ORIGINAL

0000081450

47

RECEIVED

2008 FEB -4 P 4: 20

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED
FEB -4 2008
DOCKETED BY

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

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
IN THE MATTER OF THE INVESTIGATION OF THE COST OF TELECOMMUNICATIONS ACCESS.	DOCKET NO. T-00000D-00-0672 **ALECA'S REPLY COMMENTS TO STAFF'S LISTS OF ISSUES**

Pursuant to the November 28, 2007 Procedural Order issued in the above-referenced consolidated dockets, the Arizona Local Exchange Carriers Association ("ALECA") hereby submits the following reply comments to the September 4 and November 19, 2007 Staff lists of issues.

ALECA'S REPLY COMMENTS

The parties submitting initial comments in the consolidated Arizona Universal Service Fund ("AUSF") and Access Dockets have expressed a wide variety of opinions regarding the proper role of the AUSF and the extent to which and how intrastate access charges should be brought into closer alignment with interstate charges. In its Initial Comments, ALECA repeated two proposals that it first advanced in a 2004 submission in the AUSF Docket and in a 2006 White Paper. First, as in 2004, ALECA recommended providing AUSF support to rural incumbent local exchange carriers ("ILECs") with high cost loops and to help defray the cost of extending lines to remotely located customers. Second, as in 2006, ALECA again called for bringing the intrastate switched access rates of rural ILECS into equality with their interstate rates and having the AUSF compensate

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

rural ILECs for the entire reduction in revenue. Finally, in response to the Staff's November 19, 2007 Additional AUSF Issues List, ALECA endorsed the recommendations of the Arizona Eligible Telecommunication Carriers ("ETCs") in their 2005 Report and Recommendations on Lifeline and Link-Up ("Report"). Other parties' comments in these consolidated dockets ranged from also supporting the ETC's 2005 recommendations, to opposing any expansion of the AUSF and questioning the wisdom of revenue-neutral access charge reform.

With respect to access charge reform, every commenting party but the Joint Carriers, recognized the need for at least the rural ILECs to bring intrastate access rates into closer correspondence with interstate rates. There was disagreement, however, on whether to attempt complete equality and if rural ILECs should be allowed to replace the sacrificed revenue with support from the AUSF. Some parties recommend funding at least part of the reduction in revenue by raising basic local exchange or other retail rates, and others proposed resorting to AUSF financing only to the extent that local rates are first increased to a benchmark level and it can be shown that current earnings are not excessive. On the other hand, there appears to be widespread agreement among the commenting parties, including ALECA, that where it is necessary to increase the size of the AUSF, the resulting surcharge rate should be broadly based.

While ALECA does not necessarily disagree with setting a benchmark rate, ALECA opposes relying solely on local and other retail rate increases to finance access charge reform and requiring earnings reviews before receiving support from the AUSF. ALECA respectfully points out that it is not feasible to raise local and other retail rates far enough to compensate for the loss of revenue from bringing intrastate access rates into equality with interstate rates. As ALECA estimated in its 2006 White Paper, the local exchange rates of its members would have to nearly double in order to make up for the lost revenue associated with matching their interstate access rate levels. Requiring a rural

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

ILEC to demonstration that earnings are not excessive before receiving AUSF support would only embroil the Commission and the ILEC in lengthy and costly proceedings and will only further delay the reform that is already long overdue. Regardless of what the FCC may choose to do with the level of interstate access charges, it is certain that the current wide disparity between intrastate and interstate rates will not narrow noticeably if intrastate rates stay where they are today.

Despite ALECA's disagreements with other commenting parties, there appears to be ample room for compromise and consensus on the subject of access charge reform if the parties are afforded the opportunity to negotiate. For example, the financial impact of bringing intrastate access rates of rural ILECs into equality with interstate rates may be mitigated by phasing in the adjustment; *i.e.,* over three years. The financial impact may also be mitigated by first eliminating the carrier common line charge as the FCC has already done or by first reducing rural ILECs' intrastate rates only as far as Qwest's current intrastate access rate level. Agreeing on a reasonable benchmark for local rates does not seem outside the realm of possibility, and arriving at a consensus on the appropriate AUSF surcharge mechanism also seems likely.

ALECA is open to compromise provided that the outcome preserves and promotes the widespread availability and affordability of high quality telecommunications services in rural areas and small towns in Arizona. However, ALECA must disagree with those parties who oppose expanding the AUSF to provide support for rural ILECs with high cost loops and for line extensions to remotely located homes. A program of high cost loop support for rural ILECs (as ALECA proposed in 2004) provides an incentive to extend the reach of their facilities to serve additional rural residents. As the rural ILECs' cost per loop rises in comparison to the national average, ALECA's proposed program provides rural ILECs with greater support. Additionally, if federal high cost loop support for Arizona's rural ILECs declines in the future (which seems likely), support from the

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

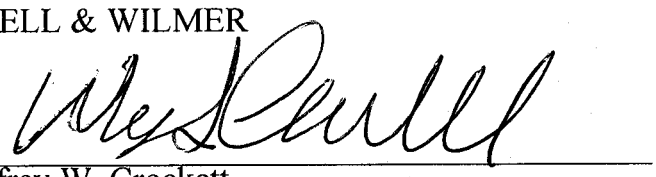
AUSF will increase under ALECA's proposal. As long as the embedded cost per loop eligible for support includes only a reasonable return on invested capital, excessive earnings should not become an issue. Likewise, direct support for particular line extensions would be treated as a contribution in aid of construction under ALECA's proposal and not included in the recipient's rate base. Thus, support from the AUSF for high cost loops and line extensions seems an integral and manageable element of any compromise.

Finally, ALECA is pleased that the ETC's 2005 Report may be revived and brought to the attention of the Commission. As the Report observes, automatically enrolling indigent families in Lifeline and Link-Up when they apply for other forms of public assistance, is the most effective means of reaching qualified households, and centralized administration is essential to achieving automatic enrollment. The AUSF represents an effective and equitable means of financing centralized administration.

ALECA appreciates this opportunity to provide these comments and looks forward to working with the Commission and the other parties to this consolidated docket on these issues.

RESPECTFULLY SUBMITTED this 4th day of February, 2008.

SNELL & WILMER



Jeffrey W. Crockett
Bradley S. Carroll
One Arizona Center
Phoenix, Arizona 85004-2202
Attorneys for Arizona Local
Exchange Carriers Association

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

ORIGINAL and 15 copies filed this
4th day of February, 2008 with:

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

COPY of the foregoing hand-delivered
this 4th day of February, 2008 to:

Maureen A. Scott, Senior Staff Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Ernest Johnson Director
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Jane L. Rodda, Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

COPY of the foregoing mailed/e-mailed
this 4th day of February, 2008 to:

SEE ATTACHED SERVICE LIST

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

Service List

Scott Wakefield, Chief Counsel
Residential Utility Consumer Office
1110 West Washington, Suite 220
Phoenix, AZ 85007
swakefield@azruco.gov

Norm Curtright
Qwest Corporation
20 East Thomas Road, 16th Floor
Phoenix, AZ 85012

Reed Peterson
Qwest Corporation
20 East Thomas Road, 16th Floor
Phoenix, AZ 85012

Michael W. Patten
Roshka DeWulf & Patten, PLC
One Arizona Center
Phoenix, AZ 85004
mpatten@rdp-law.com

Michael Grant
Gallagher & Kennedy
2575 East Camelback Road
Phoenix, AZ 85016
mmg@gknet.com
Attorneys for AT&T

Dan Foley
Gregory Castle
AT&T Nevada
645 East Plumb Lane, B132
P.O. Box 11010
Reno, NV 89520
dan.foley@att.com
gc1831@att.com

Joan S. Burke
Osborn Maledon, PA
2929 North Central Avenue, Suite 2100
Phoenix, AZ 8502
jburke@omlaw.com
Attorneys for Time Warner Telecom

Lyndall Nipps
Vice President, Regulatory
Time Warner Telecom
845 Camino Sur
Palm Springs, CA 92262
Lyndall.Nipps@twtelecom.com

Dennis Ahlers
Associate General Counsel
Eschelon Telecom, Inc.
730 Second Avenue, Suite 900
Minneapolis, MN 55402

Dennis Ahlers
Associate General Counsel
Integra Telecom, Inc.
730 Second Avenue, Suite 900
Minneapolis, MN 55402

Dennis Ahlers
Associate General Counsel
Advanced Telemanagement Group, Inc.
730 Second Avenue, Suite 900
Minneapolis, MN 55402

Thomas Campbell
Michael Hallam
Lewis and Roca, LLP
40 North Central Avenue
Phoenix, AZ 85004
tcampbell@lrlaw.com
mhallam@lrlaw.com
Attorneys for Verizon

Charles H. Carrathers, III
General Counsel, South Central Region
Verizon, Inc.
HQE03H52
600 Hidden Ridge
Irving, TX 75015
chuck.carrathers@verizon.com

Thomas Bade, President
Arizona Dialtone, Inc.
717 West Oakland Street
Chandler, AZ 85226

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

Brad VanLeur, President
OrbitCom, Inc.
1701 North Louise Avenue
Sioux Falls, SD 57107

Arizona Payphone Association
c/o Gary Joseph
Sharenet Communications
4633 West Polk Street
Phoenix, AZ 85043
garyj@nationalbrands.com

Nathan Glazier, Regional Manager
Alltel Communications, Inc.
4805 East Thistle Landing Drive
Phoenix, AZ 85044
nathan.glazier@alltel.com

Mark A. DiNunzio
Cox Arizona Telcom, LLC
1550 West Deer Valley Road
MS DV3-16, Building C
Phoenix, AZ 85027
mark.dinunzio@cox.com

William Hayes, General Manager
Table Top Telephone Company, Inc.
600 North Second Avenue
Ajo, AZ 85321

Catherine A. Murray, Manager
Integra Telecom, Inc.
730 Second Avenue, Suite 900
Minneapolis, MN 55402
camurray@eschelon.com

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