Cellular owns and operates Arizona Rural Service Area 6-East,
9 a cellular network serving portions of southeastern Arizona. Valley Telecom Cellular
10 also provides Internet service, paging service and business systems services.

11 **Q-4. Have you previously provided testimony or actively participated in proceedings**
12 **before the Arizona Corporation Commission?**

13 **A-4.** Yes. I have testified in a number of proceedings before the Commission and
14 participated in several workshops conducted by the Commission. My testimony in
15 those proceedings is a matter of public record.

16 **Q-5. On whose behalf are you testifying in this proceeding?**

17 **A-5.** I am testifying on behalf of the following members of the Arizona Local Exchange
18 Carriers Association ("ALECA"):

- 19 • Arizona Telephone Company
- 20 • CenturyTel
- 21 • Copper Valley Telephone
- 22 • Frontier, a Citizens Communications Company
- 23 • Midvale Telephone Exchange
- 24 • Navajo Communications
- 25 • South Central Communications
- 26 • Southwestern Telephone Company

1 • Table Top Telephone Company

2 • Valley Telephone Cooperative

3 In addition, the following ALECA members support this filing, although each is
4 tribally-owned, and as such, is not subject to the jurisdiction of the Commission:

5 • Fort Mojave Telephone Company

6 • Gila River Telecommunications

7 • San Carlos Apache Telecom Utility

8 • Tohono O'Odham Utility Authority.

9 I am the current President of ALECA. ALECA petitioned to intervene in this
10 proceeding and was granted intervener status by procedural order dated August 21,
11 2003.

12 **Q-6. What is ALECA?**

13 **A-6** ALECA is a non-profit corporation whose members include most of the rural local
14 exchange carriers ("LECs") providing telephone service in Arizona.

15 **Q-7. Do all of the ALECA member companies provide service in rural areas of
16 Arizona?**

17 **A-7.** Yes, they do. In fact, each of the ALECA member companies provides telephone
18 exchange service, including exchange access, to fewer than 50,000 access lines or
19 otherwise provides telephone exchange service to a LEC study area with fewer than
20 100,000 access lines within the State of Arizona. Accordingly, each ALECA member is
21 a rural telephone company for purposes of the Communications Act of 1934, as
22 amended by the 1996 Telecommunications Act (the "Act"), and each ALECA member
23 has been designated as an Eligible Telecommunications Carrier ("ETC") within its
24 respective service area.

25 **Q-8. What is the purpose of your testimony?**

26 **A-8.** The purpose of my testimony is to demonstrate that there are substantial questions of

1 fact and policy regarding the ability of ALLTEL Communications, Inc., ("ALLTEL") to
2 fulfill the requirements and criteria required to be designated an ETC in the service
3 areas of ALECA member companies. I believe that I can offer the Commission a
4 unique perspective on Alltel's application because of my operational responsibilities
5 over VTC's wireline operations and Valley Telecom Cellular's wireless operations in
6 rural Arizona. As a rural wireless carrier, Valley Telecom Cellular has debated whether
7 to seek ETC status as ALLTEL has done. As a matter of equal protection and basic
8 competitive fairness, Valley Telecom Cellular will seek ETC status if ALLTEL is
9 designated an ETC in this proceeding. However, as I will address in my testimony,
10 there are overriding questions of sound telecommunications policy and public interest
11 that weigh against designation of more than one ETC in a rural telephone company
12 service area under the existing rules and regulations. These questions of policy and
13 public interest are currently pending before the Federal-State Joint Board ("Joint
14 Board") which should make recommendations to the Federal Communications
15 Commission ("FCC") early in 2004 regarding the designation of multiple ETCs in rural
16 telephone service areas. As the Commission is aware, the designation of additional
17 ETCs in rural telephone service areas requires a finding that the designation is in the
18 public interest. I respectfully urge the Commission to recognize that the rules and
19 framework under which it is making this required public interest determination will
20 change shortly. At a minimum, the public interest would be served by deferring
21 consideration of the ALLTEL petition until the release of decisions from the Joint Board
22 and FCC, which will certainly impact the public interest analysis in this proceeding.

