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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman

Arizona Corporation Commission

DOCKETED

JIM IRVIN
Commissioner

JAN 23 2002

MARC SPITZER
Commissioner

DOCKETED BY

IN THE MATTER OF THE NOTICE OF
PROPOSED AMENDMENTS TO THE
ARIZONA UNIVERSAL SERVICE FUND

Docket No: RT-00000H-97-0137

**WORLDCOM, INC.'S REPLY COMMENTS REGARDING
THE NEED FOR POSSIBLE REVISIONS TO THE
ARIZONA UNIVERSAL SERVICE FUND RULES**

WorldCom, Inc. ("WorldCom") submits these reply comments in response to comments initially filed by other parties to Staff's memorandum dated September 20, 2001, regarding the review and possible revision of Arizona Universal Service Fund Rules and to the questions listed in Exhibit "A" to the memo. These comments are divided into three section as follows: Section I addresses general comments; Section II addresses reply comments to Questions 2, 3, 6, 7; and Section III addresses responses to Questions 1, 4, 5, 8, 9, and 10.

SECTION I (General Comments)

As WorldCom stated in its original comments, incumbent local exchange carriers (ILECs) are currently compensated for the cost of line extensions in unserved areas

1 through existing construction or line extension charges. WorldCom disagrees with
2 Qwest's comments that funding in such areas "must be sufficient to allow carriers up-front
3 recovery of construction costs." Qwest alluded to this fact in its comments by referring to
4 "construction tariffs" in its responses. The goal of the Arizona Universal Service Fund
5 (AUSF) is to make telephone service affordable to all Arizona consumers. Allowing
6 ILECs to receive funding for construction in unserved areas would require a larger
7 surcharge to each and every Arizona consumer. This larger surcharge may prevent some
8 Arizona consumers from being able to afford even basic telephone service despite the
9 current low-income assistance programs now available. Furthermore, Midvale Telephone
10 Exchange Inc. stated, "RUS borrowers are precluded from charging customers for aid to
11 construction on RUS funded projects." This would make Qwest-like comments regarding
12 "up-front recovery of construction costs" discriminatory in that certain carriers would be
13 precluded from such recovery of construction costs. This would be inconsistent with the
14 Telecommunications Act of 1996.

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18 WorldCom agrees with Verizon that the Commission should "act on an area-by-
19 area basis" with respect to unserved areas. In doing so, the Commission may find the most
20 efficient manner in which carriers may provide service to an unserved area would be to
21 solicit bids from carriers. Both AT&T and Qwest discuss in detail the competitive bidding
22 process. These "willing" carriers would submit competitive bids based on each area's
23 requirements and each carrier's ability to serve that area at the lowest economical cost.
24 The lowest bidder would be granted the right to provide service. A properly structured
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1 competitive bidding system could offer significant advantages and warrants further
2 inquiry. But, unlike AT&T and Qwest, WorldCom believes universal service money
3 should in no way be used to fund such projects. In order to offer incentives for carriers to
4 submit competitive bids, the Commission may permit up-front payments to aid carriers to
5 defray some of the construction costs, provided that the carrier receiving the up-front
6 payment reimburses the universal service fund over a 5-10 year period. This scheme is
7 complicated and would require careful planning to establish and implement it. A better
8 approach to this issue is for the Commission to consider the normal ratemaking incentives
9 such as accelerated depreciation and amortization to reduce the risk of investment in under
10 served areas as proposed by ALECA.
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13 On the basis of its belief that implicit subsidies from access charges are
14 unsustainable, Citizens argues that access charge reform should be part of AUSF
15 restructuring. WorldCom disagrees with Citizens that the current level of competition
16 renders any implicit subsidies unsustainable and that access reform must necessarily be
17 linked to the consideration of universal service issues. As AT&T pointed out in its
18 response to Question 1, there is little or no competition to threaten the existing local
19 monopoly franchises or any implicit subsidies that may be contained within existing rate
20 structures. There is no evidence that current support levels are not "sufficient" to deliver
21 supported services. There is no evidence that rural LECs have been unable to maintain
22 their quality of service or upgrade facilities at the support levels provided by the existing
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1 mechanisms. Higher support levels will reduce incentives for rural LECs to operate
2 efficiently.

3 Verizon's statement is correct that the Commission should preserve a limited
4 conception of universal service that enhances Arizona consumers' access to basic local
5 service while maintaining the AUSF at a reasonable size. The purpose of AUSF rules is to
6 ensure that the size of the fund is as small as possible and the funds are used for high cost
7 areas. Also, the rules ensure that a financial burden is not placed on the citizens of
8 Arizona by allowing the fund to grow to a substantial size.

