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2008 FEB -4 P 2:08

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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

REPLY COMMENTS OF AT&T

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Pursuant to the Procedural Order entered in these dockets dated November 28, 2007,  
AT&T Communications of the Mountain States, Inc. and TCG Phoenix (collectively referred to  
as "AT&T") file these reply comments on access charge reform and possible revisions to the  
Arizona Universal Service Fund ("AUSF") Rules.

INTRODUCTION

A variety of parties, including Qwest, rural incumbents, competing local exchange  
carriers, interexchange carriers and the Residential Utility Consumers Office ("RUCO"), filed  
opening comments covering a wide range of issues on access charge reform and the AUSF.  
Those comments indicate several important areas of consensus. First, with respect to the need  
for access charge reform, there is nearly universal agreement that the present intrastate switched  
access charges are too high. And, with respect to the manner in which access charges should be  
reformed, no one disputes that the costs of *intrastate* switched access services are the same as the  
costs of the corresponding *interstate* switched access services. Thus, reducing intrastate

1 switched access charges to mirror the rates and structure for their interstate counterparts (as  
2 AT&T and several other parties suggest) represents an indisputably reasonable step towards  
3 access charge reform. The Commission should accordingly institute proceedings to more fully  
4 develop a record and reach a decision on this and other proposed reforms.

5 Turning to the AUSF, several parties agree that explicit AUSF subsidies should be used  
6 to compensate local exchange carriers for at least part of the loss of implicit subsidies that would  
7 result from access charge reform. Qwest presents a reasonable middle ground, under which  
8 incumbent local exchange carriers would be allowed to increase retail local exchange rates up to  
9 an affordable "benchmark" level set by the Commission, with AUSF support limited to  
10 compensating those carriers for losses not already recovered through the increase in retail rates.  
11 The specific definitions and details for implementing revisions to the AUSF should be the  
12 subject of further comments and/or proceedings.

13 Given the level of agreement demonstrated by the comments, AT&T suggests that the  
14 Commission give the parties 90 days to refine and discuss their positions with others, in an effort  
15 to reach further consensus. First, the parties should be given 60 days to discuss procedural and  
16 substantive issues concerning both the AUSF and access charge issues. Following that initial  
17 60-day period, AT&T recommends that the Commission schedule two workshops for the April  
18 2008 time frame. The Commission could then set a Procedural Conference for early May, so  
19 that Staff and the parties can outline the results of the discussion and workshop process and  
20 present their recommendations to the Administrative Law Judge on how best to proceed.

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1 lowering switched access rates promotes efficient competition in the long distance market and  
2 reduces arbitrage opportunities. Qwest Comments, Ex. B, p. 1. Qwest, moreover, already  
3 envisions that such reforms should apply to it as well as others: "For example, Qwest may be  
4 able to reduce switched access rates to FCC levels, and do so by increasing other service rates or  
5 establishing one flat rate charge." Qwest Comments, Ex. B, p. 2. It would be administratively  
6 inefficient not to apply the reforms adopted here to Qwest.

7 AT&T understands that Qwest's implementation of such reforms may have to be delayed  
8 somewhat because Qwest now is operating under a price regulation plan that will not expire until  
9 March 2009. A necessary delay in implementation, however, does not mean that the  
10 Commission cannot develop an access charge policy in this phase of the proceeding that is  
11 applicable to Qwest upon the expiration of its current price regulation plan. The Commission  
12 can and should include a finding in its decision in this proceeding that the access reforms  
13 adopted apply to Qwest upon the expiration of Qwest's current price regulation plan.

## 14 **II. Universal Service Issues**

15 Generally, the commenting parties agree that any reductions to intrastate switched access  
16 charges as a result of the above-described reforms should be revenue neutral: that is, that the  
17 affected carriers should be allowed an opportunity to make up the loss of revenues through  
18 increases in rates for other services, through explicit subsidies from the AUSF or through some  
19 combination of the two. The comments differ mainly in the recommended allocation between  
20 rate increases and AUSF subsidies. At one end of the spectrum, Verizon argues (at 7) that "[t]he  
21 Commission should not use AUSF funds to make up revenues lost from access charge reform"  
22 and recommends (at 5) that the Commission instead allow affected LECs to "propose retail tariff  
23 changes to offset these lost revenues." At the other end, "ALECA recommends the Commission  
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1 permit its members to recover from the AUSF the full amount of foregone intrastate access  
2 revenue produced by access reform.” ALECA Comments, at 4. RUCO supports “the general  
3 concept of phasing down the [Carrier Common Line charge] and expanding the role of the  
4 AUSF” but does not recommend a dollar-for-dollar offset; similarly, RUCO appears to  
5 acknowledge some need for increases in other rates “without necessarily increasing [those] rates  
6 on a dollar-for-dollar basis.” RUCO Comments, at 6.

