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OPEN MEETING

MEMORANDUM

Arizona Corporation Commission

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TO: THE COMMISSION

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FROM: Utilities Division

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DATE: November 26, 2001

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AZ CORP COMMISSION
DOCUMENT CONTROL

RE: THE YEAR 2002 ARIZONA UNIVERSAL SERVICE FUND SURCHARGE
(DOCKET NO. RT-00000H-97-0137)

On September 22, 1989, the Commission established the Arizona Universal Service Fund ("AUSF") by Decision No. 56639. On February 11, 1997, the Commission entered into an agreement for professional services with National Exchange Carriers Association ("NECA") to administer the AUSF through December 31, 1999. On January 18, 2000, the Commission extended the agreement for professional services with NECA to administer the AUSF for the period January 1, 2000, through December 31, 2002. On April 2, 2001, the Commission contracted with Withum, Smith & Brown, a professional corporation of certified public accountants and consultants, to perform a GAAP financial statement audit of the ASUF as of December 31, 2000.

This memorandum recommends approval by the Commission of the proposed year 2002 monthly surcharges to be assessed against all contributors to the AUSF.

SURCHARGE

The AUSF was established to maintain statewide average rates and the availability of basic telephone service to the greatest extent reasonably possible. One half of the AUSF funding requirement is collected through a surcharge paid by providers of basic local exchange service, wireless, paging, and other Commercial Mobile Radio Service providers that interconnect with the public switched network. These entities are known as Category One. The other half of the funding requirement is collected from providers of intrastate toll service. These entities are known as Category Two.

The receipt by a utility of AUSF money must be authorized by the Commission in a rate case. To date only Citizens Telecommunications Company of the White Mountains, Inc. ("Citizens") (formerly Contel of the West, Inc.) is receiving AUSF money in the amount of \$769,620 annually per Decision No. 56657, dated October 10, 1989. Decision No. 64011, dated September 5, 2001, , ordered a waiver of the Commission's AUSF rules, and authorized Midvale Telephone Exchange, Inc. ("Midvale") to receive \$71,651 per year from the AUSF beginning with the commencement of service to Millsite and Silver Bell, previously unserved areas.

NECA has requested and received data from all Arizona telecommunications providers for use in calculating the surcharges that would be applied to all telecommunications providers for 2002. From this data, NECA has calculated that the year 2002 monthly surcharge for Category One providers is \$0.009488 per access line and \$0.094877 per interconnecting trunk

line. For Category Two providers the year 2002 monthly surcharge is 0.1867 percent of intrastate toll revenue. The collection of these amounts over the year 2002 will raise sufficient funding to cover the amount of AUSF funding that Citizens and Midvale have been authorized to receive.

Staff has reviewed the proposed 2002 monthly surcharge amounts, believes them to be just and reasonable and in the public interest, and recommends approval of the year 2002 monthly rates beginning with services provided on and subsequent to January 1, 2002.

COLLECTION STATUS

NECA issues monthly AUSF Statement of Fund Performance reports to the Commission. These reports indicate which telecommunication carriers did not submit data or contributions during the month. As of September 30, 2001, there were 72 entities listed as delinquent or non-compliant contributors, including the Citizen's company currently receiving AUSF (39 of these entities are delinquent in excess of 150 days).

Of the 39 entities delinquent in excess of 150 days, 14 are included in a Complaint and Order to Show Cause for failure to file annual reports as per Decision No. 63344, dated February 2, 2001. Additionally, 15 of the 39 entities (with some duplicate entities from Decision No. 63344) are included in a Complaint and Order to Show Cause for failure to file a 2000 annual report, Decision No. 64090, dated October 4, 2001.

STAFF RECOMMENDATIONS

Staff recommends approval of the year 2002 monthly Arizona Universal Service Fund surcharge for Category One providers as \$0.009488 per access line and \$0.094877 per interconnecting trunk line.

Staff further recommends approval of the year 2002 monthly Arizona Universal Service Fund surcharge for Category Two providers as 0.1867 percent of intrastate toll revenue.

Staff further recommends that the year 2002 monthly Arizona Universal Service Fund rates become effective for services provided on and subsequent to January 1, 2002.



Ernest G. Johnson
Director
Utilities Division

EGJ:SSR:lhm\CCK

ORIGINATOR: Sonn S. Rowell

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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

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

DOCKET NO. RT-00000H-97-0137

DECISION NO. _____

ORDER

Open Meeting
December 18 and 19, 2001
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. On September 22, 1989, the Commission established the Arizona Universal Service Fund ("AUSF") by Decision No. 56639.

2. On February 11, 1997, the Commission entered into an agreement for professional services with the National Exchange Carriers Association ("NECA") to administer the AUSF through December 31, 1999.