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11 **SECTION II (Questions 2, 3, 6, and 7)**

12 2. *How might the AUSF rules be amended to ensure the availability of wireline telephone*
13 *service in unserved areas (open territory)? Please provide specific recommendations on*
14 *issues such as required population density before service to an area must be provided,*
15 *the method for determining the serving carrier, procedural process, etc.*

16
17 WorldCom agrees with several commenters that the rules should be technologically
18 and competitively neutral, and urges the Commission to expand its consideration of AUSF
19 support beyond wireline carriers, and, likewise, make AUSF available to these providers
20 following the proper Eligible Telecommunications Carrier (ETC) certification procedures.

21
22 Qwest's recommendation that the Commission address the definition of "unserved
23 area"/"open territory" should be given consideration with the respect to changing
24 environment and population shifts. However, WorldCom does not agree that providers
25 who build infrastructure in unserved areas should be reimbursed, up-front, for line
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1 extension costs from AUSF. As WorldCom previously stated in comments, USF should
2 not be used to provide the actual construction dollars but rather funds from existing
3 construction or line extension charges should be used. To supplement these revenue
4 streams with AUSF and without further rate adjustments will overcompensate incumbent
5 carriers.
6

7 **3. *How might the AUSF rules be amended to increase the availability or affordability***
8 ***of wireline telephone service in under-served areas? Under-served areas are defined***
9 ***as areas within a wireline carrier's service territory where construction or line***
10 ***extension charges apply.***
11

12 WorldCom disagrees with Qwest's position that, if a carrier is required to contribute because
13 the carrier has a construction tariff for the area, then all carriers should be required to contribute
14 the same amount. Telephone companies that establish line extension policies are subject to
15 approval by the Commission to establish the rates, terms and conditions for extending telephone
16 service to a potential customer. It is wholly within the Commission's control to ensure that the
17 line extension policies of telephone companies it regulates are uniform, just and reasonable.
18 Telephone companies do not have the same operating costs and procedures, so to require all
19 carriers to contribute the same amount would not be practicable nor would it be on a
20 competitively neutral basis. WorldCom also disagrees with RUCO's comments that the AUSF
21 could be changed to include subsidization in part or whole of line extensions to underserved areas.
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24 WorldCom agrees with AT&T and Cox that the Commission is in a better position to address
25 the policy to increase the availability of service in underserved areas with the participation of
26 interested parties and carriers. Western Wireless makes a good point that the ILEC is not the only

1 telecommunications provider that can provide basic service to consumers in underserved areas.

2 The Commission should consider all telecommunications carriers, regardless of the technology
3 used to provide service.

4 Table Top Telephone Company correctly points out that if construction costs are reimbursed
5 from the AUSF, then the carrier must remove any high cost loop support from the federal USF for
6 the remaining construction costs. This would eliminate any carrier receiving double payments
7 from universal service funds.

9 ALECA's suggested plan that the Commission could use normal ratemaking incentives such
10 as accelerated depreciation and amortization to reduce the risk of investment in underserved areas
11 would require a slight adjustment to the plan. WorldCom believes that this plan of ratemaking
12 incentives, if adopted, should take the place of USF reimbursement--not used in addition to USF
13 reimbursements--as proposed by ALECA.

15 **6. Are there USF rules in other states that should be adopted in Arizona? If yes,
16 please provide the specific language for each rule and explain the benefit that
17 would be derived by adopting the rule in Arizona.**

18 WorldCom agrees with Western Wireless that there are some state funds that
19 adhere to three concepts that are competitively neutral, explicit, and portable. These are
20 the concepts that this Commission should follow as well.

22 Cox suggests reviewing California's two types of High Cost Funds, one a
23 traditional mechanism for smaller LECs serving rural high cost areas and another that is
24 designated to provide ILECs and CLECs access to universal service funds on a
25 competitively neutral basis. Without completing an in-depth analysis of California's High
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1 Cost Fund for the smaller LECs, WorldCom believes that this fund does not adhere to the
2 three concepts of being competitive neutral, explicit or portable, and therefore, the
3 Commission should not seek to duplicate it in Arizona.
4

5 WorldCom objects to ALECA's proposal that carriers could request AUSF upon a
6 simple showing that universal service costs are not being recovered through federal
7 mechanisms and the shortfall would be supplemented by the AUSF. Carriers should only
8 recover the cost of providing supported services that are above the benchmark of
9 affordable rates set by this Commission.
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11 7. *How might construction or line extension tariffs be standardized between*
12 *companies? Should there be an AUSF contribution in addition to the company*
13 *contribution? Should there be a maximum amount a customer should be*
14 *expected to pay to obtain service? Should this amount consider the median*
15 *household income of the area being served? Assuming there is an AUSF*
16 *contribution, what is a reasonable limit?*
17

