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*Via FedEx Overnight Mail*

Arizona Corporation Commission  
Docket Control – Utilities Division  
1200 West Washington Street  
Phoenix, AZ 85007

Arizona Corporation Commission

**DOCKETED**

JAN 7 2008

DOCKETED BY 

Re: In the Matter of the Investigation of the Cost of Telecommunications Access  
Docket No. T-00000D-00-0672, and  
In the Matter of the Review and Possible Revision of Arizona Universal Service  
Fund Rules, Article 12 of the Arizona Administrative Code  
Docket No. RT-00000H-97-0137

Dear Sir/Madam:

Enclosed for filing is an original and 15 copies of the Joint Comments of Eschelon Telecom of Arizona, Inc., Mountain Telecommunications, Inc. and Electric Lightwave, LLC in connection with the above-referenced dockets. Pursuant to ACC Filing Requirements, Confidential Exhibits A and B will only be provided to ALJ Rodda and ACC Staff.

Sincerely,

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# BEFORE THE ARIZONA CORPORATION COMMISSION

## COMMISSIONERS

MIKE GLEASON - CHAIRMAN  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTEN K. MAYES  
GARY PIERCE

IN THE MATTER OF THE REVIEW AND	)	
POSSIBLE REVISION OF ARIZONA	)	
UNIVERSAL SERVICE FUND RULES,	)	DOCKET NO. RT-00000H-97-0137
ARTICLE 12 OF THE ARIZONA	)	
ADMINISTRATIVE CODE.	)	
_____	)	
	)	
IN THE MATTER OF THE INVESTIGATION OF	)	DOCKET NO. T-00000D-00-0672
THE COST OF TELECOMMUNICATIONS	)	
ACCESS	)	
_____	)	

### **JOINT COMMENTS OF ESCHELON TELECOM OF ARIZONA, INC., MOUNTAIN TELECOMMUNICATIONS, INC. AND ELECTRIC LIGHTWAVE, LLC.**

#### **I. Introduction**

Eschelon Telecom of Arizona, Inc.,(Eschelon), Mountain Telecommunications, Inc.(MTI) and Electric Lightwave, LLC, (ELI), (collectively, "the Joint Carriers") jointly submit the following comments and responses to the questions posed by the Staff of the Arizona Corporation Commission, in compliance with the Procedural Orders issued on September 19, 2007 and November 30, 2007, in these Dockets.

The Joint Carriers' only comment regarding the AUSF is that there should be a complete reassessment of the need for the AUSF in light of changes in the industry and the current levels of penetration for basic telephone service. The initial question that should be addressed is whether the goals of universal service have been met, and thus whether the AUSF is necessary.

As to the issue of intrastate switched access, the Joint Carriers believe that there is little need for reform of access charges at this time. In fact, intrastate access charges are a diminishing source of revenue due to technological changes and the use of unregulated alternatives for long-distance calling. Furthermore, the FCC is proceeding with comprehensive access charge reform that may render any state commission action moot. The cost of a comprehensive state access proceeding would be significant and would constitute an unjustified expenditure of time and money for CLECs and the Commission. In essence, such a proceeding would seek a solution in search of a problem. Finally, the Commission should acknowledge that the issues faced by CLECs are much different than those faced by rural ILECs. If there is a need to proceed with access reform for the rural ILECs, CLECs should not be included in such a proceeding. Examination of CLEC access charges should proceed only after the ILEC charges have been investigated and resolved.

## **II. Procedural Recommendation**

Should the Commission decide to proceed with an investigation of access charges for CLECs, the Joint Carriers recommend that the matter commence with a series of workshops to explore the facts, the issues and the impact of possible changes. These workshops could identify the key issues to be addressed and potentially narrow the policy and factual issues. Such workshops could even lead to a settlement of some or all issues and thus limit the scope of any evidentiary hearings that prove necessary. Once the workshops are completed and the scope of the factual and policy issues is narrowed the Commission and the parties should reconvene to determine the appropriate procedure to resolve the remaining issues.

