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AZ CORP COMMISSION
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March 6, 2002

Arizona Corporation Commission
Attention: Docket Control
1200 West Washington Street
Phoenix, Arizona 85007-2996

**RE: INVESTIGATION OF THE COST OF TELECOMMUNICATIONS ACCESS
DOCKET NO. T-00000D-00-0672**

On behalf of the Arizona Local Exchange Carriers Association (ALECA), the concurring members identified herein, I submit comments in the above-captioned cause in response to the questions in Commission Staff's Request for a Procedural Order in this Docket. Those members of ALECA, submitting and supporting such comments are as follows: Accipiter Communications, Inc., CenturyTel, Fort Mojave Telephone Company, Gila River Telecommunications, Midvale Telephone Exchange, Inc., South Central Communications, Table Top Telephone, TDS Telecom (representing Arizona Telephone and Southwestern Telephone), Tohono O'Odham Utility Authority and Valley Telephone Cooperative, Inc. (representing also Copper Valley Telephone, Inc.)

Please see the attached document for our complete comments. We look forward to working with the Commission and Commission Staff to fully investigate and address the issues concerning access charges in the state of Arizona.

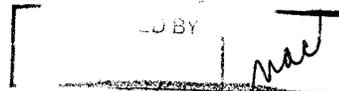
These comments are submitted by Judy Bruns, at the direction of John Zeiler, President of ALECA. Should you have any questions please feel free to contact John Zeiler at 405-390-6453 or myself at 520-384-2231.

Respectfully,

Judy Bruns
CEO/GM - Valley Telephone Cooperative, Inc.

Arizona Corporation Commission
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EXECUTIVE SUMMARY

Prior to implementing changes to Arizona's access charge structure or rates, ALECA urges the Commission to carefully examine the 1) difficult public policy issues associated with access charges; 2) the major differences in the operating characteristics of rural versus urban LECs and rate of return versus price cap Local Exchange Carriers (LECs); and 3) the **real market impact** of reduced access charges on toll competition.

First, ALECA believes that efforts to restructure access charges in Arizona must provide real consumer benefit while allocating an appropriate portion of local exchange carrier (LEC) costs to the provision of access services to interexchange carriers. Access restructure should concentrate on rate design issues rather than simply rate level issues as some parties will suggest. ALECA believes all parties in this proceeding must recognize that costs are incurred in providing telecommunications services. Since ALECA believes any telecommunications carrier using the network of an ALECA member should pay for the services provided by ALECA's members, ALECA strongly supports the continuation of an access charge rate design applied to IXCs. This proceeding should only address the equitable allocation of actual cost to all services that use telecommunications facilities. Second, ALECA recommends the Commission recognize the differences in the operating conditions of Arizona LECs. There are different issues associated with price cap versus rate of return LECs, differences between LECs serving primarily urban areas compared to those serving only rural areas. The Commission must address the fact that some customers or groups of customers represent areas that are a higher cost to serve. There are statutes, regulations, and policies in place to insure those customers that represent high costs are provided affordable, quality telecommunications service, i.e., the 1934 Telecommunications Act as amended in 1996. Third, the real impact of access reduction may not result in reduced consumer rates – the Commission should revisit the history of IXC pricing after the implementation of the CALLS plan where consumer rates actually increased.

ALECA would remind the Commission that the FCC maintains fully distributed, embedded costs as the standard for setting interstate access rates and has never adopted incremental costs (LRIC, TSLRIC, FLEC, etc). To the extent certain elements of interstate access rates may have contained implicit subsidies, the FCC has identified the implicit subsidy and made it explicit. Reliance on access charge concepts included in the CALLS Order or the recently released MAG Order do not provide the Arizona Commission with a reliable roadmap to access reform within the state. IXCs raised rates with the adoption of the CALLS plan while consumers suffered through an increase in Subscriber Line Charges. The MAG plan is subject to numerous Petitions for Reconsideration and its changes are not yet final. ALECA is also opposed to shifting access charges to a direct assessment on end users when such a plan will not result in consumer benefit and will not encourage competition.

ALECA believes that Section 254(g) and Section 254(k) of the 1996 Act must remain as important elements in this proceeding. Section 254(g) requires toll rate averaging and 254(k) requires all users of telecommunications facilities to pay for joint and common costs like loops. These sections of the Act support the sound policy ALECA respectfully urges this Commission to maintain as appropriate public policy for Arizona.

