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February 1, 2008

Arizona Corporation Commission
Docket Control
1200 W. Washington Street
Phoenix, AZ 85007-2927

RE: Docket No. RT-00000H-97-0137
Docket No. T-00000D-00-0672

Dear Sirs:

Enclosed for filing are the original and thirteen copies of the Reply Comments of Verizon California, Verizon Business Services, Verizon Long Distance, and Verizon Wireless (collectively, "Verizon"). These reply comments are filed in accord with the Commission's Procedural Order dated November 29, 2007, and have been mailed to the parties on the service list.

Thank you.

Sincerely,

Charles H. Carrathers

Charles H. Carrathers III

CHC/gms

Arizona Corporation Commission
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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE REVIEW AND POSSIBLE REVISION OF ARIZONA UNIVERSAL SERVICE FUND RULES, ARTICLE 12 OF THE ARIZONA ADMINSTRATIVE 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

VERIZON'S REPLY COMMENTS

Verizon California, Verizon Business Services, Verizon Long Distance, and Verizon Wireless (collectively, "Verizon") file these Reply Comments in accord with the Commission's Procedural Order dated November 29, 2007.

1. Access Charges Must Be Reduced

Most parties agree with Verizon that access charges must be reduced. AT&T, for example, explains that access reform is "long overdue" and that current access charges in Arizona "are fundamentally inconsistent with today's telecommunications landscape."[1] Time Warner Telecom echoes this point, and proposes that phased-in access reductions begin this year.[2] Qwest also supports access reductions, and both Qwest and AT&T recognize that the intrastate Carrier Common Line (CCL) charge should be eliminated, as

[1] AT&T Comments at 1.

[2] Time Warner Telecom Comments at 2.

the FCC has done with the interstate CCL charge.[3] Finally, ALECA and RUCO also propose that the Commission investigate opportunities to reduce access charges.[4]

The only parties that do not believe intrastate access charges should be reformed are the "Joint Carriers," a group of three CLECs (Eschelon, Mountain Telecommunications, and Electric Lightwave). The Joint Carriers do not provide any support for their position; instead, they simply state that the Commission should not investigate CLEC access charges.[5] There is no principled basis for excusing CLECs from access charge reform. As explained in Verizon's Initial Comments, the Commission should require all carriers – including CLECs – to set their intrastate access charges at Qwest's current levels, which the Commission has already found to be reasonable. Indeed, numerous states and the Federal Communications Commission have already adopted CLEC access charge caps that are benchmarked to the ILEC rate.[6]

Finally, Verizon agrees in principle with Time Warner Telecom that the Commission need not undertake a comprehensive rate proceeding to reform access charges.[7] Under Verizon's proposal, carriers could increase rates of other services only to the extent necessary to offset access reductions; therefore, no carrier would experience a revenue increase. Given that today's rates and charges satisfy the "fair value" standard in the Arizona Constitution, a simple rebalancing of these rates due to the competitive environment also would satisfy this standard.

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[3] Qwest Comments at Ex. B, page 3; AT&T Comments at 15.

[4] ALECA comments at 1-2; RUCO Comments at 1-2.

[5] Joint Carriers' Comments at 3-4.

[6] Verizon's Comments at 4 n. 7.

[7] Time Warner Telecom Comments at 5-6.

2. The AUSF Should Not Be Increased

As Verizon explained in its Initial Comments, the basic structure and size of the current AUSF should remain unchanged. There is no evidence that the current fund is not meeting its goals or that the fund should be increased. Indeed, the FCC reports that the penetration rate for telephone service in Arizona is 94.2%, which is almost equal to the national average of 94.6%.[8] And the Arizona penetration rate has increased 5.4% since 1983, well exceeding the national average of a 3.2% increase.[9]

ALECA, however, proposes that carriers' intrastate access charges be reduced to interstate levels, and that the difference in revenues be made up through increases to the AUSF. This approach deserves no serious consideration. First, it would increase the size of the fund by several hundred percent (at least),[10] despite the absence of any showing that the current fund is not meeting the Commission's goals. Second, ALECA's proposal would allow ALECA's members to export their costs to others via the AUSF, which would undermine, rather than promote, competition. As the FCC has observed, economically efficient competition and the consumer benefits it yields cannot be achieved as long as carriers seek to recover a disproportionate share of their costs from other carriers, rather than from their own end users.[11] Rather than "blow up" the AUSF

[8] FCC Wireline Competition Bureau, "Telephone Subscribership in the United States" at page 8, Table 2 (June 2007) (based on data through March 2007).

[9] Id.

[10] According to Solix's website, the size of the current AUSF is about $800,000 (http://www.solixinc.com/source/Solix_CurrentPrograms_1435.asp). Based on Verizon's confidential calculations, reducing all carriers' charges to Qwest's levels would significantly increase the fund size and the resulting end-user charge.

[11] *See generally Access Charge Reform; Price Cap Performance Review for Local Exchange Carriers; Low-Volume Long Distance Users; Federal-State Joint Board on Universal Service*, Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45, 15 FCC Rcd 12962 (May 31, 2000) ("*CALLS Order*")..

as ALECA proposes, access reductions should be offset through increases in rates for other services, as Verizon proposed in its Initial Comments. Qwest and AT&T also agree that access reductions should be recovered, at least in large part, through rate rebalancing.[12]

3. <u>Qwest's Broadband Proposal Should Not Be Considered Here</u>

Qwest agrees with Verizon that the AUSF should be restricted to supporting only basic voice service,[13] but Qwest's initial comments go on to discuss a "ubiquitous broadband rollout strategy" that Qwest has proposed to the FCC.[14] This proposal has no place in this docket. In fact, under Qwest's proposal, the FCC first must establish a broadband competitive bidding scheme and then <u>delegate authority</u> to the states to administer and manage this scheme.[15] The FCC has not adopted Qwest's proposal, and therefore any discussion of it here is premature.

* * *

Again, Verizon appreciates the opportunity to participate in this docket and urges the Commission to move forward promptly with the access reform approach Verizon has outlined.

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[12] Qwest Comments at Ex. B, page 3; AT&T Comments at 11.

[13] Qwest Comments at 1.

[14] *Id.* at 2-3.

[15] *Id.*

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