

RECEIVED



0000058235
0000058235

50

2006 JUL 12 P 2: 52

July 11, 2006

AZ CORP COMMISSION
DOCUMENT CONTROL

Arizona Corporation Commission
DOCKETED

JUL 12 2006

Docket Control Center
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

DOCKETED BY	<i>WR</i>
-------------	-----------

Re: Compliance Filing, Docket No. T-1954B-05-0640, Decision No. 68651

Dear Commissioners and Staff:

In compliance with Decision No. 68651 in Docket No. T-1954B-05-0640, dated April 12, 2006, Citizens Utilities Rural Company, d/b/a Frontier Citizens Utilities Rural ("Frontier"), hereby submits this letter describing its efforts to obtain financing from the Arizona Universal Service Funds ("AUSF") to offset the high cost of providing service to customers in its service area. As presently constructed, the AUSF rule does not contain a mechanism for defraying the cost of line extensions such as was involved in this complaint proceeding, nor does it seem to contemplate this use of AUSF financing. Consequently, in December of 2004 Frontier joined with other members of the Arizona Local Exchange Carriers Association ("ALECA") and petitioned the Commission to amend its AUSF rule. These amendments sought to encourage the provision of service to unserved and underserved areas of the State of Arizona.

ALECA's proposed AUSF amendments, if adopted, would help offset the cost of providing service to high cost areas in two ways. First, ALECA's proposed amendments would do away with the necessity of filing a full-blown rate case and base AUSF assistance on average cost per loop, the principal component of basic local exchange service. As telecommunications carriers in Arizona built out their networks to high cost areas, they would be assured increased assistance from the AUSF as their loop costs rose relative to the national average. Second, ALECA's proposed amendments also addressed one-time distributions from the from the Fund to finance particular high cost line extensions, such as in the case of providing service to the Bingaman family involved in this complaint proceeding.

A copy of ALECA's revised AUSF rule is attached to this letter. Frontier's expectation is that the Staff will in the near future convene an industrywide workshop to discuss the issues raised by ALECA's proposed AUSF revisions.

● Page 2

July 11, 2006

Sincerely,

A handwritten signature in cursive script that reads "Curt Huttzell".

Curt Huttzell, Ph.D.
Manager, Government and External Affairs

Enclosures (13)

cc: Brian Bozzo, Manager, Compliance and Enforcement

RECEIVED

BEFORE THE ARIZONA CORPORATION COMMISSION

2004 DEC 30 P 4:42

COMMISSIONERS

MARC SPITZER-Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

AZ CORP COMMISSION
DOCUMENT CONTROL

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

DOCKET NO. RT-00000H-97-0137

PROPOSAL FOR AMENDING
THE ARIZONA UNIVERSAL
SERVICE FUND RULES AND
REQUEST FOR PROCEDUR-
AL SCHEDULE

The Arizona Local Exchange Carriers Association ("ALECA") submits for consideration the attached revisions to the Arizona Universal Service Fund Rules (the "AUSF Rules") and requests that the Arizona Corporation Commission ("Commission") establish a new procedural schedule to consider the adoption of appropriate revisions to the AUSF Rules. ALECA is an industry association of incumbent local exchange carriers ("ILECs") serving rural Arizona including Arizona Telephone Company, CenturyTel, Citizens Communications Company (Frontier Communications), Copper Valley Telephone, Midvale Telephone Exchange, Navajo Communications, South Central Communications, Southwestern Telephone Company, Table Top Telephone Company and Valley Telephone Cooperative.¹ ALECA has previously submitted comments in this rule making docket.

I. INTRODUCTION

The Commission established the Arizona Universal Service Fund ("AUSF") on

¹ ALECA also includes the tribally owned carriers Fort Mojave Telephone Company, Gila River Telecommunications, San Carlos Apache Telecom Utility and the Tohono O'Odham Utility Authority. Although the tribally owned carriers are not subject to the jurisdiction of the Commission, each supports this filing

Snell & Wilmer

L.L.P.
LAW OFFICES
400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

1 September 22, 1989 in Decision 56639. However, the AUSF funding mechanism initially
2 approved in Decision 56639 was superceded with the adoption of the Commission's AUSF Rules
3 on April 26, 1996, as codified in Arizona Administrative Code R14-2-1201 *et seq.* Pursuant to
4 Rule 14-2-1216, Utilities Division Staff was required to initiate a comprehensive review of the
5 AUSF Rules within three years of the effective date, and to provide the Commission with
6 recommendations regarding any necessary changes to the AUSF Rules. As a result, Rules
7 Docket No. RT-00000H-97-0137 was opened on March 14, 1997.

8 Pursuant to a memorandum dated September 20, 2001, Utilities Division Staff solicited
9 comments from the telecommunications industry and other interested parties regarding a number
10 of issues and questions set forth in the memorandum and on Exhibit "A" to the memorandum.
11 Eleven sets of comments were filed by participants in the rules docket, including comments by
12 ALECA and ALECA members Citizens Communications, Midvale Telephone Exchange and
13 Table Top Telephone Company. In a memorandum dated December 24, 2001, Utilities Division
14 Staff solicited additional comments based on the comments filed by the participants in response
15 to the September 20, 2001, memo. A workshop was held thereafter.

16 As the Commission has applied the AUSF Rules, the receipt by a utility of AUSF money
17 must be authorized in a rate case. To date, only two companies have received disbursements
18 from the AUSF in the combined annual amount of less than \$850,000. ALECA believes that this
19 utilization rate is artificially low as a result of the hurdles inherent in the current application of
20 the AUSF Rules. The attached revisions to the AUSF Rules are intended to permit more
21 practicable access to the AUSF for carriers serving high cost areas, and to provide cost recovery
22 for carriers which undertake to serve unserved or underserved areas. Deletions from the AUSF
23 Rules are highlighted with a strikethrough and new text is highlighted by underscoring.

24 **II. PROPOSED REVISIONS TO AUSF RULES**

25 For many decades, Arizona's rural ILECs have provided affordable and reliable
26 telecommunications services throughout rural Arizona. For these rural ILECs, cost recovery

1 through the federal universal service fund ("FUSF") has enabled the companies to provide
2 modern telecommunications services at reasonable rates to customers in high-cost areas. The
3 FUSF works because it is relatively simple to understand and to use. Applicants for cost-
4 recovery from the FUSF submit data to the National Exchange Carrier Association ("NECA")
5 demonstrating that the average loop cost of the applicant's distribution plant exceeds the national
6 benchmark set by NECA. In setting the benchmark, NECA calculates a nationwide average loop
7 cost using data collected from around the country. If the applicant's average loop cost exceeds
8 115% of the benchmark, the applicant qualifies for FUSF. An ILEC can easily determine if it
9 qualifies for support from the FUSF by performing a series of simple calculations.

10 Administration of the AUSF should parallel the FUSF. The AUSF Rules should simplify
11 the application process for obtaining cost recovery for carriers serving high-cost areas, and
12 should minimize the delays and transactional costs associated with the application process. In
13 addition, the AUSF Rules should provide funding for infrastructure to serve unserved or
14 underserved areas of the State.

15 The key revisions to the AUSF Rules as proposed by ALECA include the following:

- 16 • A qualifying ILEC is entitled to AUSF support whenever its working loop cost
17 exceeds 115% of the national benchmark loop cost.
- 18 • AUSF support is calculated as the difference between 115% of the national
19 average loop cost and the applicant's unseparated working loop cost, less the
20 applicant's federal universal service loop support per loop.
- 21 • The classification for "Intermediate Local Exchange Carriers" is eliminated.
22 "Large Local Exchange Carriers are defined as those serving 200,000 access lines
23 or more. "Small Local Exchange Carriers" are defined as those serving less than
24 200,000 access lines.
- 25 • For Small Local Exchange Carriers, the AUSF support area is identical to the
26 FUSF support area.
- AUSF support is determined through an application process, and not through a
rate case or earnings investigation.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

- AUSF support is available through an application process to extend service to unserved or underserved areas.
- The AUSF is funded equally by all toll and local customers of providers of telecommunications services on the basis of intrastate retail billed revenues.

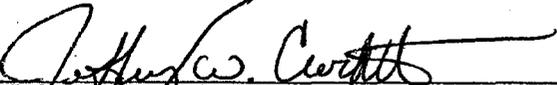
The sustainability of the growing FUSF has been widely questioned in recent years, creating uncertainty regarding the continued availability of cost recovery through the fund for rural ILECs. As a result, the AUSF provides an essential safety mechanism to ensure that the customers in rural areas of Arizona continue to receive modern telecommunications services at reasonable rates. It is imperative that the AUSF Rules be revised so that the AUSF is accessible to rural ILECs, and the administrative procedures controlling cost recovery through the AUSF are efficient, equitable and economically feasible. ALECA believes that the revised rules submitted herewith provide a logical and workable mechanism for administering the AUSF.

III. REQUEST FOR PROCEDURAL SCHEDULE

ALECA, on behalf of its members, requests that the Commission establish a procedural schedule to resume the AUSF rules review proceeding. ALECA further requests that the Commission request comments from interested parties on the AUSF rule revisions proposed by ALECA and attached to this pleading.

RESPECTFULLY SUBMITTED this 30th day of December, 2004.

SNELL & WILMER

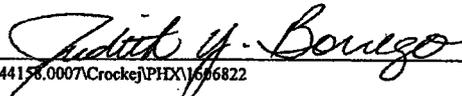
By 
Jeffrey W. Crockett
Kimberly A. Grouse
One Arizona Center
Phoenix, Arizona 85004-2202

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

ORIGINAL AND THIRTEEN (13)
copies filed this 30th day of December,
2004, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

A COPY of the foregoing was mailed via
first class mail this 30th day of December, 2004,
to each person on the Service List for this docket
as maintained by the Hearing Division.


44158.0007\Croccej\PHX\1666822

ARTICLE 12. ARIZONA UNIVERSAL SERVICE FUND

Article 12, consisting of Sections R14-2-1201 through R14-2-1217, adopted effective April 26, 1996, pursuant to an exemption from the regular rulemaking process as determined by the Arizona Corporation Commission (Supp. 96-2).

