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March 7, 2002

Mr. Steve Olea
Acting Director, Utilities
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Dear Mr Olea:

Mr. John Hayes of the Table Top Telephone Company, Inc. (TTTC) has requested that we file TTTC's comments in Docket No. T-0000D-00-0672 directly with your office.

Please direct any questions with regard to this filing to me on 503.612.4409.

Thank you for your assistance.

Sincerely,

Jeffry H. Smith
Consulting Manager

Copy to Mr. John Hayes

Arizona Corporation Commission
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ARIZONA CORPORATION COMMISSION
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Director of Utilities

Executive Summary of Table Top Telephone Company's position

First, it is important to remember what access charges represent. At least for the rural carriers, intrastate access charges represent what each rural carrier must recover from intrastate access charge payers in order to RECOVER THE INTRASTATE REVENUE REQUIREMENT ASSIGNED BY THE RULES CURRENTLY IN EFFECT. This means that these costs are the portion of the total costs of doing business that have been assigned to this recovery mechanism. Intrastate access charges should not be regarded as a cost item that can continually be decreased, with some other magical fallback revenue stream available that will recover any shortfall created by those who are enamored with the catchphrase "pro-competitive environment". In short, these are real costs.

The FCC has determined, in its 2001 Rural Access Reform (MAG) Order, that the continued use of historic, embedded costs for rate-of-return carriers is the appropriate public policy decision for interstate access. In the interstate arena, these 1,300 companies exhibit **significant** variations in both study area size and customer base. The nature and scope of these significant differences within the subset of rural carriers has been placed in the public record by the Rural Task Force (RTF) via its White Paper 2, entitled The Rural Difference, released in January, 2000. The White Paper offered a very detailed quantitative analysis of the major rural carrier differences, which is relevant to this Arizona access charge proceeding.

Why has the FCC continued to use rate-of-return regulation and an embedded, historical cost basis for rural carriers? In the FCC's Further Notice of Proposed Rulemaking on the recent MAG Order, the FCC expressed concerns as to whether an incentive regulation environment could work in high-cost rural territories. One concern expressed was whether there would be adequate investment levels in rural areas under an incentive regulatory scenario. The Commission expressed reservations that alternatively regulated rural carriers might have an "incentive" to reduce costs by reducing investment and expense levels (e.g., depreciation and maintenance) in order to realize greater profits that could then be retained by the company.

With respect to intrastate access charge rate structure, interexchange carrier switched access charges must exist. To do otherwise would create an exempted class of cost causers that is not in the interest of prudent public policy.

The Arizona Commission should adopt a three (3)-phase approach to intrastate access reform, with timeframes noted parenthetically:
Phase 1 – Access charge reform for Qwest and any other price cap regulated carriers designated by the ACC (3 Q 2002- 1Q 2004).
Phase 2 – Review of the results of Phase 1 (2Q 2003 – 2Q 2004).
Phase 3 – Access charge review for rate-of-return carriers. (Beginning 3Q 2004).

Q1. Do you believe that the Commission ought to restructure access charges? Please explain your response.
Q2. What recommendations to the Commission would you make regarding how intrastate access charges should be reformed?

A1 and A2. The overlap of these first two questions merits a consolidated response. There are several prerequisites that must be satisfied prior to any restructuring of intrastate access charges for rural carriers in the state of Arizona.

First, it is important to remember what access charges represent. At least for the rural carriers, intrastate access charges represent what each rural carrier must recover from intrastate access charge payers in order to RECOVER THE INTRASTATE REVENUE REQUIREMENT ASSIGNED BY THE CURRENT RULES THAT MUST BE USED. This means that these costs are the portion of the total costs of doing business that have been assigned to this recovery mechanism. Intrastate access charges should not be regarded as an item for constant tinkering and negotiation, with some other magical fallback revenue stream available that will recover any shortfall created by those who are enamored with the catchphrase "pro-competitive environment".

Second, any consideration of rate structure should include interexchange carriers (IXCs) paying for all portions of the exchange carriers' network that they access. In short, IXCs should be assessed some level of intrastate carrier common line charges.

Q3. Would you recommend the Commission address both switched and special access in an access charge reform proceeding? If your response is yes, please explain.

A3. The current issues surrounding special access do not appear to be as ripe as do the issues surrounding traditional switched access.

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.

A4. A question of equal importance as to whether any implicit subsidies are present is as follows: What is the appropriate level of contribution by the IXCs for the facilities that they use to connect with end-user customers?

As stated above in the answer to question # 2 (A2.), any consideration of rate structure should include interexchange carriers (IXCs) paying for all portions of the exchange carriers' network that they access. In short, IXCs should be assessed some level of intrastate carrier common line charges.

Q5. Can implicit subsidies be quantified?

A5. Yes, they are quantifiable, but should only be computed in conjunction with determining what the proper level of IXC access charges should be.