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Q1. Do you believe that the Commission ought to restructure access charges? Please explain your response.

R. As will be explained in greater detail in response to other questions below, the Arizona Local Exchange Carriers Association (ALECA) believes that the current intrastate access charge structure may need to be restructured. ALECA believes that restructuring access is fundamentally a rate design issue that addresses which ratepayer pays for the provisioning of toll and local service in Arizona. Even if the Arizona Corporation Commission (ACC or Commission) does not address local rates directly, shifting access costs from per-minute rates to flat monthly rates such as a Subscriber Line Charge (SLC) will have the same effect as a local rate increase in the opinion of the consumer. Prior to implementing changes to Arizona's access charge structure or rates, ALECA urges the Commission to carefully examine 1) the difficult public policy issues associated with access charges; 2) the major differences in the operating characteristics of rural versus urban LECs and rate of return versus price cap Local Exchange Carriers (LECs); and 3) the **real market impact** of reduced access charges on toll competition.

Recent changes in the allocation and recovery of interstate costs will likely lead to increased disparity between interstate and intrastate access charges. The net effect of these recent Federal Communications Commission (FCC) decisions in the CALLS and MAG Order was to reduce per-minute access charges and shift costs from access charges to newly created Universal Service Fund (USF) mechanisms. It is critical to note that the FCC has consistently maintained fully distributed, embedded cost standards as the basis for identifying costs to be recovered by access charges or new USF mechanisms.

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Q.2 What recommendation to the Commission would you make regarding how intrastate access charges should be reformed?

R. Several policy objectives must be addressed in any restructure of access charges.

As an initial matter, all parties in this proceeding must acknowledge that ALECA's members incur actual financial costs to provide both local and access service to Arizona citizens. In this filing, ALECA suggests the issue is one of rate design, not individual company rates thus ALECA will limit its responses to the proper allocation of costs and the resulting obligations of the various ratepayers subject to these costs.

Second, the Commission must determine the relative value of affordable local service versus access rates that satisfy interexchange carriers' (IXC) desire to compete more effectively. The Commission must decide if it mirrors FCC decisions, whether the effect of those decisions improve or jeopardize affordable universal service and affordable toll service in Arizona?

ALECA respectfully urges the Commission to identify consumer benefits of reduced access charges. If the assumption is that reduced access charges will lead to lower toll rates, the Commission should study the post-CALLS toll market. If the Commission intends to reduce access and increase reliance on a state universal service funding mechanism, existing statutes or rules may limit the Commission's opportunity to regulate or influence the retail pricing decisions of IXCs. If a state USF is created, and if the state USF is "portable" to competing CLECs, the Commission must ensure that Competitive Local Exchange Carrier (CLEC) receipt of state USF serves the public interest rather than encouraging inefficient CLEC entry into rural or high-cost areas.

- Q.3 Would you recommend the Commission address both switched and special access in an access charge reform proceeding? If your response is yes, please explain.
- R. ALECA members are not aware of specific problems or issues associated with current special access pricing in Arizona.

- Q4. Parties who desire that switched access charges be reformed often state that switched access charges in general, and the CCL rate element in particular, contain implicit subsidies. Do you agree with this statement? Please provide an explanation of the rationale for your position, including any computations that you may have made.
- R. For rural telephone companies as defined by the FCC as set forth in 47 U.S.C. §153(37), access charges are based upon costs allocated to jurisdictions (interstate vs. intrastate) and services (common line, local switching, etc.). The Federal Communication Commission's prior orders reflect a comprehensive understanding that the jurisdictional cost allocation process and the high cost loop support mechanism represented rational rate design and cost recovery to reflect the spreading of the recovery of the costs of the rural LEC subscriber loops to all who benefit.¹ To the extent that ALECA would agree that the separations process included allocation methods arguably considered a "subsidy", the FCC has already defined "explicit" subsidies in the current USF mechanisms. To the extent loop costs were subject to an implicit subsidy, the subsidy is now explicit. To the extent interstate local switching access charges of Incumbent LECs (ILEC) serving less than 50,000 access lines have in the past contained implicit subsidies, those subsidies have been identified by the FCC and made explicit as a USF support mechanism, Local Switching Support.