23 **Q-9. Does your testimony address the request made by ALLTEL with respect to the**
24 **areas served by Qwest?**

25 **A-9.** No, not directly. While the underlying factual issues regarding ALLTEL's service
26 offerings may apply, I do not believe that Qwest is a rural telephone company under the

1 Act. Accordingly, the full extent of the analysis required by the Commission for the
2 ALLTEL application as it applies to the service areas of ALECA member companies
3 does not apply to the Qwest service area where the Commission is not entrusted with the
4 statutory requirement of finding that the public interest will be served by the
5 designation, as is required in rural telephone company service areas.

6 **Q-10. Would you summarize your testimony?**

7 **A-10.** Yes. First, the Commission must undertake a careful review to determine whether
8 ALLTEL has properly demonstrated that it will offer each of the services supported by
9 the universal service support mechanism as delineated in 47 C.F.R. § 54.101(a).
10 Second, the Commission must conduct a thorough evaluation of whether the public
11 interest will be advanced by designating ALLTEL as an additional ETC in the rural
12 areas served by the ALECA members. ALECA does not believe that the review
13 conducted by Utilities Division Staff regarding these two matters has been sufficiently
14 rigorous. Third, if the Commission designates ALLTEL an ETC, it should maintain
15 appropriate oversight and impose the same requirements applicable to the ALECA
16 member companies in their provision of universal service.

17 In addition, in light of the ongoing proceedings at the Joint Board and other FCC
18 proceedings affecting universal service, ALECA strongly urges that the Commission
19 delay action on ALLTEL's ETC request, or alternatively, make any such action
20 conditional and subject to modification depending on the outcome of the Joint Board
21 and FCC proceedings. If the Commission were to designate ALLTEL an ETC under
22 existing universal service rules, it may want to ensure that the designation is not relied
23 upon as one in perpetuity. Changes in the FCC's universal service rules could
24 significantly affect the public interest finding required by the Commission in
25 designating an ETC. For example, would the Commission find it in the public interest
26 to designate multiple ETCs in rural service areas if the federal universal service fund to

1 that rural Arizona area is capped, as some have proposed? Multiple ETCs dividing a
2 limited amount of universal service funds may not serve the public interest. The FCC
3 rules could also result in the need for funding from the Arizona Universal Service Fund
4 in the event of multiple ETC designations in rural areas if the federal fund is capped.

5 **Q-11. On what basis do you believe that the Commission should undertake a more**
6 **rigorous analysis than that undertaken by Utilities Division Staff?**

7 **A-11.** At least two FCC commissioners have raised the issue of whether states have, in fact,
8 undertaken the type of review that would ensure compliance with the requirements of
9 Section 214 of the Act prior to designating an additional ETC in a service area of a rural
10 telephone company. Specifically, as part of the FCC's July 14, 2003, action regarding
11 the definition of universal service, FCC Commissioners Abernathy and Adelstein jointly
12 stated as follows:

13 [W]e are concerned that the ETC designation process—and in particular
14 the public interest analysis—has been conducted in an inconsistent and
15 sometimes insufficiently rigorous manner. Providing federal guidance
16 on these issues will afford regulatory certainty to competitive ETCs, as
17 well as incumbent LECs. It will also help stabilize the funding
18 mechanism.

19 Therefore, it seems logical that if the need for a rigorous review is recognized and
20 fostered by federal regulators in order to ensure that the public interest is served, it only
21 seems reasonable that the approach should be applied here in Arizona to ensure that we
22 serve the overall interests of rural Arizonans, and not just the interests of carriers
23 seeking to serve their bottom line. Undertaking a rigorous review of the ALLTEL
24 application for ETC status is consistent with the Commission's duty to make a public
25 interest finding before designating ALLTEL an ETC.