Section

- R14-2-1201. Definitions
- R14-2-1202. Calculation of AUSF Support
- R14-2-1203. Request for AUSF Support
- R14-2-1204. Funding of the AUSF
- R14-2-1205. Calculation of Surcharges
- R14-2-1206. Implementation
- R14-2-1207. Calculation of Monthly Payments and the Associated Collections
- R14-2-1208. Monthly AUSF Disbursements
- R14-2-1209. Procedures for Handling AUSF Rate Changes
- R14-2-1210. Statement of Participation of all Telecommunications Service Providers in the AUSF
- R14-2-1211. Duties and Responsibilities of the AUSF Administrator
- R14-2-1212. Interim Administrator
- R14-2-1213. Guidelines for Auditing the AUSF
- R14-2-1214. Enforcement of Collection of Delinquent AUSF Amounts
- R14-2-1215. AUSF Annual Report
- R14-2-1216. Review Process
- R14-2-1217. Supersession of Existing USF Mechanism

Editor's Note: The Arizona Corporation Commission has determined that the following Section is exempt from the Attorney General approval provisions of the Arizona Administrative Procedure Act (A.R.S. § 41-1041) by a court order (State ex. rel. Corbin v. Arizona Corporation Commission, 174 Ariz. 216 848 P.2d 301 (App. 1992)).

ARTICLE 12. ARIZONA UNIVERSAL SERVICE FUND

R14-2-1201. Definitions

In this Article, unless the context otherwise requires, the following definitions shall apply:

1. "Administrator" is the person designated pursuant to R14-2-1212 to administer the AUSF and perform the functions required by this Article.
2. "Arizona Corporation Commission" or "Commission." The regulatory agency of the state of Arizona having jurisdiction over public service corporations operating in Arizona.
3. "Arizona Universal Service Fund" or "AUSF" is the funding mechanism established by this Article through which surcharges are collected and support paid in accordance with this Article.
4. "AUSF Support" is the amount of money, calculated pursuant to this Article, which a provider of basic local telephone exchange service is eligible to receive from the AUSF pursuant to this Article.
5. "AUSF Support Area" is the geographic area for which a local exchange carrier's eligibility to receive AUSF support is calculated.
6. "Basic local exchange telephone service" is telephone service that provides the following features:
 - a. Access to 1-party residential service with a voice grade line;
 - b. Access to touchtone capabilities;
 - c. Access to an choice of interexchange carriers for presubscription;
 - d. Access to emergency services, including but not limited to emergency 911;
 - e. Access to directory assistance service;
 - f. Access to operator service;
 - g. Access to a white page or similar directory listing; and
 - h. Access to telephone relay systems for the hearing and speech impaired.
7. "Benchmark rates" for a telecommunications services provider are those rates approved by the Commission for that provider for basic local exchange telephone service, plus the Customer Access Line Charge approved by the Federal Communications Commission.
8. "Commercial Mobile Radio Service" is any radio communication service carried on between mobile stations or receivers and land stations, or by mobile stations communicating among themselves, that is provided for profit and that makes available to the public service that is connected to the public switched network.
9. "Conversion Factor" is a multiplier that is used to convert a quantity of interconnecting trunks for both wireless and wireline customers into equivalent access lines, for the sole purpose of developing Category 1 surcharges. The value of the Conversion Factor shall be 10 until completion of the review provided for in R14-2-1216.
10. "Interconnecting Trunk" is a 1-way or 2-way voice grade or equivalent voice grade switched message transmission channel furnished by a local switched access provider to a provider of wireless services or to a wireline customer of such local switched access provider to interconnect the provider of wireless services or wireline customer to the public switched network.
11. "Intermediate Local Exchange Carriers" are incumbent providers of basic local exchange telephone service with more than 20,000 access lines but fewer than 200,000 access lines in Arizona.

12. "Large Local Exchange Carriers" are incumbent providers of basic local exchange telephone service serving 200,000 or more access lines in Arizona.
13. "Small Local Exchange Carriers" are incumbent providers of basic local exchange telephone service with fewer than 2,000 or fewer access lines in Arizona.
14. "Total Service Long Run Incremental Cost" is the total additional cost incurred by a telecommunications company to produce the entire quantity of a service, given that the telecommunications company already provides all of its other services. Total Service Long Run Incremental Cost is based on the least cost, most efficient technology that is capable of being implemented at the time the decision to provide the service is made.
15. "U.S. Census Blocks" are geographic areas defined by the U.S. Department of Commerce. The areas, which define the way in which census data is aggregated, generally contain between 250 and 550 housing units.