Parties, which support the idea that access charges contain implicit subsidies, generally advocate any method that will shift an allocation of fixed cost away from their responsibility to that of another ratepayer. Access rates simply recognize that it costs more to serve some consumers compared with others. IXCs do not charge Arizona customers more per minute because it costs more for an IXC executive to rent a car in Arizona compared to Florida. It is ALECA's position that a requirement that a ratepayer pay a fair proportion of fixed or common costs, e.g. loop costs, is both required by Section 254(k) of the Telecommunications Act and sound public policy. Section 254(k) states:

SUBSIDY OF COMPETITIVE SERVICES PROHIBITED A telecommunications carrier may not use services that are not competitive to subsidize services that are subject to competition. The Commission, with respect to interstate services, and the States, with respect to intrastate services, shall establish any necessary cost allocation rules, accounting safeguards, and guidelines to ensure that services included in the definition of universal service bear no more than a reasonable share of the joint and common costs of facilities used to provide those services. (Emphasis added)

Addressing common line costs and rates generally, and carrier common line rates in particular, ALECA believes that fully distributed costs identified by Part 36 and Part 69 will ultimately be paid by the consumers that use the underlying facility. Historically, interstate common line costs have been recovered by monthly flat rate SLCs assessed upon end users directly and through carrier common line per-minute access rates charged to IXCs. In addition, as a part of a carefully crafted cost-shifting mechanism, in the 1980s the FCC implemented the Federal USF to shift some

¹ Costs of different local exchange carriers do vary. Many of these cost variations are attributable to factors that carrier management cannot control. The Docket 80-286 Joint Board has tentatively endorsed an industry proposal to include a high cost factor in any new separations formula for the apportionment of NTS Plant....Such a factor would represent a percentage of the NTS costs of high cost companies that would be added to a base factor percentage to determine the portion of such company's NTS costs that would be allocated to the interstate jurisdiction.

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interstate common line costs away from interstate access. In an eight-year process, the interstate allocation of loop costs was reduced to a national 25% fixed allocation and explicit USF was introduced to prevent local ratepayers from being required to pay the full cost of the loop. The FCC altered this historic rate design in the MAG order and has determined that all interstate common line costs should be recovered by a combination of increased SLCs and a new USF mechanism, Interstate Common Line Support (ICLS). The Commission should be aware that the MAG order is not a settled issue due to numerous Petitions for Reconsideration filed by affected LECs. If the Commission chooses to mirror the recent changes in interstate rate design pursuant to the MAG order, ALECA believes any similar effort to reduce access and shift costs must be accompanied by mandated toll rate reductions for consumers to realize any benefit.

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Q5. Can implicit subsidies be quantified?

R. To the extent the Commission determines implicit subsidies even exist, ALECA believes identification of such subsidies is a subjective exercise that includes the bias of the party offering the "proof" of implicit subsidies in access charges. ALECA would caution the Commission to beware of parties that advocate a finding that "all" access charges for loop cost recovery are a "subsidy" or that end users must pay for all loop costs in flat, monthly rates because "IXCs do not cause loop costs, end users cause loop costs". This common but false logic can be illustrated further by these analogies:

1. IXCs should not charge for special access T-1 facilities carried over their (IXC's) own long distance (common) trunks because switched voice traffic "caused" those trunks to be built. The IXCs' position would permit IXCs to charge only for those costs directly caused by the special access customer, e.g. cross connects or terminating electronics, etc.
2. IXC executives traveling by air do not demand free airline passage for their colleagues from air carriers even though the plane is going to fly anyway and the first 125 passengers "caused" the flight to be scheduled.

In fact, pricing for any service must be based, and is most often utterly reliant, upon the value of the service provided. IXCs derive value from the provision of loops and switches and must pay a fair and equitable fee for the services rendered. Rather than attempting to compute an implicit subsidy, the Arizona Commission should limit its efforts to determine whether a compensatory access rate is just and reasonable and benefits Arizona's consumers of telecommunications service.

Q5a. What is the appropriate cost standard to be used to determine whether access charges are free of implicit subsidies?