26 **Q-12. What do you mean by the "public interest finding" required of the Commission?**

1 A-12. As the Commission is aware, a telecommunications carrier must be designated as an
2 ETC by the Commission in order for that entity to be eligible to receive federal USF
3 disbursements. This requirement is established in Section 214 of the Act. However,
4 the language of Section 214(e)(2) states that the Commission is **not** required to
5 designate an additional ETC within the service area of a rural telephone company,
6 including each of the ALECA member companies. If the Commission is inclined to
7 grant ETC status to an additional entity for a rural telephone company's service area, the
8 Commission is statutorily required to find that such designation is "in the public
9 interest." For the Commission's convenience, relevant portions of Section 214(e) of the
10 Act are attached to my testimony as Attachment "A."

11 **Q-13. What do you mean by your reference to designation of an ETC in the "service area**
12 **of a rural telephone company"?**

13 A-13. The service area is the "study area" of a rural telephone company. This could be
14 changed only by an affirmative action to establish a different geographic area as the
15 service area by the FCC in conjunction with its Joint Board addressing universal service.
16 "Study area," in turn, is the entire geographic territory of the specific rural telephone
17 company within which it operates and is that which is used for purposes of establishing
18 its federal USF disbursements. The service maps of the ALECA member companies are
19 on file with the Commission and ALECA believes that the Commission can and should
20 take official notice of them for purposes of this proceeding.

21 **Q-14. Does Section 214 of the Act provide any more guidance with respect to what the**
22 **Commission must do in its consideration of an application for ETC status?**

23 A-14. Yes it does, and the consideration is also related to the FCC's rules regarding the basic
24 services that must be provided by an ETC. In addition to the public interest
25 determination noted above, an ETC is required to demonstrate to the Commission the
26 following:

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1. First, the applicant's service must meet nine specific service criteria set forth by the FCC. An ETC must provide all of the following:
 - (i) voice grade access to the public switched telephone network;
 - (ii) local usage free of charge;
 - (iii) dual tone multi-frequency signaling or its equivalent;
 - (iv) single party service or its equivalent;
 - (v) access to emergency services, such as 911;
 - (vi) access to operator services;
 - (vii) access to interexchange service;
 - (viii) access to directory assistance; and
 - (ix) toll limitation for qualifying low-income customers -- toll limitation or toll restriction and both Lifeline and Linkup.

These services are listed in 47 C.F.R. § 54.101(a).

2. Second, the applicant must advertise the availability of its universal service offering throughout the entire study area of each rural telephone company where the applicant seeks ETC status.
3. Third, the applicant must be designated to serve and must offer service throughout the entire study area of the rural telephone company.

I note that these are minimum requirements established at the federal level and applicable to each ETC. This Commission, and each state commission, has discretion to apply additional requirements as a condition of designating a particular applicant as an ETC to ensure that the public interest, as defined by the state-specific considerations, is protected.

Q-15. On what basis do you believe that the requirements you noted above are "minimum" and that the Commission has "discretion" in establishing additional requirements?

1 A-15. First, and with respect to applicants in rural telephone company areas, the Act uses the
2 term "public interest" and "public interest, convenience and necessity." These are the
3 very same standards that the Commission has traditionally used to ensure that the
4 interests of all consumers within the State of Arizona are advanced. The Act does not
5 specify any limitation on the discretion of the state commission in this regard with
6 respect to the designation of additional ETCs in rural telephone company service areas.
7 Moreover, the FCC has not provided any specific direction or limitation imposed on the
8 state commissions regarding this determination. If anything, the FCC's July Order
9 reflects the intent and expectation of the FCC that each state will utilize its discretion to
10 protect the interests of its consumers in fostering the overall public interest and not
11 simply short term financial goals of companies seeking funding.