3. On January 18, 2000, the Commission extended the agreement for professional services with NECA to administer the AUSF for the period January 1, 2000 through December 31, 2002.

4. On April 2, 2001, the Commission contracted with Withum, Smith & Brown, a professional corporation of certified public accountants and consultants, to perform a GAAP financial statement audit of the AUSF as of December 31, 2000.

5. This amendment recommends approval by the Commission of the proposed year 2002 monthly surcharges to be assessed against all contributors to the AUSF.

6. Per Decision No. 56639, dated September 22, 1989, the AUSF was established to maintain statewide average rates and the availability of basic telephone service to the greatest extent reasonably possible.

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1 7. One half of the AUSF funding requirement is collected through a surcharge paid by
2 providers of basic local exchange service, wireless service, paging service, and other Commercial
3 Mobile Radio Service providers that interconnect with the public switched network. These entities
4 are known as Category One providers.

5 8. The second half of the AUSF funding requirement is collected from providers of
6 intrastate toll service. These entities are known as Category Two providers.

7 9. Funding must be authorized by the Commission in a rate case in order for a utility to
8 receive AUSF. To date, only Citizens Telecommunications Company of the White Mountains, Inc.
9 ("Citizens") (formerly Contel of the West, Inc.) is receiving AUSF money in the amount of \$769,620
10 annually as per Decision No. 56657, dated October 10, 1989.

11 10. Decision No. 64011, dated September 5, 2001, ordered a waiver of the Commission's
12 AUSF rules, and authorized Midvale Telephone Exchange, Inc. ("Midvale") to receive \$71,651 per
13 year from the AUSF beginning with the commencement of service to Millsite and Silver Bell,
14 previously unserved areas.

15 11. NECA has requested and received data from all Arizona telecommunications providers
16 for use in calculating the surcharges that would be applied to all telecommunications providers for
17 2002.

18 12. From this data NECA has calculated that the year 2002 monthly surcharge for Category
19 One providers is \$0.009488 per access line and \$0.094877 per interconnecting trunk line. For
20 Category Two providers the year 2002 monthly surcharge is 0.1867 percent of intrastate toll revenues.

21 13. The collection of these amounts over the year 2002 will generate sufficient funds to
22 cover the amount of AUSF distributions that Citizens and Midvale have been authorized to receive.

23 14. Staff has reviewed the proposed year 2002 monthly surcharges, and finds them to be
24 just and reasonable and in the public interest. Therefore, Staff recommends approval of the year 2002
25 monthly AUSF surcharges for service provided on and subsequent to January 1, 2002.

26 15. NECA issues monthly AUSF Statement of Fund Performance reports to the
27 Commission. These reports indicate which telecommunication carriers did not submit data or
28 contributions during the month.

1 16. As of September 30, 2001, there were 72 entities listed as delinquent or non-compliant
 2 contributors, including the Citizen's company currently receiving AUSF (39 of these entities are
 3 delinquent in excess of 150 days). Of those 39 entities, 14 are included in a Complaint and Order to
 4 Show Cause for failure to file annual reports, Decision No. 63344, dated February 2, 2001, and 15
 5 (with some duplicate entities from Decision No. 63344) are included in a Complaint and Order to
 6 Show Cause for failure to file a 2000 annual report, Decision No. 64090, dated October 4, 2001.

CONCLUSIONS OF LAW

8 1. The Commission has the authority to authorize pursuant to A.R.S. 40-202, -203, -204,
 9 -250, -321, -322, -328, -329, -331, -332, -361, -365, and -367; the Arizona Constitution, Article 15,
 10 Sections 1, 2, 3, 4, 6, 7 and 9; and the Arizona Universal Service Fund Rules, A.A.C. R14-2-1201
 11 through R14-2-1217.

12 2. The Commission has jurisdiction over the subject matter.

13 3. The 2002 surcharges for Category One and Category Two providers meet the
 14 requirements of the AUSF rules, are just and reasonable, and in the public interest.

ORDER

16 IT IS THEREFORE ORDERED that the year 2002 monthly Arizona Universal Service Fund
 17 surcharge for Category One providers is \$0.009488 per access line and \$0.094877 per interconnecting
 18 trunk line.

19 IT IS FURTHER ORDERED that the year 2002 monthly Arizona Universal Service Fund
 20 surcharge for Category Two providers is 0.1867 percent of intrastate toll revenue.

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IT IS FURTHER ORDERED that the year 2002 monthly Arizona Universal Service Fund contributions become effective for services provided on and subsequent to January 1, 2002.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2001.

BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

EGJ:SSR:lhm

1 SERVICE LIST FOR: Arizona Universal Service Fund
2 DOCKET NO. RT-00000H-97-0137

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copies sent to the attached: