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**Midvale Telephone Exchange, Incorporated**

PO Box 7  
(208) 355-2211

2205 Keithley Creek Road  
1-800-462-4523

Midvale, ID 83645  
Fax (208) 355-2222

November 1, 2001

Arizona Corporation Commission  
Attn; Docket Control  
1200 West Washington Street  
Phoenix, Arizona 85007-2996

RE: COMMENTS OF MIDVALE TELEPHONE EXCHANGE, INCORPORATED

Midvale Telephone Exchange, Inc. joins with ALECA in filing comments regarding Arizona Universal Service. Further, Midvale offers additional comments on three items that go beyond the consensus of the ALECA efforts. Attached then are comments regarding Items 2, 5 and 7.

Midvale has extensive experience bringing wireline telephone services to unserved areas. Midvale has build five new telephone exchanges in the past (where no phones were previously available), and has initiated the process to build three new exchanges in Arizona in the coming year. We have a commitment to serving rural areas and believe that our track record demonstrates that. Thus we offer these comments toward the hope that the Commission find mechanisms to insure that all citizens in the State of Arizona can have basic services.

Respectfully,

*Karen J. Williams*

Karen J. Williams, Ph.D.  
Midvale Telephone Exchange, Inc.

Arizona Corporation Commission

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*The following responses/suggestions are offered by:*

*Karen J. Williams, Ph.D.  
Midvale Telephone Exchange, Inc.  
(208) 355-2211  
kjwill@ruralnetwork.net*

Review & Possible Revision of Arizona Universal Service Fund Rules, Article 12 of the Arizona Administrative Code

Docket No. RT 00000H-97-0137

Exhibit "A"

**Item #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.

*First, Midvale maintains that any assessment of population density would have to be made as part of a business plan decision, and thus should not be limited by Commission rules. As technology changes, equipment costs vary, making for a different business case in different areas; for example, microwave transport works well in some areas, and not in others, fiber costs vary, switch vendors come and go.*

*To determine the serving carrier, we believe that the first step is for the Commission to establish mechanisms to make AUSF support available so that carriers will be able to serve these areas. We do not believe it is feasible to assign or force carriers to serve customers outside of an existing CC&N, but if adequate support mechanisms are in place, there should be no need to force anyone.*

*A separate provision for AUSF is likely required to fully respond to the needs of the unserved areas. Any predisposition to basing AUSF on embedded costs, thereby requiring some form of cost analysis of historical investments, inherently excludes unserved areas from consideration for AUSF support. Hence it would make most sense to create a distinct set of provisions for unserved areas, perhaps in conjunction with the issuance of a Certificate of Convenience and Necessity. Further, the issuance of a CC&N concomitant with AUSF support could economize the Commission's efforts. The following is a proposed revision of section R14-2-1106. Grant of Certificate of Convenience and Necessity.*

- A. The Commission, after notice and hearing, may deny certification to any telecommunications company which:*
- 1. Does not provide the information required by this Article;*
  - 2. Is not offering competitive services, as defined in this Article;*
  - 3. Does not possess adequate financial resources to provide the proposed services;*
  - 4. Does not possess adequate technical competency to provide the proposed services; or*
  - 5. Fails to provide a performance bond, if required.*
- B. Every telecommunications company obtaining a Certificate of Convenience and Necessity under this Article shall obtain certification subject to the following conditions:*
- 1. The telecommunications company shall comply with all Commission rules, orders, and other requirements relevant to the provision of intrastate telecommunications service.*
  - 2. The telecommunications company shall maintain its accounts and records as required by the Commission.*

3. *The telecommunications company shall file with the Commission all financial and other reports that the Commission may require and in a form and at such times as the Commission may designate.*
    - i. *The telecommunications company shall maintain on file with the Commission all current tariffs and rates, and any service standards that the Commission may require.*
    - ii. *The telecommunications company shall cooperate with Commission investigations of customer complaints.*
    - iii. *The telecommunications company shall participate in and contribute to a universal service fund, as required by the Commission.*
    - iv. *Failure by a telecommunications company to comply with any of the above conditions may result in rescission of its Certificate of Convenience and Necessity.*
- C. *Any telecommunications company applying for a new Certificate of Convenience and Necessity may conjointly apply for Arizona Universal Service Funds,*
1. *Given that the telecommunications company agrees to provide services that fulfill the Commission specifications as to "basic telecommunications services" as set forth in R14-2-1201; and*
  2. *Can demonstrate likelihood of meeting the requirements outlined in R14-2-1203, by providing anticipated rates for basic service through reasonable financial analysis.*
- D. *In cases where an application for a new Certificate of Convenience and Necessity is accompanied by a request for Arizona Universal Service Fund support the following financial documentation shall be required:*
1. *A rate design based on pro-forma cost analysis of intended plant construction and forecasted expenses for the first five years of operation.*
  2. *The telecommunications company will then have up to 18 months to update the cost estimates with the actual costs to provide basic services, and*
  3. *The completion of a full rate case as specified under the rules in R14-2-103 or other method as the Commission may prescribe within 18 months from the issuance of the CC&N.*

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

**R14-2-1201: Definitions**

**Item 6. Basic local exchange telephone service**  
**Subpart d. Access to emergency services**

*This should be revised to specify that 911 and E911 services be available locally. One problem that consumers have is that they might have cell phone service, but one of the ways it fails as basic service is that a 911 call might be responded to by a PSAP several hundred miles away. Please refer to testimony given in the Midvale case (Docket #T-02532A-00-0512) for specific examples. Sample wording might be:*

- d. *Local access to emergency services; including 911 and/or E911 service to the nearest PSAP.*

**Item #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?

*The complexity of this issue is worth review. Consider the following:*

1. *R.U.S. borrowers are precluded from charging customers for aid to construction on RUS funded projects.*
2. *Universal Service has traditionally been characterized by the FCC and in the states we are familiar with as having the goal to make basic services universally available, especially where the costs of service are high.*
3. *The cost of providing service is independent of household income.*
4. *There are existing programs available (both Federal and State) to make basic services more affordable to low-income residents.*
5. *An existing company can increase its revenue requirement by expanding service into underserved areas, thereby qualifying for an increase in AUSF support, should they choose to file a rate case.*

*In all Midvale believes that if the Commission is successful in building incentives for telecommunications growth in the State of Arizona, these matters will take care of themselves. That is, if there is a reasonable mechanism for rate case review, and if qualification for AUSF is simplified, companies like Midvale will be more willing to develop into underserved and unserved areas. Although there are some companies who choose as a business strategy to sell or otherwise mitigate their service commitments in the most costly areas of the state, it is more desirable to attract companies who do wish to offer such services rather than trying to force an unwilling party.*

*As an alternative to creating new provisions to regulate line extensions, we advocate a streamlining of the rate case process. For example, telecommunications companies are highly regulated – most undergo an annual audit by a third party, all submit annual reports to the FCC and the State of Arizona, many are members of NECA and produce annual cost studies which are closely audited by NECA, and those who are RUS borrowers undergo an audit every two years. The State of Arizona does not need to duplicate these practices. Thus, an audit back to the last rate case is not necessary. Test year data, with pro-forma adjustments, and an audit of capital improvements relative to a specific increase in revenue requirement should be sufficient.*