12 **Q-16. What types of considerations do you believe that the Commission should keep in**
13 **mind as it reviews this matter?**

14 A-16. Generally, in evaluating the impact on the public interest, the Commission should
15 consider the impact that the designation will have overall on rural Arizona consumers,
16 the impact on the federal USF program, and on the realistic ability to achieve universal
17 service objectives. In general, no customer of ALLTEL or any newly designated ETC
18 should be subject to lesser service quality or service standards than that customer would
19 receive from the incumbent rural telephone company ETC. Moreover, neither
20 ALLTEL nor any other additional ETC should receive federal USF unless it abides by
21 the same complaint procedures and oversight of service quality and consumer
22 protections as those procedures and processes required of the incumbent rural telephone
23 companies. As part of its review of the ETC application, the Commission must, as a
24 threshold matter, determine whether ALLTEL provides the nine universal service
25 components required by the FCC, as well as the ability to offer service throughout the

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1 entire service area of each rural telephone company serving areas where ALLTEL seeks
2 ETC designation.

3 **Q-17. Wouldn't the approach of a rigorous application review that you are suggesting**
4 **amount to a barrier to entry?**

5 **A-17.** No, it would not. ALLTEL is already a CMRS provider and it does not require USF to
6 provide CMRS service or universal services. As a matter of fact, the distribution of
7 USF could not be a barrier to entry or provision of service for any carrier; the rural
8 telephone companies, including the ALECA members, are required to provide universal
9 service and they receive their universal service funding on the basis of a "two-year lag"
10 under the FCC's rules. In ALECA's view, the regulatory oversight undertaken by the
11 Commission in its effort to foster universal service becomes all the more necessary
12 when an entity seeks funds as a "universal service provider" within the rural areas of the
13 state. The choice of ALLTEL or any other ETC applicant to seek "universal service
14 provider" status (which is inherent in seeking designation as an ETC) should carry with
15 it the responsibility to comply with all applicable and relevant regulations affecting
16 quality of service and service provisioning within Arizona. If the Commission
17 considers granting ETC status to ALLTEL, then the ALECA members ask the
18 Commission to demonstrate that the "playing field" is truly level. Level is not simply a
19 matter of distributing funds to carriers purporting to be "universal service providers." If
20 a carrier wants the benefit of funding, it should fulfill the responsibilities that come with
21 such funding, as has each of the ALECA members.

22 Accordingly, to ensure a level playing field when a carrier obtains ETC status
23 and responsibilities, ALECA believes that the Commission should assert its regulatory
24 oversight over the ETC, irrespective of the technology the ETC uses to deliver universal
25 service to the rural consumers of the State. This result is not only a matter of
26 fundamental fairness among carriers, but is also required to ensure consumers are not

1 without recourse to complain and/or challenge the very basis of service an ETC is
2 properly required to offer. This result is consistent with the charge made by Congress to
3 this Commission to ensure that the designation of an additional ETC in a rural telephone
4 company service area truly is in the public interest.

5 **Q-18. For purposes of this proceeding, does the fact that ALLTEL offers service through**
6 **wireless technology justify a different treatment of ALLTEL by the Commission**
7 **with respect to service and quality standards imposed on the rural LEC ETCs,**
8 **including ALECA members?**

9 **A-18.** No, it does not. The fact that ALLTEL utilizes wireless technology to provide
10 telecommunications services to its end users does not warrant a different treatment by
11 the Commission in making factual findings and evaluating the public interest. Some
12 people may attempt to confuse this issue, but it should not be subject to any confusion.
13 It is my understanding that the state commissions have been preempted from regulating
14 entry and rates of CMRS service providers. However, this does not mean that the
15 Commission is prohibited from imposing conditions on the grant of ETC status to
16 CMRS providers that ensure that Arizona's rural consumers are protected. Obviously,
17 Congress' mandate to the Commission to consider the public interest would be
18 meaningless if the Commission could not condition ETC designation on requirements
19 that the competitive ETC provide service on a par with that provided by rural LECs.
20 The concepts of equal protection, technological neutrality, and fundamental fairness
21 demand that all ETCs be held to the same level of oversight by the Commission
22 regardless of the technology they use.