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-1202.A. Calculation of AUSF Support

- A1.** ~~The amount of AUSF support to which a provider of basic local exchange telephone service is eligible for a given AUSF support area shall be calculated as the difference between 115% of the national average cost per loop and the provider's unseparated working loop cost, less the provider's federal universal service loop support per loop, if any, based upon the difference between the benchmark rates for basic local exchange telephone service provided by the carrier, and the appropriate cost to provide basic local exchange telephone service as determined by the Commission, net of any universal service support from federal sources except for recovery of costs or revenues under subsection 2.a of this Section.~~
- B2.** ~~For a small local exchange carrier, the AUSF support area shall include all exchanges served by the local exchange carrier in Arizona identical to the support area or areas as identified by the FCC for federal USE. The appropriate cost of providing basic local exchange telephone service for purposes of determining AUSF support for a small local exchange carrier shall be the embedded cost of the incumbent provider. For any request for AUSF support by a small local exchange carrier filed more than three years after the effective date of this Article, the AUSF support area shall be the geographic areas as determined by the Commission.~~
- a.** ~~A Small Local Exchange Carrier shall be allowed recovery upon the occurrence of one or more of the following:~~
- ~~(1.) In the event of an FCC order, rule or policy, the effect of which is to decrease the federal universal service fund revenues of an eligible local exchange telecommunications service provider, the eligible local exchange telecommunications service provider shall recover the decrease in revenues from the AUSF;~~
 - ~~(2.) If, as a result of changes required by existing or future federal or state regulatory rules, orders, or policies or by federal or state law, an eligible local exchange telecommunications service provider experiences a reduction in revenues or an increase in costs, it shall recover the revenue reductions or cost increases from the AUSF, the recovered amounts being limited to the net reductions or cost increase.~~
- b.** ~~The receipt of funds from any of the changes referred to in subsection a of this Section shall not be conditioned upon any rate case or earnings investigation by the Commission. The Commission shall approve the request for payment from the AUSF based on a comparison of the total annual revenues received from the sources affected by the changes described herein by the requesting eligible local exchange telecommunications service provider during the most recent twelve (12) months preceding the request, and the reasonable calculation of total annual revenues or cost increases which will be experienced after the changes are implemented by the requesting eligible local exchange telecommunications service provider.~~
- C.** ~~For an intermediate local exchange carrier, the AUSF support area shall be either all exchanges in Arizona served by that carrier, or such other support area as may be approved by the Commission. The appropriate cost of providing basic local exchange telephone service for purposes of determining AUSF support for an intermediate local exchange carrier shall be the embedded cost of the incumbent provider. For any request for AUSF support by an intermediate local exchange carrier filed more than three years after the effective date of this Article, the AUSF support area shall be geographic areas as determined by the Commission, and the appropriate cost of providing basic local exchange telephone service for purposes of determining AUSF support shall be the Total Service Long Run Incremental Cost of the incumbent provider. In the event that the FCC adopts a somewhat different forward-looking costing methodology and/or a different geographic study/support area for the Federal universal service fund program, a local exchange carrier may request a waiver from this rule in order to utilize the same cost study methodology and/or geographic study areas in both jurisdictions.~~
- D3.** For a large local exchange carrier, the AUSF support area shall be U.S. census block groups, and the appropriate cost of providing basic local exchange telephone service for purposes of determining AUSF support shall be the Total Service Long Run Incremental Cost. In the event that the FCC adopts a somewhat different forward-looking costing methodology and/or a different geographic study/support area for the Federal universal service fund program, a local exchange carrier may request a waiver from this rule in order to utilize the same cost study methodology and/or geographic study areas in both jurisdictions. Any request for AUSF support by a large local exchange carrier shall include a Total Service Long Run Incremental Cost study, or cost study based on FCC adopted methodology, of basic local exchange service. The cost study shall be developed and presented in a manner that identifies the cost for the individual support areas for which AUSF funding is being requested.

R14-2-1202.B. Calculation of AUSF Distribution for Extension of Facilities to Unserved and Underserved Areas

- 1.a. Applications for Distribution – potential customers not presently receiving basic local service because facilities are not available may apply to the Commission for distribution from the fund for extension of service to themselves or to a group of customers.
- b. These distribution are to be approved by the Commission and made only in circumstances where traditional methods of funding and service provision are infeasible.
- c. Distributions will not be made for customers that are not full time residents.
- d. An application for a distribution may be filed with the Commission by an individual or group of consumers desiring telephone service, a telecommunications corporation on behalf of those consumers, the Commission Staff, or any entity permitted by law to request agency action. An application shall identify the service(s) sought, the area to be served and the individuals or entities that will be served if the distribution is approved.
- e. Following the application's filing, affected telecommunications corporations shall provide any pertinent information requested by the Commission Staff including engineering, facilities and cost information that will assist in the Commission's consideration of the application.
- f. In considering the application, the Commission will examine relevant facts including the type and grade of service to be provided, the cost of providing the service, the demonstrated need for the service, whether the customer is within the service territory of a telecommunications corporation, whether the proposed service is for a primary full time residence and other relevant factors to determine whether the one-time distribution is in the public interest.
2. Presumed reasonable amounts and terms – Unless otherwise ordered by the Commission, the maximum distribution will be no more than \$25,000 per customer. The Commission will presume a wireline company's service or line extension terms and conditions reasonable, for a subscriber in connection with universal service fund distribution requests, if the costs of service extension, for each extension, are recovered as follows:
- a. The first \$500 of cost coverage is provided by the company; and
- b. For cost amounts exceeding the \$500 level, cost, up to two times the statewide average loop investment for all regulated companies, as determined annually by the Division of Public Utilities, equally provided by the company and the customer.
3. Combination of Distribution Funds with Additional Customer Funds and Future Customer Payment Recovery
- a. When the Commission approves an application the use of universal service funds, 95 percent of service extension costs, above those recovered through the service extension cost recover terms specified above, shall be paid through universal service funds, up to the maximum universal service fund expenditure levels specified by this rule. The remaining five percent, or any additional amounts, shall be paid by additional customer contributions beyond those specified above.
- b. Potential customers in the area shall be notified by the telecommunications corporation of the nature and extent of the proposed service extension, the Commission's approval of the application, and the necessary customer contribution amounts to participate in the project. Customer contribution payments shall be made prior to the start of construction.
- c. Customers that either declined to initially participate in the line extension project, but subsequently decide to participate, as well as any customer that seeks telecommunications service, in the project area serviceable by a loop drop, within five years following approval of the application shall pay a customer contribution equal to the amount paid by the original customers in the project. Funds received through these payments shall be sent to the universal services fund administrator.
- d. For each customer added during the five-year period following project completion, the telecommunications corporation and new customers shall bear the costs to extend service pursuant to the company's service or line extension terms and conditions, up to the telecommunications corporation's original contribution per customer for the project and the customer contributions required by this rule. The company may petition the Commission for a determination of the recovery from universal service fund and the new customer for costs which exceed this amount.
- e. Impact of distribution on Companies – A distribution from the fund under this sub sections shall be recorded on the books of a regulated LEC as an aid to construction and treated as an offset to rate base.
- f. Notice and Hearing – Following notice that a distribution application has been filed, any interested party may request a hearing or seek to intervene to protect its interest.
- g. Bidding for Unserved Areas – If only one telecommunications corporation is involved in the distribution request, the distribution will be provided based upon the actual costs of that company. If additional telecommunications corporations are involved, the distribution will be determined on the basis of a competitive bid. The estimated amount of the distribution will be considered in evaluating each bid. Fund distributions in that area will be based on the winning bid.

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-1203. Request for AUSF Support

A provider of basic local exchange telephone service may request that the Commission authorize AUSF support with a filing under R14-2-1203 or other method as the Commission may prescribe, and upon compliance with all applicable rules set forth in R14-2-1101 through

R14-2-1115. A request for AUSF support shall include a statement describing the need for such funding. The Commission shall determine the appropriate cost of providing basic local exchange service for each AUSF support area for which AUSF support is requested and shall calculate in accordance with R14-2-1202 the amount of AUSF support, if any, to which the applicant is entitled.

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-1204. Funding of the AUSF

- A. The AUSF shall be funded in accordance with this Article by all telecommunications service providers that interconnect to the public switched network. Within 30 days of the effective date of this Article, and thereafter on or before October 1 of each year, each telecommunications provider shall provide to the Administrator a list of all other telecommunications providers that interconnect to its facilities or network.
- B. The AUSF shall be funded equally by all toll and local customers of the providers of telecommunications services, and shall be assessed in the following manner: equally upon all Intrastate Retail Billed Revenues.
1. ~~Category 1 - Providers of basic local exchange service, as discussed in R14-2-1204(B)(1)(a), and other service providers as required under R14-2-1204(B)(1)(a)(i) or permitted under R14-2-1204(B)(3)(b), shall be considered providers of Category 1 service.~~
 - a. ~~One half of the AUSF funding requirement will be collected through Category 1 service providers. Category 1 AUSF assessment will be based upon access lines and interconnecting trunks, and assessed by providers of local switched access as either an access line or interconnecting trunk surcharge. The "per access line" surcharge to be in place during a given year will be calculated by the Administrator using the total number of access lines and equivalent access lines deriving from interconnecting trunks that were in service for all Category 1 service providers on October 1 of the previous year. Access lines shall include business and residence lines, public access lines, and other identifiable access lines. All wireless providers including but not limited to paging and other Commercial Mobile Radio Service providers, that interconnect to the public switched network will contribute to the AUSF under the requirements of Category 1. The number of interconnecting trunks obtained from the local access provider by the wireless provider shall be utilized in conjunction with a Conversion Factor to determine AUSF support from such wireless provider by means of a surcharge on such interconnecting trunks. A wireless provider that fails to contribute to the AUSF as required by this Article shall be subject to termination of its interconnection arrangements pursuant to R14-2-1214(C).~~
 - b. ~~On or before November 1 of each year, each Category 1 local switched access service provider shall provide to the Administrator the number of access lines and number of interconnecting trunks that were in service on October 1 of that year. The Administrator will use these numbers together with the Conversion Factor in calculating the per access line surcharge and per interconnecting trunk surcharge for the following year. The Administrator will multiply the total number of interconnecting trunks by the Conversion Factor to obtain an equivalent number of access lines for the purpose of calculating the surcharges.~~
 2. ~~Category 2 - Providers of intrastate toll service, or other service providers as permitted under R14-2-1204(B)(3), shall be considered providers of Category 2 service and shall be assessed AUSF charges as follows:~~
 - a. ~~One half of the AUSF funding requirement will be collected through Category 2 service providers. The Category 2 AUSF assessment will be based on total Arizona intrastate toll revenue, and assessed as a percent of revenue. The percent of revenue assessment to be in place during a given year will be calculated by the Administrator using the annual Arizona intrastate revenue for all Category 2 service providers for the previous year.~~
 - b. ~~On or before November 1 of each year, each Category 2 service provider shall report to the Administrator the total Arizona intrastate revenue collected between August 1 of the current year and August 1 of the previous year. The Administrator will use this revenue so reported to calculate the AUSF assessment rate for the following year.~~
 3. ~~New telecommunications service providers.~~
 - a. ~~Telecommunications providers that begin providing basic local exchange service after the effective date of this Article shall be assessed AUSF charges pursuant to R14-2-1204(B)(1). Telecommunications providers that begin providing toll service after the effective date of this Article shall be assessed AUSF charges pursuant to R14-2-1204(B)(2).~~
 - b. ~~All other telecommunications service providers that interconnect to the public switched network and begin providing telecommunications service after the effective date of this Article, shall choose to be considered either a Category 1, Category 2, or both Category 1 and Category 2 service provider. Such election shall be made in writing to the Administrator within 30 days of beginning to provide telecommunications service in Arizona, with a copy to the Director of Utilities. Written concurrence of the Director of Utilities must be received by the Administrator for such selection to be effective. Such selection will be irrevocable for a period of at least three years.~~
 4. ~~A telecommunications provider that provides both Category 1 and Category 2 services shall be assessed AUSF charges pursuant to both R14-2-1204(B)(1) and R14-2-1204(B)(2).~~