## **III. Responses to Staff Access Charge Questions.**

The following are the responses of Eschelon, MTI and ELI to the Updated Access Charge Questions listed on Exhibit B of the Notice of Filing dated September 4, 2007:

1. Do you believe that the Commission ought to restructure access charges? Please explain your response.

**RESPONSE:** No. Not at this time, at least as applied to competitive local exchange carriers (CLECs). There is continuing financial and regulatory uncertainty facing CLECs. CLECs are in jeopardy of potentially devastating decisions on Qwest forbearance petitions at the FCC. In addition, the FCC is examining the whole issue of intercarrier compensation in a potentially comprehensive manner. The cost of a proceeding to review intrastate access charges and implement possible changes would far exceed the benefit of doing so. There is no pressing need to take any action on CLEC access charges at this time and every reason not to.

2. What recommendation to the Commission would you make regarding how intrastate access charges should be reformed?

**RESPONSE:** Reform of intrastate access charges is unnecessary and should not be done at this time. If reform is to take place it should be gradual and take into account the unique characteristics of each provider of access. CLEC access charges should be considered separately from rural ILEC access charges.

3. Would you recommend the Commission address both switched and special access in an access charge reform proceeding? If your response is yes, please explain.

**RESPONSE:** See above responses.

4. What is your current recommendation to the Commission on how access charges should be reformed?

**RESPONSE:** See responses to previous questions. We do not believe that access charge reform is necessary at this time.

5. Please update your response to the questions and issues contained in the 12-3-01 Procedural Order in Docket No. T-00000A-00-672 to the extent you feel they should be updated.

**RESPONSE:** These responses contain the updated information that is necessary.

6. How would the FCC's proceeding to reform intercarrier compensation affect the ACC's actions to reform intrastate access charges?

**RESPONSE:** The FCC's intercarrier compensation proceeding could profoundly affect ACC actions depending on the type of reform that is adopted by the FCC. For example, the Missoula plan includes intrastate access charges as part of the plan and could include an attempt to pre-empt state access jurisdiction. If such an attempt were to succeed it could make any state reform moot. Even without preemption, proceeding with reform, without knowing the parameters of the FCC's determination, could result in incompatible access plans.

7. Do you believe that interexchange carrier switched access charges ought to exist? Please provide your rationale for your position on this matter.

**RESPONSE:** Yes. There are costs associated with providing access services that should be collected from inter-exchange carriers as users of the switched network. As providers of switched-access, CLECs and other local exchange carriers are entitled to be compensated for the use of their local network (including common line costs) by inter-exchange carriers. In this sense, switched-access rates must be viewed by the Commission as compensation IXCs must pay for interconnecting with local carriers, including CLECs, to get access to the local network.

8. Do you think that the notion of implicit subsidies ought to be a component of any analysis that the Commission [performs]?

**RESPONSE:** Yes. If the Commission intends to base its decisions regarding access charges on a presumption about the existence and magnitude of implicit subsidies there must be an analysis of whether and to what extent such subsidies exist. At this point the Commission has no factual information on the impact, if any, of implicit subsidies in the determination of access charges.

9. Do you believe that the AUSF ought to pick up any revenue reduction that may occur as a result of the reform of access charges? Please provide the rationale for your response.

**RESPONSE:** No, not based on current information in the record. There is currently no evidence in the record to justify such an outcome. There would first have to be an analysis of current rates and the existence and extent of any subsidy included in such rates. There would also have to be an analysis of whether and to what extent the AUSF is necessary for the maintenance of universal service. This is an issue that may differ greatly between rural ILECs and most CLECs.

7. Please provide the following to assist in developing a rough estimate of the extent to which implicit subsidies exist in access charges assessed by Arizona local exchange companies.
  - a. What is your estimate of the implicit subsidies in access charges that exist on a statewide basis?
  - b. Please explain how that estimate was developed.
  - c. What is your estimate of the existing implicit subsidies that exist by local exchange company?