At least for the rural carriers, intrastate access charges represent what each rural carrier must recover from intrastate access charge payers in order to recover the intrastate revenue requirement assigned by the current rules that must be used.

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

A5a. The appropriate cost standard is historic, embedded cost, due to the points that we present on page 2 in A1 and A2.

Q5b. What cost standard is used to set interstate access charges? Is this cost standard appropriate for intrastate rates? **Q17.** Should additional considerations be taken into account when restructuring and/or setting access charges for small, rural carriers?

A5b and 17. We will focus our answer on what is the appropriate standard for rural carriers. The current cost standard for interstate access charges for rural, rate-of-return carriers is an embedded, historic basis. This is also the proper choice in the state of Arizona for rural carriers.

The FCC has determined, in its 2001 Rural Access Reform (MAG) Order, that the continued use of historic, embedded costs for rate-of-return carriers is the appropriate public policy decision for interstate access. In the interstate arena, these 1,300 companies exhibit **significant** variations in both study area size and customer base. The nature and scope of these significant differences within the subset of rural carriers has been placed in the public record by the Rural Task Force (RTF) via its White Paper 2, entitled The Rural Difference, released in January, 2000. The White Paper offered a very detailed quantitative analysis of the major rural carrier differences, which is relevant to this Arizona access charge proceeding. In brief, the analysis led the RTF to reach nine conclusions with respect to the rural difference issue:

1) Rural carriers serve more sparsely populated areas;
2) There is significant variation in study area sizes and customer bases among rural carriers;
3) The isolation of areas served by rural carriers results in numerous operational challenges;

4) Compared to non-rural carriers, the customer base of rural carriers generally includes fewer high-volume users, depriving rural carriers of economies of scale;
5) Compared to customers of non-rural carriers, customers of rural carriers tend to have a relatively small local calling scope and make proportionately more toll calls;
6) Rural carriers frequently have substantially fewer lines per switch than do non-rural carriers, providing fewer customers over which to spread high fixed network costs;
7) Total investment in plant per loop is substantially higher for rural carriers than for non-rural carriers;
8) Plant specific and operations expenses for rural carriers tend to be substantially higher than for non-rural carriers;
9) Customers served by rural carriers have different demographic characteristics from customers in areas served by non-rural carriers.

Why has the FCC continued to use rate-of-return regulation and an embedded, historical cost basis for rural carriers? In the FCC's Further Notice of Proposed Rulemaking on the recent MAG Order, the FCC expressed concerns as to whether an incentive regulation environment could work in high-cost rural territories.

One concern expressed was whether there would be adequate investment levels in rural areas under an incentive regulatory scenario. The Commission expressed reservations that alternatively regulated rural carriers might have an "incentive" to reduce costs by reducing investment and expense levels (e.g., depreciation and maintenance) in order to realize greater profits that could then be retained by the company.

A second area of concern is related to the resulting impact on service quality levels. In paragraph 224, the Commission has posed the question as to whether certain state programs may be relied upon as a means to ensure that adequate service quality is maintained. Historically, large companies have used work force reductions to meet productivity targets. Small companies, whose personnel perform multiple functions, will be unable to reduce their labor force without impacting service quality.

Table Top Telephone agrees with the FCC's statement in paragraph 224 of the MAG Order: *Rate-of-return regulation has worked well in extending service to rural America.*

To summarize, the answer is an emphatic YES, the Arizona Commission should take into account additional considerations with respect to small carriers. The ACC now faces the challenge of providing rural carriers the ability to recover their revenue requirement, a revenue requirement that is assigned to the intrastate jurisdiction by the federal rules that Arizona carriers must comply with in order to receive federal universal service support.

Q6. Do you believe that interexchange carrier switched access charges ought to exist? Please provide your rationale for your position on this matter.

A6. Yes, interexchange carrier switched access charges must exist. To do otherwise would create an exempted class of cost causers that is neither in the interest of prudent public policy nor is equitable to Arizona residential ratepayers. The recent financial struggles of IXCs should not exempt them from paying for services that they are utilizing every minute of every day, and which cost local exchange carriers a lot of money.

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?
Q7b. Please explain how this estimate was developed.
Q7c. What is your estimate of the implicit subsidies in access charges that exist by local exchange company?

A7, 7a, 7b, and 7c. We do not present any findings at this time.

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.

A8. We do not present any findings at this time.

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?
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?

Q9c. 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?
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.
Q9f. Given your vision of what the proceeding would address, how much time do you expect would be required to complete the proceeding?

A9a, 9b, 9c, 9d, and 9f. The Arizona Commission should adopt a three (3)-phase approach to intrastate access reform, with timeframes noted parenthetically:

Phase 1 – Access charge reform for Qwest and any other price cap regulated carriers designated by the ACC (3 Q 2002- 1Q 2004).
Phase 2 – Review of the results of Phase 1 (2Q 2003 – 2Q 2004).
Phase 3 – Access charge review for rate-of-return carriers. (Beginning 3Q 2004).

The rationale behind this three-phase approach is simple and straightforward. The price cap carriers were the first to implement interstate access charge reforms, so they are further along the implementation timeline with respect to interstate reform. The rate-of-return carriers will not be eliminating the existing interstate carrier common line charge until July of 2003. Thus, it will be two years (3Q 2004) before rural carriers are able to assess the impacts of eliminating the interstate carrier common line charges on their operations.

Q9e. Would you recommend that the proceeding address switched access charges assessed by CLECs and/or other telecommunications companies? **Q16.** Should the Commission address CLEC access charges as a part of this Docket?

A9e and 16. Any CLECs that have received eligible carrier status in price cap areas should be reviewed in the same timeframe as the price cap carriers. Any CLECs that have received eligible carrier status in small carrier areas, and all other non-eligible providers, should be reviewed in the same timeframe as the small ILECs. This recommendation is predicated on the timeline proposed in the answer to question 9f above and repeated as follows:

The Arizona Commission should adopt a three (3)-phase approach to intrastate access reform, with timeframes noted parenthetically:

Phase 1 – Access charge reform for Qwest and any other price cap regulated carriers designated by the ACC (3 Q 2002- 1Q 2004).
Phase 2 – Review of the results of Phase 1 (2Q 2003 – 2Q 2004).

Phase 3 – Access charge review for rate-of-return carriers. (Beginning 3Q 2004).

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 for the least cost provider of access in addition to local service, etc.

A12. This proposal is **not appropriate** for small carriers in Arizona for the foreseeable future. If such an experiment is to be contemplated, it should be done in the laboratory of large, price cap carriers and must exclude the small, rural carrier subset. We note, however, that we would anticipate that the large carriers would not be supportive of this radical concept.

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.

A13. Costs are as costs are defined. Interstate tariff rates for a small carrier such as Table Top Telephone are being reduced, while costs are not declining at the same rate, if at all. Burdens with respect to local number portability and CALEA are increasing the cost of providing access services.

Intrastate costs are the result of total costs multiplied by jurisdictional allocation factors, and thus reflect these same characteristics as interstate access costs.

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?
Q21. Are there other issues besides the rate restructuring and costing issues raised herein that should be addressed by the Commission in this Docket?
Q22. Are there other State proceedings and/or decisions that you would recommend the Commission examine before it proceeds with this docket?

A14, 21 and 22. Table Top has perhaps a different view than some parties as it has been precluded from receiving AUSF support, **and believes that the Commission should first address this inequity prior to reviewing intrastate access charges issues related to Table Top.**

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.

A15. It is too early to determine whether there are any detrimental impacts from eliminating the interstate CCL as of July 1, 2003.

We do not believe that subscriber line charges ("SLCs") should be used in the intrastate arena, at least for the small, rural carriers.

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? **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?

A18 and 20. The most significant implication is that the Qwest price cap issues are not relevant to small, rural carriers and should be decided in a first phase, with small carriers not impacted in the first phase of the proceeding. We reiterate our proposed schedule below:

The Arizona Commission should adopt a three (3)-phase approach to intrastate access reform, with timeframes noted parenthetically:

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Phase 2 – Review of the results of Phase 1 (2Q 2003 – 2Q 2004).
Phase 3 – Access charge review for rate-of-return carriers. (Beginning 3Q 2004).

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.

A19. The answer to this question depends upon what types of conditions might be placed on Qwest as a predicate to their receiving Section 271 authority. Without knowledge of conditions, if any, we reserve the opportunity to provide comment at a later date.

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

A23. The Arizona Commission should adopt a three (3)-phase approach to intrastate access reform, with timeframes noted parenthetically:

Phase 1 – Access charge reform for Qwest and any other price cap regulated carriers designated by the ACC (3 Q 2002- 1Q 2004).
Phase 2 – Review of the results of Phase 1 (2Q 2003 – 2Q 2004).
Phase 3 – Access charge review for rate-of-return carriers. (Beginning 3Q 2004).

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.

A24. N/A

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

A25. To reiterate some of the concerns we have expressed earlier in this response to the Commission's questions, it is vital for the regulator to keep in mind what is represented by the access charges of small, rural carriers.

At least for the rural carriers, intrastate access charges represent what each rural carrier must recover from intrastate access charge payers in order to RECOVER THE INTRASTATE REVENUE REQUIREMENT ASSIGNED BY THE CURRENT RULES THAT MUST BE USED. This means that these costs are the portion of the total costs of doing business that have been assigned to this recovery mechanism. Intrastate access charges should not be regarded as an item for constant tinkering and negotiation, with some other magical fallback revenue stream available that will recover any shortfall created by those who are enamored with the catchphrase "pro-competitive environment".

Second, any consideration of rate structure should include interexchange carriers (IXCs) paying for all portions of the exchange carriers' network that they access. In short, IXCs should be assessed some level of intrastate carrier common line charges.