R. Fully distributed, embedded costs should be the standard for setting access rates. The FCC rejected both Long Run Incremental Costs (LRIC) and Total Service Long Run Incremental Costs (TSLRIC) for access charge development although the FCC is examining Forward Looking Economic Costs (FLEC) as a standard for loop costs in the calculation of USF for the larger carriers. The Rural Task Force recommended against the use of these costing models for any purpose stating that they were fundamentally flawed. ALECA could agree that FLEC may be conceptually similar to embedded costs but would point out that FLEC is a total enterprise, hypothetical cost method. **FLEC does not answer the question of allocating joint and common costs among ratepayers.** FLEC may produce higher costs than current costs, requires extensive, subjective engineering assumptions and requires decisions regarding depreciation, cost of capital, fill factors and other contentious issues. The subjective inputs of a FLEC approach must be made or arbitrated by neutral third parties. The following illustration demonstrates that the Commission would trade one set of issues for new controversies if it determines that a quantification of "implicit subsidies" is necessary to answer a question of allocation of costs.

Q5b. What cost standard is used to set interstate access charges? Is this cost standard appropriate for intrastate rates?

R. Rate of return ILEC access rates are based upon fully distributed, embedded (historic) costs or in some limited instances where an ILEC might file its own interstate access tariff, a forecast of fully distributed cost. ALECA can not emphasize the following point too strongly - even under the

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CALLS and MAG access charge restructure orders, the FCC has not deviated from fully distributed embedded cost as the standard for developing access rates. As will be discussed more fully in response to the Commission's question regarding the CALLS order, the price cap LEC's decision to reduce access and recover certain common line costs from a new USF fund was in response to their unique regulatory and market situations.

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- Q6. Do you believe that interexchange carrier switched access charges ought to exist? Please provide your rationale for your position on this matter.
- R. Absolutely. IXC's derive value from their ability to offer toll service to consumers and must pay for the service.

Q7. Please provide the following to assist in developing a rough estimate of the extent to which implicit subsidies exist in access charges assessed by Arizona local exchange companies.

Q7a What is your estimate of the implicit subsidies in access charges that exist on a statewide basis?

R. Refer to response to Q #4.

Q7b. Please explain how this estimate was developed.

R. Refer to response to Q #4.

Q7c. What is your estimate of the implicit subsidies in access charges that exist by local exchange company?

R. Refer to response to Q #4.

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- Q8. Should access charges be set at the same rates as unbundled network elements for the same network elements and functionalities? Please explain your response.
- R. No. Unbundled Network Elements and other interconnection pricing standards are based upon local interconnection. As stated in response to Questions 5a and 5b, the FCC has never adopted LRIC, TSLRIC or FLEC cost standards for access charges for any ILEC.

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Q9a. What procedure would you recommend be used to address switched access charge reform? For example, would you recommend a generic proceeding to address issues in general with the objective being the reform, restructure and resetting of switched access charges for every LEC in the State?

R. Please see ALECA's response to Questions 9d and 23.

Q9b. What issues do you believe should be addressed in a proceeding to determine whether and to what extent intrastate access charges ought to be reformed?

R. ALECA believes the central issue in any access charge restructure effort must address the impact the decision will have on consumers. First, all parties must acknowledge that a LEC able to provide service to consumers must be financially viable. While the FCC has decided, subject to continuing Federal Court scrutiny, that some local interconnection rates may be based upon hypothetical economic theories about how firms might behave in a hypothetically competitive market, at the end of the day, LEC costs must be recovered. The Arizona Commission should first determine how much a consumer should pay for basic connectivity to the public switched network, then, how much a consumer is likely to pay for intrastate toll service by deciding how much an IXC should pay for per-minute access. Any determination of appropriate local rates must be judged with respect to whether they meet the statutory threshold for affordability and comparability established by the 1996 Act. In its determination of appropriate access rates, the Commission should consider IXC pricing strategies after access rates were reduced in the CALLS order (See response to Question 14).

As ALECA has stated elsewhere in these comments, LECs must recover all of their costs to remain financially viable. Failure to recognize these costs as real will result in diminished incentive to invest in infrastructure throughout the state. ALECA members rely on access to provide a significant portion of their revenue base. ALECA is especially troubled by IXC efforts to reduce access when they have made no commitment to flow cost reductions providing no benefit to Arizona consumers. ALECA members are committed to maintaining and improving their networks but it would not prove to be financially prudent to do so if the opportunity to recover their costs is placed at risk or limited by reductions in access rates or changes in rate design which are not revenue neutral.

Q.9c Would you recommend that the Commission limit the initial switched access charge proceeding to the largest LECs in Arizona? If your response is yes, please identify those companies that you believe should be included in this proceeding?

R. Please see ALECA's response to Question 9d.

Q9d. Would you recommend that the Commission address access charge reform for large, intermediate and small local exchange carriers (as defined in the Commissions Arizona Universal Service Fund rules) individually? Please explain.

R. ALECA recommends that the Commission consider the issues associated with Qwest separately from the issues faced by ALECA's members. ALECA members serve rural, high cost areas while Qwest serves predominantly low cost, urban areas.

Q9e. Would you recommend that the proceeding address switched access charges assessed by CLECs and/or other telecommunications companies?

R. Please see ALECA's response to Question 16.

- Q9f. Given your vision of what the proceeding would address, how much time do you expect would be required to complete the proceeding?
- R. ALECA believes Arizona statutes limit the Commission to considering only fully distributed embedded cost in calculating access charges. If the Commission chooses to retain fully distributed, embedded costs identified by existing Part 36 and Part 69 rules, ALECA would expect the proceedings to last 6-12 months. If the Commission chooses to establish a cost standard other than fully distributed, embedded costs identified by existing Part 36 and Part 69 rules, ALECA would expect the proceedings to last 12-24 months.

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- Q12. Do you believe that it would be possible to eliminate the potential that local exchange service providers can exert monopoly power in the access service market by assessing the switching, transport and CCL charges on the end users rather than on interexchange carriers? Could customers then shop for local exchange service customers (*sic*) for the least cost provider of access in addition to local service, etc.?
- R. ALECA believes there is no longer a monopoly for originating access service. Wireless carriers offering toll plans offer service to the vast majority of Arizona consumers. This question appears to be an effort to shift access cost, a necessary component to toll service, directly onto consumers. ALECA believes such an approach will not benefit consumers, especially those in high cost areas. ALECA believes this question assumes that Section 254(g), the requirement that IXCs average their toll rates within Arizona, is unenforceable. ALECA disagrees with that assumption. IXCs are required to offer Arizona consumers averaged retail toll rates – toll rates that are identical for a Qwest customer, representing low access costs to an IXC or high-cost LEC customers representing higher access costs. ALECA believes that when it passed Section 254(g) within the 1996 Act, Congress recognized access rates would be different for different carriers. If Congress believed or sought access rates that were equalized between and among all LECs, Section 254(g) would have been both illogical and unnecessary. ALECA understands the arguments IXCs will advance with respect to the “unfairness” of 254(g) and its impact on their business plans but would respectfully remind both IXCs and the Commission that Section 254(g) is both pro-consumer and the law of the land. Assuming 254(g) away for purposes of our response to this question, ALECA does not believe access rates are likely to be a long-term issue for Qwest. Assuming Qwest establishes intrastate access rates at parity with interstate access, it is hard to conceive that CLECs would compete on sub-penny access rates at a retail level. On the other hand, ALECA finds it almost equally difficult to forecast true, vigorous facilities based wireline competition in the rural areas of Arizona based upon access rates. ALECA believes the absence of competition in high-cost areas is based upon the inescapable fact that there are high costs to serve certain areas that challenge any provider, incumbent or competitor. (ALECA would note that competitors have typically chosen not to compete in any rural exchanges, including Qwest’s.) ALECA believes the traditional regulatory compact whereby rate of return LECs provide universal service at affordable rates in high cost areas of the state is still viable. ALECA also believes that the relatively high costs of access in a small percentage of the state, in terms of population, is a manageable problem for IXCs that are nonetheless bound by Section 254(g), a provision intended to benefit consumers, not IXCs.

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- Q13. Do you believe there is a difference in the costs of providing interstate-switched access service versus intrastate-switched access service? In your response, please include a description of how costs are defined in your response and how those costs relate to costs allocated to the intrastate jurisdiction under the FCC's Separations rules.
- R. In terms of jurisdictionally unseparated but fully distributed costs, there is no difference between interstate and intrastate access costs. One method to quantify this would be to prepare a Part 69 access service cost study on a total company basis. However, FCC policy decisions of the past 40 years have created Part 36 allocation methods that have allocated more costs into the interstate jurisdiction and subsequently into the various USF programs. These decisions have caused rates to deviate from simple cost calculations.