**RESPONSE:** The Joint Carriers do not have the information or means to develop such an estimate. If this proceeding is to go forward that would have to be one of the initial factual questions to be addressed in an evidentiary hearing.

8. Should access charges be set at the same rates as unbundled network elements for the same network elements and functionalities? Please explain your response.

**RESPONSE:** This pricing methodology would not be appropriate for setting access rates for CLECs since CLECs do not provide unbundled network elements. It would not be appropriate to utilize the UNE costs of an ILEC, such as Qwest, because CLECs and ILECs have different cost structures. For example, CLECs do not have the market power to negotiate volume discounts with switch vendors.

9. If you believe AUSF out to pick up any revenue reduction that may occur as a result of the reform of access charges, what parameters would you implement to determine what amount ought to be picked up by AUSF?

**RESPONSE:** See response to # 9 above.

10. How would you quantify the reductions? Please explain your response to include items such as whether the AUSF amount would be based on current year switched access minutes, on current year access revenues, historical year access minutes, etc.

**RESPONSE:** See response to # 9, above.

11. Provide an estimate of the effect on access revenues for your company if access charges are reformed in the manner that you recommend to the Commission.

**RESPONSE:** Eschelon, MTI and ELI are recommending that no changes be made at this time and therefore that there be no effect on access revenues due to such reform.

12. For companies that provide access service, please provide the dollar amount of revenues from intrastate switched access charges that you received by rate element, by month, for the period July 1, 2006 through June 30, 2007.

**RESPONSE:** Please see Trade Secret and Confidential Exhibits A and B. Please note that those Exhibits contain information not for public disclosure.

13. For companies that purchase access service, please provide the dollar amount of the payments for switched access charges that you made (by company, rate element, and month if possible) for the Period July 1, 2006 through June 30, 2007.

**RESPONSE:** N/A

14. Should additional considerations be taken into account when structuring and/or setting access charges for small rural carriers? Please explain your response.

**RESPONSE:** We are not familiar with the needs of small rural carriers so we have no comment.

15. Please comment on any other issues you believe may be relevant to the Commission's examination of intrastate access charges.

**RESPONSE:** As stated, the Joint Carriers do not believe that an examination of intrastate access charges is necessary or prudent at this time. If such an examination does go forward, the Commission should first proceed with a determination of the appropriate costing mechanism to apply to intrastate access, including an examination of whether and to what extent

an implicit subsidy is included in existing access rates for each carrier. We would again emphasize that any approach to access reform should proceed in a deliberate and case-by-case, company-by-company manner. The Commission should avoid application of a “cookie-cutter” approach to access charges. The Commission should consider the unique characteristics of the various telecommunications providers, including the broad variations that occur between CLECs in determining access charge policy.

16. Are there other issues besides the rate restructuring and costing issues raised herein that should be addressed by the Commission in this Docket?

**RESPONSE:** The Joint Carriers do not believe that any issues concerning intrastate access charges need to be addressed at this time. However, if the proceeding goes forward the prompt payment of access charges by access users should be addressed.

17. Are there other State proceedings and/or decisions that you would recommend the Commission examine before it proceeds with this Docket? Please attach any relevant State commission decisions to your comments.

**RESPONSE:** None at this time.

18. One of the stated objectives of the Qwest Price Cap Plan was to achieve parity between interstate and intrastate access charges. Is this something that should be looked at by the Commission in this proceeding?

**RESPONSE:** No. There is no reason that interstate and intrastate access charges need to be in parity. There is no reason to believe the FCC’s benchmark cost standard is presumptively appropriate for Arizona. The FCC’s benchmark cost approach ignores the cost characteristics of individual CLECs and is based on the assumption “one size fits all.” If the Commission decides to explore a benchmark cost approach for CLECs, it should consider other more appropriate benchmarks such as interstate NECA rates. In addition, to the extent that parity between interstate and intrastate access charges is a goal, given the ongoing intercarrier compensation reform at the interstate level, it can not be achieved until the FCC completes its reform.

19. Parties who desire that switched access charges be reformed often state that switched access charges in general, and the CCL rate element in particular, contain implicit subsidies. Do you agree with this statement? Please provide an explanation of the rationale for your position, including any computations that you might have made.

**RESPONSE:** A record has not been developed upon which to base any assumptions about whether switched access charges contain implicit subsidies. The existence of and magnitude of such alleged subsidies should first be investigated and determined before any decisions are made. The analysis should not begin with an assumption that has not been proven. Furthermore, even if such charges may include some implicit subsidies, the amount would likely depend on the cost structure and individual characteristics of each company. Because different companies have different unit costs due to economies of scale or other reasons, the amount or existence of such a subsidy can not be assumed to be uniform.

20. Do you believe that the Commission should quantify implicit subsidies?
- a. At all?
  - b. As part of this proceeding?
  - c. As part of proceedings that address each carrier individually?

**RESPONSE:** Yes. If there are to be changes to intrastate access charges, such changes should not be made based upon assumptions about implicit subsidies, but rather on quantification of such subsidies. As stated in response to # 20, above such a quantification can only be done on a carrier by carrier basis.

21. If you believe that the Commission should quantify implicit subsidies, what is the appropriate cost standard to be use to determine whether access charges are free of implicit subsidies?

**RESPONSE:** The Joint Carriers have not decided what the appropriate cost standard would be. One of the initial issues to be determined in this proceeding would be what cost standard should apply.

22. What issues do you believe should be addressed in a proceeding to determine whether and to what extent intrastate access charges ought to be reformed?

**RESPONSE:** First, the Commission should evaluate the potential costs of an access reform proceeding versus the potential benefits of rate restructuring. If the proceeding is to go forward after such an evaluation, among the issues to be addressed should be: the appropriate cost standard to be applied to intrastate access charges; the extent that any rate reductions would be passed on to consumers by purchasers of access, the extent of revenue reductions that would be experienced by local carriers, the impact of such revenue reductions on local service competition; the differences in the cost structures of the various access providers; and how to make any resulting access charge competitively neutral.

23. Do you believe that there is a difference in the costs of providing interstate-switched access service versus intrastate-switched access service? In your response, please include a description of how costs are defined in your response and how those costs relate to costs allocated to the intrastate jurisdiction under the FCC's current rules.

**RESPONSE:** We do not know if there is a difference in the cost of providing interstate and intrastate switched access. That could be one of the questions to be addressed if this proceeding were to go forward. However, there is no reason to believe that the cost of intrastate services would be consistent with interstate rates, because for tariffed access services, CLEC interstate access charges are not based on a cost standard, but rather are set based on benchmarks established pursuant to the FCC's April 26, 2001 Seventh Report and Order In the Matter of Access Charge Reform of Access Charges Imposed by Competitive Local Exchange Carriers in CC Docket No. 96-262. For non-tariffed arrangements, CLECs are able to negotiate individual case based rates directly with IXCs.

24. Should the Commission address CLEC access charges as part of this Docket?

**RESPONSE:** No. CLEC access charges should be addressed in a separate Docket from the access charges of rural ILECs. If they are examined in this Docket, it should be done in a separate phase of the Docket. The two types of companies have different issues and different

cost structures and the issue of the AUSF is a much bigger factor for the rural ILECs. Because CLECs tend to vary widely in how they provide service and the importance of access revenues, we would recommend a case-by-case approach rather than a generic, statewide proceeding. A “one-size fits all” approach to access reform should not be used. If the Commission decides to move forward on reforming access charges, it should move gradually and in a manner that allows each provider to address its unique needs and issues. The preferred approach would be to address these issues when and if they are raised as part of a complaint or other proceeding by one of the directly affected parties.

#### IV. Conclusion

Eschelon, MTI and ELI recommend that the Commission take no action at this time on CLEC intrastate access charges. The cost and time spent on such a process could be better used by CLECs, and the Commission, to provide better service and more robust local telephone competition in Arizona.

Respectfully submitted,



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