23 **Q-19. What basis do you have for your suggestion that it is necessary for the Commission**
24 **to undertake a "rigorous review" of ALLTEL's application?**

25 **A-19.** This Commission has granted ETC status to an additional carrier serving in a rural
26 telephone company service area once before in the instance of Smith-Bagley. The

1 Commission determined that the Smith-Bagley application should be granted on the
2 basis of very specific facts and circumstances. On its face, the ALLTEL application
3 does not demonstrate any specific facts that warrant a grant of ETC status. In the
4 absence of a thorough review and necessary findings, the public interest will not be
5 served. In fact, ALECA believes that the public interest will be harmed by designation
6 of multiple ETCs in rural markets. The provision of funds intended for universal
7 service network cost recovery in small rural markets will inevitably lead to instability
8 and discourage investment in the rural areas. VTC exists because so-called "market
9 forces" do not exist. In the absence of the universal service program, it is questionable
10 whether the rural areas of Arizona could provide a customer base to sustain one
11 universal service provider much less multiple carriers. The potential detriment to the
12 public will become even greater if the FCC chooses to cap the USF available to an area
13 and divide it among multiple ETCs. In the absence of a portion of the cost recovery
14 revenues provided by the USF, VTC and other ALECA members could be forced to cut
15 back on the services they provide and the ongoing investment in infrastructure. The
16 responses of ALLTEL to ALECA's data requests demonstrate that substantial questions
17 of fact exist with respect to: (1) whether ALLTEL truly provides or offers to provide
18 universal service; (2) whether ALLTEL will subject itself to the Commission's
19 jurisdiction so as to allow the Commission to ensure that ALLTEL complies with the
20 universal service requirements; and (3) whether ALLTEL will comply with its
21 obligations regarding the use of federal USF disbursements. Based on its skeletal
22 application and the minimal information provided to data responses, ALLTEL
23 apparently would have the Commission "rubber stamp" its request. Obviously, this is
24 not a result that serves the public interest.

25 **Q-20. Can you provide specifics to support your position that ALLTEL's services should**
26 **not be considered "universal service" in rural areas of Arizona?**

1 A-20. Absolutely. ALLTEL does not have a universal service offering comparable to the
2 unlimited local calling plans offered by the ALECA member companies. ALECA
3 member companies offer their universal service package based on unlimited local
4 calling and with toll presubscription. (which ALLTEL does not offer (see Response to
5 ALECA Data Request No. 7)). The fundamental issue for the Commission to consider
6 is whether any service offered by ALLTEL constitutes universal service in Arizona.
7 Specifically, the Commission should consider the following questions:

- 8 • Will ALLTEL provide a service that is consistent with Section 254 of the Act?
- 9 • Will ALLTEL offer unlimited local service without additional usage charges?
- 10 • Can an ALLTEL customer elect to block calls (toll limitation) outside of the
11 local area to ensure that he or she does not incur additional usage charges?
- 12 • Can the customer dial universally recognized dialing patterns (*e.g.*, 101xxxx) to
13 reach the services of alternative carriers of choice?
- 14 • Can the ALLTEL customer reach operator services to place calls alternatively
15 charged (*e.g.*, collect)?
- 16 • Can the ALLTEL customer place 1-800 and other "toll-free" calls on an
17 unlimited basis at any time without incurring additional usage charges?

18 On the basis of the record before the Commission, the answer to each of these questions
19 appears to be no. I respectfully suggest that if the answer to only one of these questions
20 is "no," then ALLTEL does not provide a level of service that this Commission and
21 rural Arizona customers expect from a universal service provider.

22 **Q-21. Is it permissible for the Commission to require ALLTEL or any universal service**
23 **provider to offer unlimited local exchange service on a flat rate basis within a**
24 **service area as a condition to ETC designation?**

25 A-21. Yes. That is precisely what the Commission requires of ALECA members. The FCC
26 has not prevented the Commission from acting to ensure that additional ETCs provide

1 universal service that meets the Commission's criteria and public interest standard. The
2 fact that the Commission may be precluded from "rate regulating" a CMRS provider
3 does not lead to a requirement that the Commission grant a CMRS carrier ETC status
4 irrespective of a determination that the service offerings and rates of the CMRS carrier
5 are consistent with universal service. If that were the case, how could the Commission
6 fulfill its duty under Section 214 of the Act to protect the public interest when
7 designating additional ETCs in rural telephone company service areas?