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- Q14. In the CALLS Decision, the FCC implemented changes that would eliminate carrier common line charges and establish an interstate universal support mechanism. Do you believe that the Commission ought to address the Arizona Universal Service Fund mechanism concurrent with the reform of intrastate access charges?
- R. As ALECA has stated throughout our responses in this proceeding, the question the Commission should address is how to allocate fully distributed costs among the various consumer constituencies with the understanding that consumers will eventually pay all costs for telecommunications services. In the CALLS Order, price cap LECs already operating under the incentives and risks of that regulatory regime agreed to shift rates between consumer and IXC ratepayers. IXCs gained access charge reductions in exchange for an arbitrary decision to reallocate some \$650 million from common line access rates to the USF as agreed to by the parties. ALECA would remind the Commission that consumers served by ALECA members are paying their share of the new \$650 million USF fund created by the CALLS order. It is ALECA's opinion that the net financial benefit to the price cap LECs was a shift of profit from their regulated LEC operations to their non-regulated toll operations once they are granted Section 271 authority. Several interesting market realities have evolved since the passage of the CALLS Order:
1. Qwest opposed the CALLS plan. ALECA believes Qwest is unwilling to lower interstate access rates in exchange for an increased reliance on Federal USF.
 2. AT&T raised rates (and a firestorm of protest), as CALLS pricing was implemented, contrary to their promise of lower rates for consumers.
 3. AT&T and WorldCom recently increased per minute and monthly minimum pricing. Interstate toll rates are rising despite reduced access rates. The market prices for optional calling plans (OCPs) have not been reduced since the CALLS plan was implemented. In fact, in many cases IXCs refuse to offer service, let alone OCPs, in markets served by rural LECs.
 4. AT&T is now charging a USF surcharge of over 11% even though the official percentage assessed by USAC is less than 7%.
 5. RBOCs granted Section 271 authority have typically priced toll rates above IXC optional calling plan rates and have garnered an extremely healthy share of the toll market.

In summary, IXCs no longer respond to access rate reductions with price decreases, rather they increase prices including consumer Federal USF assessments approximately 70% higher than the USAC assessment rate.

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Q15. The FCC released its Access Charge Reform Order ("MAG Order") for rate of return companies on November 8, 2001. Please comment on the extent to which you believe the ACC should adopt any components of the MAG Order.

R. ALECA is concerned with several features of the MAG order. Among our concerns:

1. Reclassifying the traffic sensitive trunk costs as represented by the Transport Interconnection Charge (TIC) to the non-traffic sensitive common line and thus transitioning these traffic sensitive costs to the new ICLS USF.
2. The unfounded FCC conclusion that all per minute carrier common line access constitutes an implicit subsidy.
3. The findings in 1 & 2 above have been challenged in numerous Petitions for Reconsideration filed December 31, 2001.
4. Increases to the Federal SLC with no ability to enforce toll rate reductions will result in consumers being worse off than before CALLS or MAG was implemented. (See response to Question 14.)
5. The FCC simply echoed the CALLS order without consideration of the significant differences in both marketplace motives and cost characteristics of price cap versus rate-of-return LECs or urban versus rural carriers.

These FCC decisions to reduce access rates by increasing both SLCs and the USF are not likely to lead to consumer benefit. They may in fact be harmful to consumers and will not benefit IXCs in their efforts to compete with RBOCs granted Section 271 authority. ALECA believes the MAG Order is not a settled issue and should not be a major component of the Commission's decision-making process in this case.

- Q16. Should the Commission address CLEC access charges as a part of this Docket?
- R. ALECA believes that if the Commission accepts CLEC access tariffs, enforcement requiring IXCs to pay for tariffed rates should be vigorous. The Commission may wish to establish "safe harbor" access rates and the opportunity to file and enforce access tariffs that comply with such rates for CLECs or the Commission might limit its regulation of CLECs to their terminating access rates.

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Q17. Should additional considerations be taken into account when restructuring and/or setting access charges for small, rural carriers? Please explain your response.

R. The Commission must avoid assuming the telecommunications market in rural LEC territories is identical or even remotely close to the telecommunications market in major metropolitan areas. There is a factual record (OPASTCO, RTF white papers) that supports ALECA's assertion that rural ILECs are significantly different than price cap ILECs and therefore merit separate regulatory treatment. The main issue the Commission confronts when determining an appropriate level of per-minute access rates is the fact that rural and high cost areas of Arizona experience higher per unit costs because there are fewer minutes available to spread costs across. It should be well understood by all parties that ALECA's members serve territories with unique challenges and the consumers served by ALECA's members deserve quality, affordable telecommunications service. IXC's have not demonstrated that current access levels threaten their ability to provide service in high cost areas. Finally, the Commission should carefully examine the realities of IXC pricing behavior.