18 WorldCom objects to Qwest's comments that AUSF money should be used to fund
19 line extensions. The cost of extensions should be borne by those who gain economic
20 advantage from development and not by ratepayers in general. This policy promotes the
21 economic good of having telephone infrastructure placed at the same time as other
22 infrastructure is constructed as part of development. ALECA makes some interesting
23 points in its comments that, to the extent Arizona's telecommunications carriers can rely
24 upon federal rules to support the extension of service, the costs will not be passed to the
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1 AUSF. AT&T suggests a proportional contribution from the carrier, the consumer and,
2 only to the extent necessary, from all Arizona consumers through a competitively neutral
3 cost recovery mechanism such as a mandatory end user surcharge on intrastate end user
4 retail revenue. WorldCom would add that, to the extent the AUSF is used to fund up front
5 construction costs, the revenue generated from the construction project should also be used
6 to reimburse the AUSF over time.
7

8 WorldCom agrees with Western Wireless comments that this Commission should
9 evaluate each area in separate proceedings and not set generic standardized construction or
10 line extension tariffs. This would permit the carrier who is serving the area through line
11 extension charges to be reimbursed based on the unique area with its funding needs and
12 service issues.
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15 **SECTION III (Questions 1, 4, 5, 8, 9, and 10)**

16 ***1. Are there areas within the existing rules where revisions should be made? If yes,***
17 ***please provide specific language recommendations and explain the benefit of the***
18 ***recommended revision.***

19 WorldCom does not fully understand Qwest's statement that a provider should not
20 be required to request AUSF support through R14-2-1203 filing but rather receive support
21 through either a competitive bidding process or a hearing process. WorldCom believes
22 by showing a "need" for AUSF funding the cost for the support area for which AUSF
23 funding is being requested is identified.
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1 WorldCom agrees with comments filed by AT&T, Table Top, Cox and Western
2 Wireless.

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4 **4. Under what circumstances, if any, could AUSF be made available to carriers that**
5 **do not have Eligible Telecommunications Carrier status?**

6 AT&T correctly states that carriers ordered by the state commission to provide
7 service in an unserved area are automatically deemed to be ETCs pursuant to Section
8 214(e)(3) of the Act. Consequently, Qwest's response that a carrier who is awarded the
9 competitive bid to provide service in an unserved area is not entitled to receive USF
10 support unless specifically granted ETC status is in conflict with the Act.
11

12 Furthermore, Section 214(e) provides specific requirements for ETC designation
13 where a carrier can seek and receive ETC designation if it meets all the requirements set
14 forth in that Section of the Act. The Commission should not seek to impose additional
15 requirements on carriers seeking ETC status as proposed by some of the commenters.
16

17 **5. Should the definition of local exchange service, for AUSF purposes, be**
18 **broadened to include other services? If yes, how might it be accomplished?**
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20 No. WorldCom agrees with the majority of the commenters that the definition of
21 local exchange service for AUSF purposes should not be broadened.
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1 8. *Are there changes in the Federal USF rules of which Staff should be aware? If*
2 *yes, please identify them. How do these changes impact current AUSF rules?*
3 *How might they impact recommended revisions to the existing rules?*

4 WorldCom agrees with comments submitted by Western Wireless. WorldCom
5 objects to ALECA comments that issues being addressed by the FCC will have a
6 continuing impact on the AUSF. WorldCom believes that the AUSF should not be revenue
7 neutral with respect to changes in interstate access rates, nor should it be constructed to
8 maintain a fixed predetermined level of revenue as ALECA recommends. Historically,
9 federal and state access charges and other rate structures have been alleged to include
10 implicit, or hidden, universal service support funds. There have been no findings by the
11 Commission of the actual existence of these alleged implicit subsidies. The Commission
12 should establish their existence and determine their size before it concludes that an AUSF
13 is needed.

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17 WorldCom objects to ALECA comments wanting to make revenue stability a goal
18 of the AUSF and its proposal to go beyond the plain language of Section 214 of the Act in
19 granting ETC status. WorldCom believes that a mechanism that provides support to
20 ILECs while denying funds to eligible competitors gives customers a strong incentive to
21 choose service from the incumbent rather than the competitor. Arizona consumers will
22 benefit when they have a real choice for local telecommunications service. Such choice is
23 dependent on the existence of a competitively neutral universal service program if indeed
24 the Commission finds that implicit subsidies actually exist and are unsustainable.
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1 WorldCom advocates for a competitively neutral universal service plan that will serve the
2 public interest by creating mechanisms that will lead to affordable, quality
3 telecommunications service in all areas.

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5 9. *Are there changes in other Federal rules that might impact current or future AUSF*
6 *rules? If yes, please identify them and their potential impact.*

7 Intentionally left blank.

8 10. *For all other comments please provide a narrative fully explaining the issue*
9 *being discussed, any recommendation and the benefit to be gained if the*
10 *recommendation is adopted.*

11
12 WorldCom agrees with ALECA that the geographic area for purposes of the AUSF
13 should be consistent with those adopted by the FCC for use in the federal program.

14 RESPECTFULLY submitted this 23rd day of January, 2002.

15
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A handwritten signature in cursive script, reading "Betty J. Griffin", is written over a horizontal line.

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