8 The minimum service requirements established by the FCC regarding universal
9 service require only that some amount of local usage to be included in the monthly
10 charge. The FCC has not, however, established the amount of local usage that is
11 required. Similarly, although the FCC has not required an ETC to provide equal access
12 and toll presubscription, it has not limited the right of a state commission to do so.

13 **Q-22. With respect to whether ALLTEL actually offers "universal service," can you**
14 **provide any additional factual issues that must be resolved in order to warrant a**
15 **grant of ALLTEL's application?**

16 **A-22.** There are many factual issues that must be addressed to determine whether ALLTEL is
17 in a position to offer universal service to rural Arizona consumers. The consideration of
18 these issues was the very focus of the informational and discovery requests that ALECA
19 submitted to ALLTEL:

20 1. **Interconnection Arrangements.** ALECA asked ALLTEL to identify the
21 arrangements it has established to exchange local traffic with the rural telephone
22 companies. It should be self evident that the ability to offer service also requires the
23 ability to terminate service. A universal service provider should certainly establish
24 lawful terms and conditions to interconnect its traffic under the framework established
25 by the Act. ALLTEL, however, has not established any such arrangements with the
26 rural telephone companies in Arizona. The telecommunications industry has been

1 tainted by recent national reports about the schemes of MCI/WorldCom and other
2 carriers related to the routing of traffic in a manner intended to improperly avoid
3 interconnection. The absence of interconnection arrangements by ALLTEL with the
4 rural telephone companies is relevant in this regard. Prior to any grant of ETC status to
5 ALLTEL, ALECA urges the Commission to scrutinize the applicant and determine
6 whether ALLTEL is lawfully terminating traffic to rural telephone companies in order
7 to ensure that there is no improper routing through EAS trunks and interexchange trunks
8 in a manner that avoids the payment of proper termination charges.

9 **2. Universal Service throughout a rural telephone company service area.** It is, at a
10 minimum, unclear whether ALLTEL has any plans to offer service in the entire service
11 area of each of the ALECA member companies where ALLTEL seeks ETC designation.
12 It is unquestionable that you can move away from the highways in these rural areas and
13 find it difficult if not impossible to pick up ALLTEL's service where consumers live in
14 rural Arizona. What plans has ALLTEL provided to provide universal coverage
15 throughout the incumbent LEC's service area?

16 **3. Quality of service.** Prior to designating ALLTEL an ETC, I urge the Commission to
17 consider the actual quality of service in the same way that the Commission is concerned
18 about the quality of service offered by the rural telephone companies serving rural
19 Arizona. What are the ALLTEL call completion and call drop ratios? In fact, it is
20 questionable whether an ALLTEL customer actually has a dedicated path for its
21 communications as required by the FCC's rules. In addition, it does not appear that
22 ALLTEL provides access to operator services in a manner that results in the same level
23 of service rural Arizona customers expect today when they access an operator for
24 service.

25 **4. Use of USF funds.** Prior to designating ALLTEL as an additional ETC in any rural
26 telephone company service area, ALECA asks the Commission to ensure that the public

1 interest is truly fostered and protected. ALECA asked ALLTEL to provide information
2 regarding its capital investment plans in order to establish whether ALLTEL has
3 specific plans to provide universal service in rural Arizona. There is no question that
4 every dollar of USF received by an ALECA member represents a dollar of real cost
5 recovery related to the provision of universal service in Arizona. Prior to any additional
6 grants of ETC status in rural service areas, ALECA believes the public interest demands
7 assurance that any USF dollars directed to ALLTEL will be used in Arizona to provide
8 universal service, and not sent to Little Rock to fund some other service in some other
9 areas or to distribute to shareholders as dividends.

