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November 2, 2001

Arizona Corporation Commission
DOCKETED

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Brian McNeil
Executive Secretary
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007



Re: Review and Possible Revision of Arizona Universal Service Fund Rules,
Article 12 of the Arizona Administrative Code
Docket No: RT 00000H-97-0137

Dear Mr. McNeil:

These comments are in response to your letter dated September 20, 2001, seeking updated comments on the review and possible revision of Arizona Universal Service Fund Rules. WorldCom, Inc. ("WorldCom") will address these questions and issues in our comments.

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

R14-2-1203 REQUEST FOR AUSF SUPPORT

... "A request for AUSF support shall include a statement describing the need for such funding."..... Competitive providers should be exempt from this requirement.

Benefit: It is not clear from the text of the Rule what the definition of "need" is, but WorldCom assumes that the purpose of the rule is to require a showing of financial need prior to dispensing universal service funds to a local exchange carrier. In a monopoly environment, such a rule ensures that the size of any universal service fund is as small as possible and that universal service funds are directed to high cost areas only if the ILEC cannot provide basic exchange service at affordable rates. It is both unnecessary and potentially harmful to impose this rule on competitive local exchange carriers ("CLECs"). Imposing

such a rule on CLECs may chill competitive entry into high cost areas and saddles competitive providers with unnecessary reporting requirements traditionally and properly associated with monopoly provision of local exchange service. In addition, WorldCom believes that imposing the financial needs test on CLECs will likely result in a universal service mechanism that is not competitively neutral and may violate the “portability of funds” provision of Rule R14-2-1206(E).

R14-2-1204 FUNDING OF THE AUSF

B.2 Category 2 – Providers of intrastate toll service...

The Category 2 AUSF assessment based on *total Arizona intrastate toll revenue* should be changed to Arizona intrastate *end-user revenue*.

Benefit: Contributions based on end-user revenues eliminates the double-counting problem and the market distortion assessments that gross revenues create because transactions are only counted once at the end-user level.

R14-2-1205 CALCULATION OF SURCHARGES

The Arizona Corporation Commission (“ACC”) should be aware that because the surcharge is based on historical, rather than current, intrastate toll revenues, this may create distortions in the market. The surcharge is then applied to “going forward” revenues, adjusted by the growth factor developed by the Administrator. In an environment where traditional IXCs are experiencing declining volumes due to substitution to wireless services and loss of market share to ILECs that have recently entered the interLATA market, the revenue base to which the surcharge is applied going forward will likely be smaller than the historical revenue base used to calculate the surcharge. It is not clear to WorldCom whether the growth factor applied by the Administrator takes these shifting industry dynamics into account. Failure to do so, however, results in unintended and unforeseen shifts in universal service payment obligations among firms, and disadvantages firms that are experiencing declining business fundamentals.

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

WorldCom's Response: Universal service money should be available to subsidize the recurring costs of providing service in areas not currently served. The ACC already is obligated to calculate the difference between the benchmark rate and the appropriate cost for areas currently receiving service (Section R-14-2-1202); it could therefore apply that "benchmark minus cost" difference to any unserved area.

Universal service money should not be used to provide the actual construction dollars. Rather, the state of Arizona should continue to rely on customers' "construction or line extension charges" for the actual construction dollars. WorldCom believes that rates have been set for rate base rate of return carriers in recognition of the availability of funds generated through existing construction or line extension charges. To now supplement those revenue streams without further rate adjustments likely will overcompensate incumbent carriers for the risks that they bear. If the ACC determines that existing construction or line item charges are insufficient, remedies can be implemented on a case by case basis within a general rate review proceeding.

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

WorldCom's Response: Please see WorldCom's response to question 2.

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

WorldCom's Response: All carriers should continue to be required to apply for and receive the ETC designation in order to be eligible to receive funds from the AUSF.

5. Should the definition of local exchange service, for AUSF purposes, be broadened to include other services? If yes, how might it be accomplished?

WorldCom's Response: No. Consumers are the ones who will bear the ultimate responsibility of supporting the fund, and the more services the fund supports, the greater the financial impact on Arizona consumers. Moreover, the FCC is currently reviewing various proposals in several dockets to modify the array of services funded by universal service dollars. See for example CC Docket No. 96-45 and CC Docket No. 98-146. Until those reviews are

completed, neither the FCC, the ACC nor the industry participants and commenters have a context within which to judge the desirability or feasibility of modifying the array of services supported by the state universal service program.

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

WorldCom's Response: There are no such rules that WorldCom is aware of.

7. How might construction or line extension tariffs be standardized between companies? Should there be an AUSF contribution in addition to the company contribution? Should there be a maximum amount a customer should be expected to pay to obtain service? Should this amount consider the median household income of the area being served. Assuming there is an AUSF contribution, what is a reasonable limit?

WorldCom's Response: The cost of extensions to developments should be borne by those who gain economic advantage from development and not by ratepayers in general. This policy promotes the economic good of having telephone infrastructure placed at the same time as other infrastructure is constructed as a part of development.

Customers in occupied premises should be responsible for providing or paying the cost of trenching, conduit, or other structures required for placement of company provided drop wire from the customer's property line to the premises. As previously stated in our response to question 2, to the extent necessary, universal service money should be available to subsidize only the recurring costs of providing service in areas not currently served. Universal service money should not be used to provide the actual construction dollars. Rather, the state of Arizona should continue to rely on customers' "construction or line extension charges" for the actual construction dollars. Moreover, as stated in WorldCom's response to question 2, the construction or line extension charges of each ILEC were presumably determined on a company-by-company basis in the context of a general rate review. The public benefit of now standardizing such rate elements is questionable, and would require an adjustment of each incumbent carrier's other rates to ensure that each company maintains a fair opportunity to earn its revenue requirement.

8. Are there changes in the Federal USF rules of which Staff should be aware? If yes, please identify them. How do these changes impact current AUSF rules? How might they impact recommended revisions to the existing rules?

WorldCom's response: WorldCom is not aware at this time of any Federal USF rule changes that would have an impact on the issues raised in this docket. However, the ACC should take into account the rural carrier access charge reform recently undertaken by the FCC. These recent FCC actions may require the ACC to take into account (1) the Subscriber Line Charges (SLC) increases in calculating the benchmark rates in Arizona, and (2) the additional revenue that rural carriers may receive. See the press release issued by the FCC in CC Docket No. 00-256, 96-45, 98-77, 98-166 issued on October 11, 2001.

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

WorldCom's Response: None at this time.

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

WorldCom's Response: WorldCom has no additional comments at this time.

Very truly yours,

LEWIS AND ROCA LLP



Thomas H. Campbell

THC/bjg

cc: Docket Control
Teresa Tan