7 Qwest’s comments propose a middle ground that serves as a reasonable starting point.  
8 Qwest recommends (Ex. A, at 5-6) that the Commission determine a retail rate affordability  
9 benchmark and allow LECs to (i) recover access revenue reductions through increases to local  
10 exchange rates up to the benchmark and (ii) recover any remaining access rate reductions from  
11 the AUSF. The Commission should consider using this balanced approach as a baseline for  
12 further discussion to determine the details of AUSF revisions. At the same time, the parties can  
13 discuss and possibly agree upon the details of AUSF procedures.

14 Two specific issues warrant special mention here. First, AUSF support should be limited  
15 to carriers meeting a specific set of criteria, including a requirement that the carrier accept the  
16 obligation to serve as a “carrier of last resort” (“COLR”): that is, the requirement to be ready  
17 and able to provide a specified level of basic service to all customers in its designated area. The  
18 COLR undertakes the core function of providing truly universal service; other providers simply  
19 serve the customers they deem to be profitable. Giving other carriers the same support that  
20 COLRs receive—without requiring them to undertake the same obligation to be ready to serve  
21 all customers—is not “competitively neutral.” To the contrary, it unfairly disadvantages the  
22 COLR, a result fundamentally at odds with promoting universal service and with the critical role  
23 that the COLR plays in achieving and maintaining universal service.

1           The second issue relates to possible changes to the methodology for assessing AUSF  
2 contributions. As AT&T explained in its opening comments, the existing AUSF contribution  
3 methodology may impose disproportionate burdens on some service providers. Currently, the  
4 AUSF rules specify that one-half of AUSF funding is to be borne by “Category 1” providers  
5 (largely local exchange carriers and wireless carriers) on the basis of access lines and  
6 interconnecting trunks, respectively, and one-half of AUSF funding is to be borne by  
7 “Category 2” service providers, i.e., providers of intrastate toll service (or other service providers  
8 as permitted under R14-2-1204(B)(3)) on the basis of intrastate toll revenues.<sup>1</sup> Thus, the  
9 contribution methodology varies depending on the type of service provider and service.  
10 Moreover, the 50-50 allocation of AUSF funding responsibility may bear no relationship to the  
11 providers’ level of activities in Arizona relative to one another. The Commission should  
12 accordingly consider a broader, and more competitively neutral, funding methodology. As a first  
13 step, the Commission could follow the FCC’s current approach, under which all contributions  
14 would be assessed on the basis of retail telecommunications revenues. Further, the FCC is  
15 currently considering a change in the federal assessment methodology, under which assessments  
16 would be based on telephone numbers and connections (as opposed to retail revenues, as is  
17 currently the case). Both Qwest (Ex. A, at 11) and Verizon (at 6) suggest that the Commission  
18 follow suit if the FCC adopts such a change, so as to ensure consistency between state and  
19 federal funding and to provide for simpler administration. AT&T agrees that the Commission  
20 should adopt such a revision to the assessment methodology if the FCC makes that revision at  
21 the federal level.

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24 <sup>1</sup> See R14-2-1204.

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**CONCLUSION**

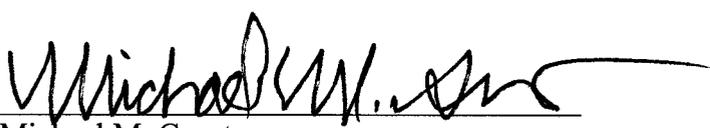
For the reasons set forth above, AT&T respectfully recommends that the Commission (i) give the parties 60 days to discuss their positions amongst each other and attempt to reach further consensus, (ii) provide for two workshops to be held in April 2008 and (iii) schedule a Procedural Conference for May 2008, at which Staff and the parties would discuss the results of their discussions and workshops and present recommendations to the Administrative Law Judge on the most appropriate and efficient way to proceed.

RESPECTFULLY SUBMITTED this 4<sup>th</sup> day of February, 2008.

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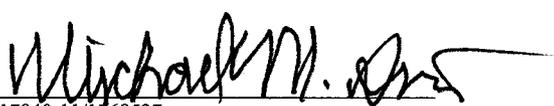
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1 **Original and 15 copies** filed this  
4<sup>th</sup> day of February, 2008, with:

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