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-1205. Calculation of Surcharges

- A. The Administrator will calculate the total AUSF support due all local exchange carriers who have been granted AUSF support by the Commission. Administrative costs and audit fees will be added to this amount. The amount of any excess funds in the AUSF will then

be subtracted to determine the total funding requirement. The funding requirements from Category 1 and Category 2 service providers will then be calculated. One half of the funding will be obtained from Category 1 providers through surcharges applied to access lines and interconnecting trunks in service. The other half will be obtained from Category 2 providers through surcharges on intrastate toll revenues.

- B.** For the purpose of determining the surcharges, the Administrator will develop growth factors to apply to the total Intrastate Retail Billed Revenues reported access lines and toll revenues. Such growth factors will be calculated at 1/2 of the estimated annual percentage growth in access lines and in toll revenues.
- C.** ~~Category 1 Surcharge. One half of the total annual AUSF support approved by the Commission for all eligible recipients will be obtained from Category 1 service providers. A monthly per access line surcharge and a monthly per interconnecting trunk surcharge required to obtain this funding will be calculated as follows:~~
- ~~1. Adding together the number of access lines and equivalent access lines for all Category 1 service providers, adjusted by the growth factor;~~
 - ~~2. Dividing the total annual AUSF support approved by the Commission for all eligible recipients by 2 to obtain the portion of AUSF support required from Category 1 service providers;~~
 - ~~3. Dividing the amount of Category 1 AUSF support calculated in subsection (C)(2) by the sum of access lines calculated in subsection (C)(1) to yield the per access line surcharge;~~
 - ~~4. Dividing the per access line surcharge calculated in subsection (C)(3) by 12 to determine the monthly access line assessment;~~
 - ~~5. Multiplying the surcharge obtained in subsection (C)(4) by the Conversion Factor to determine the monthly interconnecting trunk surcharge.~~
- D.** ~~Category 2 Surcharge. One half of the total annual AUSF support approved by the Commission for all eligible recipients will be obtained from Category 2 service providers. A percent of revenue surcharge required to obtain this funding will be calculated as follows:~~
- ~~1. Totalling the annual intrastate toll revenues of all Category 2 service providers, adjusted by the growth factor;~~
 - ~~2. Dividing the total AUSF support approved by the Commission for all eligible recipients by 2 to obtain the portion of AUSF support required from Category 2 service providers;~~
 - ~~3. Dividing the amount of Category 2 AUSF support requirement calculated in subsection (D)(2) by the total annual intrastate toll revenues calculated in subsection (D)(1) to arrive at a percentage of revenue surcharge.~~
- E.** Recipients of lifeline or other low-income support shall be exempt from paying a Category 1 surcharge for AUSF.