10 **Q-23. Isn't ALLTEL's commitment to competition, as reflected in its application,**
11 **sufficient to warrant its designation as an ETC?**

12 **A-23.** No. Essentially, ALLTEL claims that its designation as an ETC is in the public interest
13 simply because it provides "competition." If competition in and of itself was the
14 national goal, then ALLTEL's claim might have some merit. However, the nation's
15 telecommunications policy focuses first and foremost on the provision of universal
16 service. While the introduction of competition in many market areas may be beneficial
17 because the demography and topography of these areas make competition effective,
18 thereby attracting basic and advanced telecommunications services, Congress realized
19 that the market areas served by rural telephone companies are not so robust. In the non-
20 rural telephone company service areas, the Act essentially assumes the designation of
21 multiple ETCs. However, in the rural telephone company service areas, Congress
22 recognized that the designation of multiple ETCs might not serve the public interest. It
23 is for this reason that Congress gave the state commissions the right and obligation to
24 make a public interest determination prior to granting additional ETC status in rural
25 telephone company service areas. If competition alone was a sufficient basis to consider
26 an ETC application to be in the public interest in a rural area—as ALLTEL would have

1 the Commission believe—there would be no reason for Congress to ask the Commission
2 to make a distinct public interest finding with respect to each ETC application.
3 Congress recognized that it will not always serve the public interest to designate
4 additional ETCs in rural telephone company service areas, and left to the state
5 commissions the responsibility to determine whether a particular designation is in the
6 public interest.

7 **Q-24. Can you please summarize why the Commission should conclude that designation**
8 **of ALLTEL as an ETC in rural telephone company service areas is not consistent**
9 **with the public interest?**

10 **A-24.** ALLTEL offers no specifics with respect to the universal services it will provide if it is
11 designated an ETC. ALLTEL has not committed to provide unlimited local service in
12 the rural service areas. ALLTEL has not committed to provide ubiquitous service to
13 rural consumers, irrespective of where they reside. ALLTEL has provided no assurance
14 that rural customers using ALLTEL's service will even have service when they leave
15 the highways of the rural Arizona service areas.

16 The ALECA members submit that the minimal factual information provided by
17 ALLTEL together with the public policy concerns weighing against additional ETC
18 designations within rural service areas warrant a denial of ALLTEL's application.

19 **Q-25. You mentioned at the outset of your testimony that if ALLTEL is granted ETC**
20 **status, VTC's cellular affiliate, Valley Telecom Cellular, will seek ETC status as a**
21 **matter of competitive fairness and equal protection. Wouldn't that be contrary to**
22 **all of the principles you have presented in this testimony?**

23 **A-25.** VTC, like other ALECA members, is firmly convinced that it is poor
24 telecommunications policy to provide universal service network cost support to
25 multiple networks in rural areas where market forces do not support even one universal
26 service provider. After all, the Act speaks of providing support that is sufficient to

1 provide universal service, not sufficient to support multiple providers. At VTC, we
2 have hesitated from seeking ETC status for our cellular affiliate because we are
3 concerned that ETC designation of additional carriers in rural service areas nationwide
4 is producing an adverse impact on the overall size of the federal USF.

5 To illustrate my point, there are six wireless carriers (and one incumbent local
6 exchange carrier) in RSA 6. How many of these wireless carriers should be supported
7 by USF? If the Commission grants ETC status to one, must it grant ETC status to all?
8 If not, how does the Commission avoid discrimination in selecting one ETC-designated
9 carrier over the others? Can the USF Fund support all six carriers and the ILEC in RSA
10 6. What benefits would customers in RSA 6 receive that they do not enjoy today?
11 These are important questions that should be addressed by the Commission in
12 developing a sound policy regarding the designation of competitive ETCs.