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Q18. What is the effect of Qwest Price Cap Plan on the issues raised in this proceeding as they pertain to Qwest? With regard to Qwest, switched access is a Basket 2 service and special access is a Basket 3 service. What impact does this have, if any, on restructuring access charges in this proceeding, as it would pertain to Qwest?

R. N/A

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Q19. With regard to Qwest, what impact would Qwest receiving Section 271 authority have on the issues raised in this proceeding? Please explain your response.

R. IXC's are already framing their position in access reform debates by assuming Qwest will soon receive Section 271 authority to provide interlata services. With Qwest's entry into the interlata market, IXC's will face a potent toll competitor that will not originate toll traffic in the territory of ALECA members therefore will avoid some of the relatively higher access charges that nationwide IXC's face. IXC's will argue before this Commission that access charges must be reduced for them to remain competitive. The Commission would serve Arizona consumers well to remember that, as ALECA indicated in response to Question 14 above, IXC's have chosen to raise prices since the inception of the CALLS plan. These continuing price increases have occurred even after over 90% of their access costs were reduced to well below a penny per minute. Regardless, ALECA reminds the Commission of IXC's' continuing obligation to price toll services in compliance with Section 254(g) of the 1996 Act.

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- Q20. One of the stated objectives of the Qwest Price Cap Plan was to achieve parity between interstate and intrastate access charges. Is this something that should be looked at by the Commission in this proceeding?
- R. ALECA is concerned that an RBOC choosing to reduce intrastate access rates in exchange for Arizona USF will lead to all Arizona consumers supporting the RBOC's entry into the interlata toll market. As discussed in response to Question 14, ALECA believes RBOCs are motivated to reduce access in exchange for USF to transfer LEC profits to toll subsidiaries. A broad-based Arizona USF would thus require consumers served by ALECA members to support the unregulated toll business of RBOCs.

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Q21. Are there other issues besides the rate restructuring and costing issues raised herein that should be addressed by the Commission in this Docket?

R. ALECA believes that, should the Commission decide to reduce ALECA members' access rates, ALECA members must remain revenue-neutral. In other words, ALECA is amenable to a redesigned access rate structure where per-minute access rates are reduced only if new revenue sources are made available and only if the Commission maintains affordable local pricing for consumers. This may require merging this proceeding with an AUSF proceeding.

- Q22. Are there other State proceedings and/or decisions that you would recommend the Commission examine before it proceeds with this docket? Please attach any relevant State Commission decisions in your comments.
- R. The AUSF proceeding may be relevant to this proceeding only if the Commission decides to move access costs into an AUSF fund.

Q23. Please provide your recommendations for a procedural schedule in this case.

R. ALECA believes the Commission should first determine if current access rates no longer serve the public good in a generic proceeding. ALECA recommends that the Commission study the market behavior of IXC's after recent, major changes in Federal access policy resulting from the CALLS order. If, after this study, the Commission determines that reducing access charges of LEC's will result in consumer benefit, ALECA believes that the Commission should open the next phase in this case to find that the total current access revenues of ALECA members are lawful, that any reduction to current lawful rates must be revenue neutral and thus must conclude that the issue before the Commission is a question of existing rate design. The third phase would implement a new rate design that may include an Arizona USF or other rate design mechanism necessary to achieve the revenue neutral goal. If an Arizona USF is created for access rate design purposes, the Commission would then open a final phase in this case to determine what, if any, portion of Arizona USF should be permitted for CLECs.

Q24. Please comment on the issues raised in Docket No. T-01 51B-01-0391, In the Matter of Qwest Corporation's Tariff Filing to Introduce a New Rate Structure for an Access Service Used by Interexchange Carriers and their relationship to this Docket.

R. N/A.

Arizona Local Exchange Carriers Association (ALECA)

In the Matter of the Investigation of the Cost of Telecommunications Access

Docket No. T-0000D-00-0672

Response to Questions

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Q25. Please comment on any other issues you believe may be relevant to the Commission's examination of intrastate access charges.

R. ALECA believes access rates may not contain implicit subsidies. However, any reduction to current lawful rates must be revenue neutral, which may include an Arizona USF or other rate design mechanism necessary to achieve the revenue neutral goal. ALECA therefore is concerned that reductions to access rates may result in a "portable" USF mechanism available to competing telecommunications carriers. ETC designation then becomes a critical related issue tied to these proceedings which must be addressed by this Commission.