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-1206. Implementation

- A.** Any provider of telecommunications service may file either an AUSF tariff or price list, if appropriate, establishing a flow-through mechanism to collect the surcharge approved by the Commission and calculated by the Administrator.
- B.** On or before the 20th day of each month, each Category 1 service provider responsible for collecting AUSF surcharges shall remit to the Administrator the AUSF surcharge, including any surcharge on wireless providers, collected by that provider during the preceding month. The Category 1 provider shall submit such documentation of AUSF revenues from the AUSF surcharge as may be required by the Administrator.
- C.** ~~On or before the 20th day of each month, each Category 2 service provider responsible for collecting AUSF surcharges shall remit to the Administrator the AUSF surcharge collected by that provider during the third preceding month. The Category 2 provider shall submit such documentation of AUSF revenues from the AUSF surcharge as may be required by the Administrator.~~
- D.** Eligible recipients of AUSF support are:
1. Providers of telecommunications service engaged in providing basic local exchange telephone service in Arizona which have obtained a Commission order authorizing payments from the AUSF; and
 2. Providers that become entitled to AUSF support based upon the provisions of R14-2-1206(E).
- E.** If the Commission approves AUSF support to a provider of telecommunications service for a defined area, such AUSF support shall also be available to competitive providers of basic local exchange service in the same defined area that are contributing to the AUSF, and that are willing to provide service to all customers in the specific AUSF support area as defined by the Commission. The AUSF support to which the competitive provider is eligible shall be calculated on a per-customer basis, at the same level at which the incumbent provider of telecommunications service receives AUSF support, and shall not result in an increase in the total AUSF support available for the specific census block groups or study area. If basic exchange service is provided through the resale of another carrier's local loop facilities, AUSF support will only be available to the retail service provider if AUSF support is not included in the wholesale price for the resold local service. This Section shall not apply to small local exchange carriers nor to the universal service support being received by any telecommunications service provider as of the effective date of this Article.
- F.** For small local exchange carriers and for any basic local exchange telephone service provider receiving universal service support as of the effective date of this Article, the AUSF support shall not be available to competitive providers of basic local exchange service prior to completion of the review provided for in R14-2-1216. Following completion of the review, AUSF support provided to small and intermediate local exchange carriers shall be available to all competitive providers of basic local exchange service in the same defined area that are contributing to AUSF, and that are willing to provide service to all customers in the specific geographic study area as defined by the Commission, unless otherwise ordered by the Commission.

- G. Defined area, study area, geographic area, and support area mean the same area during the first three years of the effective date of this Article. After the first three years, they will still have the same meaning unless otherwise ordered by the Commission.

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-1207. Calculation of Monthly Payments and the Associated Collections

- A. For the monthly ~~Category 1~~ AUSF payment, each provider of Intrastate Retail Billed Revenues ~~local switched access~~ shall remit to the Administrator ~~an amount equal to the number of access lines in service on the first day of the month, times the monthly surcharge per access line plus the number of interconnecting trunks in service on the first day of the month, times the monthly interconnecting trunk surcharge, the amount billed to end users.~~
- ~~B. The monthly AUSF payment that each Category 2 provider shall remit to the Administrator is an amount equal to its monthly intrastate toll revenue times the monthly surcharge percentage.~~
- C. Payments must be received by the Administrator by the 20th day of each month. If the payment amount is greater than \$10,000, then it shall be wire transferred to the Administrator.
- D. The Administrator shall enter into an appropriate non-disclosure agreement with each telecommunications service provider to assure that information necessary to allocate AUSF funding obligations and to calculate surcharges is reported, maintained, and used in a manner that will protect the confidentiality of company specific data. The Administrator shall not use confidential data for any purpose other than administering the AUSF.

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-1208. Monthly AUSF Disbursements

- A. AUSF disbursement shall be made 30 days following the date of AUSF collections by the Administrator.
- B. The Administrator shall not make AUSF support payments to a provider of telecommunications service until the Administrator has received a copy of a Commission decision authorizing the provider to receive such support.

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-1209. Procedures for Handling AUSF Rate Changes

- A. ~~Category 1 and Category 2~~ AUSF surcharges shall be revised when the Commission authorizes new or revised AUSF payments to any provider of telecommunications service. The Administrator shall calculate the new AUSF flow-through surcharges in accordance with this Article, which surcharges shall become effective upon the Commission's approval of the new or revised AUSF payments.
- B. An annual calculation to revise AUSF flow-through surcharges shall be made by the Administrator on December 1 of each year with an effective date the following January 1. The flow-through surcharges shall be calculated so that the total AUSF funding will equal the AUSF revenue requirements, plus administrative costs as well as any corrections and true-ups. No later than December 1 of each year, the Administrator shall provide notice to the Commission and all telecommunication service providers who pay into the AUSF of the flow-through surcharge rates for the following calendar year.

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-1210. Statement of Participation of All Telecommunications Service Providers in the AUSF

- A. ~~Within 30 days of the effective date of this Article, each telecommunications service provider shall provide a letter to the Administrator acknowledging that provider's obligation under this Article to pay AUSF surcharges. Upon effective date of this article all entities providing Arizona Intrastate Retail Billed Telecommunications services shall be participants in the AUSF. Failure to collect and or remit payment of collected AUSF fees to the Administrator provide such a letter shall be grounds for termination, after written notice from the Administrator, of the provider's interconnection with the public switched network.~~
- B. Any telecommunications service provider which begins providing telecommunications service after the effective date of this Article shall, within 30 days of beginning to provide intrastate service in Arizona, provide a letter to the Administrator acknowledging that provider's obligation under this Article to make monthly payments for the Intrastate Retail Billed Telecommunications Revenues ~~local and/or toll portion, as appropriate,~~ of the AUSF contribution in accordance with this Article. Failure to provide such a letter shall be grounds for denying to the provider interconnection with the public switched network.