13 The burgeoning size of the federal USF has raised industry-wide concerns
14 regarding the sustainability of the fund, including the increasing contributions required
15 to fund the federal USF. As a result of the growing fund size, the Joint Board is
16 considering limiting the federal funds available to a rural service area and requiring that
17 the limited amount be divided among all designated ETCs serving the rural area. This
18 result would, as I discussed earlier, jeopardize the operations of the rural telephone
19 companies which would be left unable to meet their expenses and continued capital
20 investment needs.

21 VTC's decision to hold off in its own ETC filing for its cellular affiliate is not
22 based solely on the concern about the growing level of the federal fund. The existing
23 rules have many flaws. Among these flaws is the fact that a competitor of a rural
24 telephone company receives universal service funds based on the incumbent carrier's
25 costs. Unfortunately, neither we nor this Commission can change those rules in this
26 proceeding. We must deal with the rules as they exist, and the Commission must

1 determine the public interest in the context of the facts before it, the existing rules, and
2 recognition of the forthcoming changes that may result from the proceedings pending
3 before the FCC and the Joint Board. On this basis, VTC joins its fellow ALECA
4 members in the conviction that the public interest does not warrant designation of
5 ALLTEL as an ETC in the service areas of any rural telephone company.

6 The public interest demands assurance that the designation of additional ETCs in
7 rural telephone company service areas will foster, and not impede, universal service.
8 The public interest also requires certainty that any funds distributed to the newly
9 designated ETC will be used to provide universal service in the rural areas of Arizona.
10 The facts before the Commission do not provide any assurance that the public interest
11 will be protected if ALLTEL is designated an ETC. If nonetheless, and irrespective of
12 these considerations, ALLTEL is granted ETC status, Valley Telecom Cellular will, as a
13 matter of competitive fairness and equal protection, also seek ETC status. I can assure
14 you that if Valley Telecom Cellular does seek ETC status, there will be no question, in
15 contrast to the facts and circumstances before the Commission in this proceeding, that
16 every universal service dollar Valley Telecom Cellular were to receive would be utilized
17 to advance the provision of service in the rural areas we serve. The advancement of
18 telecommunications services in rural service areas is, in fact, the single purpose that
19 drives the very existence of VTC and our fellow ALECA members.

20 **Q-26. Does this conclude your testimony?**

21 **A-26.** Yes, thank you.
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Attachment A

**Excerpts from Section 214 of the
Communications Act of 1934, as Amended**

(e) PROVISION OF UNIVERSAL SERVICE.--

(1) ELIGIBLE TELECOMMUNICATIONS CARRIERS.--A common carrier designated as an eligible telecommunications carrier under paragraph (2) or (3) shall be eligible to receive universal service support in accordance with section 254 and shall, throughout the service area for which the designation is received--

(A) offer the services that are supported by Federal universal service support mechanisms under section 254(c), either using its own facilities or a combination of its own facilities and resale of another carrier's services (including the services offered by another eligible telecommunications carrier); and

(B) advertise the availability of such services and the charges therefor using media of general distribution.

(2) DESIGNATION OF ELIGIBLE TELECOMMUNICATIONS CARRIERS.-- A state commission shall upon its own motion or upon request designate a common carrier that meets the requirements of paragraph (1) as an eligible telecommunications carrier for a service area designated by the State commission. Upon request and consistent with the public interest, convenience, and necessity, the State commission may, in the case of an area served by a rural telephone company, and shall, in the case of all other areas, designate more than one common carrier as an eligible telecommunications carrier for a service area designated by the State commission, so long as each additional requesting carrier meets the requirements of paragraph (1). Before designating an additional eligible telecommunications carrier for an area served by a rural telephone company, the State commission shall find that the designation is in the public interest.

...

(5) SERVICE AREA DEFINED.-- The term 'service area' means a geographic area established by a State commission for the purpose of determining universal service obligations and support mechanisms. In the case of an area served by a rural telephone company, 'service area' means such company's 'study area' unless and until the Commission and the States, after taking into account recommendations of a Federal-State Joint Board instituted under section 410(c), establish a different definition of service area for such company.