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-1211. Duties and Responsibilities of the AUSF Administrator

The Administrator, which shall be a neutral third party selected through a competitive bid process, shall:

1. Develop, obtain, and, on or before December 15 of each year, file with the Commission such information and documentation as the Administrator deems necessary for the establishment and calculation of the Category 1 and Category 2 surcharges for the

succeeding year. Such a filing shall also be made each time the Commission authorizes a change in the AUSF funding requirement.

2. Monitor the AUSF payments of all telecommunications providers.
3. Oversee the billing of AUSF surcharges.
4. Prepare the necessary forms to be used in reporting the AUSF collections and disbursements and maintain monthly records.
5. Coordinate the collection and disbursement of AUSF monies in accordance with this Article.
6. Prepare an annual report that provides a detailed accounting of the AUSF collections and disbursements and that identifies the annual cost of administration. The report shall be filed with the Commission on or before April 15 of each year.
7. Monitor procedures for auditing the AUSF collections and disbursements. The audit function shall be performed by an independent outside auditor.

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-1212. Interim Administrator

~~US WEST Communications, Inc., will serve as interim Administrator of the AUSF and will perform the functions detailed herein that are required of the Administrator for a transition period until a private, neutral third party is appointed by the Commission to serve as Administrator of the AUSF. A neutral third party selected through the competitive bid process shall be appointed no later than July 1, 1997.~~

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-1213.2. Guidelines for Auditing the AUSF

- A. The AUSF records covering both collections and disbursements shall be audited at the end of the first year following the designation of a third party administrator. The AUSF records will then be audited at least once every other year in the subsequent years of operations.
- B. The records shall be examined for accuracy and the existence of effective internal controls to ensure that the AUSF is being administered appropriately and properly.
- C. An independent external auditor selected by the Commission shall be utilized to provide an unbiased audit opinion concerning the AUSF administration procedures and controls.
- D. Any costs for conducting audits will be deducted from the revenues of the AUSF prior to disbursement of funds.

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-1214.13. Enforcement of Collection of Delinquent AUSF Amounts

- A. The Administrator shall issue past due notices to each provider of telecommunications service that is 15 days or more delinquent in submitting its AUSF payments to the Administrator. A copy of this notice shall be provided to the Commission.
- B. AUSF support payments shall be withheld from any provider of telecommunications service that is delinquent in submitting its AUSF payments to the Administrator. Each provider of telecommunications service will be fully liable for any accrued interest owing on its AUSF contributions that remain unpaid for 30 days. Such delinquent AUSF payments will begin accruing interest at the rate of 1 and 1/2% per month beginning with the 31st day until such amount is paid in full along with all accrued interest.
- ~~C. The local switched access service provider shall promptly notify the Commission and the Administrator of the identity of any wireless provider which fails or refuses to pay its AUSF surcharge. Such notice shall also be directed to the wireless provider. If the wireless provider has not paid the amount due within 30 days of such notice, the interconnection provider shall terminate the wireless provider's interconnection until the full amount together with all accrued interest, is paid in full (unless the payment is in bonafide dispute and the wireless carrier has paid the undisputed amount).~~
- C.D.** Failure by a telecommunications service provider to comply with the provisions of this Article may result in sanctions as determined by the Commission.

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-1215.14. AUSF Annual Report

- A. On or before April 1 of each year, the Administrator shall file with the Commission an annual report which shall summarize the preceding year activity and contain the following:
 1. A statement of AUSF collections and disbursements.
 2. A record of the total cost of administration of the AUSF.
 3. Audit reports from the audits conducted during the year.
- B. A copy of the annual report shall be made available provided to each provider of telecommunications service who contributes to the AUSF on the Commission's web site for review by any interested party.

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-121615. Review Process

- A. Not later than three years from the effective date of this Article, the Commission staff shall initiate a comprehensive review of this Article and shall provide the Commission with recommendations regarding any necessary changes to the Article. Any interested party may also make such recommendations. The Commission shall consider these recommendations in such proceeding as the Commission deems appropriate.
- ~~B. The costs used to calculate AUSF funding levels for a given provider or AUSF support area shall be reviewed by the Commission at least every three years following the effective date for any authorized AUSF support for the provider or study area. The Commission may reduce the authorized funding level and require that the AUSF surcharge be recalculated on the basis of this review.~~

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-1216. Supersession of Existing USF Mechanism

The universal service funding mechanism initially approved by the Commission in Decision No. 56639 (September 22, 1989) is superseded by this Article, except that any calculation, contribution or collection of, or entitlement to, universal service fund support approved by the Commission prior to the adoption of this Article shall remain in effect until otherwise ordered by the Commission or until the application of this Article leads to a different result.