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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION  
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Arizona Corporation Commission

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OCT -7 2008

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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

**ISSUES MATRIX**

**ARIZONA LOCAL EXCHANGE CARRIERS ASSOCIATION**

1 The Arizona Local Exchange Carriers Association ("ALECA") hereby submits its  
2 positions on the ten issues identified to date by the parties for resolution in these dockets.<sup>1</sup>

3 1. Which carriers' access rates should be the subject of this proceeding? Rural  
4 ILECs only? CLECs too?

5 The focus of this docket should be preserving and promoting the widespread availability  
6 and affordability of basic local exchange service in rural Arizona. However, ALECA is not  
7 opposed to addressing CLEC access charges in these dockets, provided doing so does not distract  
8 from the primary focus.

9 2. What access rate level and structure should be targeted? Interstate? Qwest's current  
10 intrastate access rate level? Elimination of the CCL?

11 Assuming revenue neutral replacement financed through the AUSF, ALECA's preferred  
12 position is to move to Interstate access rates; however, eliminating the CCL rate element is an

<sup>1</sup> Parties agreed to address these ten issues, but were also free to discuss additional issues.

1 important step in the right direction. Although matching Qwest's intrastate rates is consistent  
2 with ALECA's preferred position, doing so may result in larger Fund because many of  
3 ALECA's members have interstate access rates above Qwest's intrastate rates.

4 The disparity between state and inter-state access rates provides incentive for  
5 interexchange carriers, wireless providers and CLECs to misreport the jurisdictional nature of  
6 traffic or redirect traffic so as to disguise its true origin. As ALECA pointed out in its 2006  
7 White Paper, the ALECA members' intra-state access rates are, on average, over \$.09 higher  
8 than inter-state rates. Equalizing state and inter-state rates will eliminate the incentive to  
9 misclassify the jurisdiction of calls. Equalizing rates on a revenue-neutral basis using local rate  
10 increases coupled with the receipt of AUSF will lessen any implicit support included in state  
11 access rates.

12 3. *How much of access cost recovery, if any, should be shifted to end users? What*  
13 *showing should be required for such a shift? What should be the role of "benchmark" rates, and*  
14 *how should benchmarks be set?*

15 The amount shifted to end users should be based on the state-wide average residential  
16 rate. ALECA is proposing that its members increase local residential rates to \$11.77, which is  
17 90% of the residential state-wide average rate ( $\$13.08 \times .90 = \$11.77$ ). The role of the benchmark  
18 is to establish a reasonable local rate that ALECA members must charge or impute, prior to  
19 receiving AUSF dollars. ALECA believes that 90% of the state-wide average is reasonable  
20 when calling scopes are considered. This is not a revenue increase; therefore no earnings  
21 reviews or rate cases should be required prior to this local rate change. Shifting local rates to the  
22 benchmark is the first step in a revenue neutral rate rebalancing process.

23 The median number of access lines served by ALECA members is approximately 4,500.  
24 It is not feasible to raise local and other retail rates enough to compensate for the loss of revenue  
25 from bringing intrastate access rates into equality with interstate rates. The customer base of  
26 ALECA members is not even large enough to absorb a significant portion of the revenue shift  
27 required to rebalance access rates on a revenue neutral basis. ALECA-member local rates would

1 double if required to absorb the entire amount of revenue lost to move state access rates to  
2 interstate levels. ALECA members depend heavily on access revenues and would experience  
3 significant economic hardship if rate rebalancing were not a revenue neutral process.

4         4.         *How much of access cost recovery, if any, should be shifted to the AUSF? What*  
5 *showing should be required for such a shift?*

6         The balance of the state access reduction, not recovered in the local rate increase, should  
7 be recovered from the AUSF. No earnings reviews, rate cases, or means tests should be required  
8 as this is a revenue neutral process that has no effect on the total revenue received by the  
9 company, rate base or rate of return.

10         The central issue in this proceeding is the preservation and promotion of basic local  
11 exchange service in rural Arizona. Any revenue reduction not recovered from local rates should  
12 be shifted the AUSF. The areas served by the ALECA members are predominately rural and  
13 costly to serve. The foregone state access revenues must be replaced to enable rural carriers to  
14 continue investing and maintaining local exchange facilities in these high-cost areas. Provided  
15 access reform is revenue neutral, there should be no need for rural companies to file rate cases in  
16 order to recover lost revenues from the AUSF.

17         5.         *How long should a transition period be, if any?*

18         ALECA proposes either a flash cut or up to a three-year transition period to move state  
19 access rates and local rates to the respective targets. This would give the ALECA members the  
20 option to select the transition period and time to adjust to the related impacts.

21         6.         *Which carriers should be eligible for AUSF support?*

22         ALECA has proposed revenue-neutral access reform for rural ILECs and support for  
23 high-cost loops similar to the FCC's High Cost Loop program, both financed through the AUSF.  
24 Accordingly, ALECA's preferred position is that the Commission confine access revenue  
25 replacement and high-cost loop support to rural carriers as defined by the Telecom Act of 1996.  
26 Alternatively, ALECA is not opposed to allowing CLECs and wireless carriers access to the  
27 AUSF for high-cost loop support purposes to the extent that they serve customers within the

1 service territory of rural ILECs, provided they obtain ETC designation and any support is based  
2 on their own costs.

3 Carriers that do not have public service obligations consistent with universal service  
4 objectives should not receive support.

5 7. *What should be supported by the AUSF? Access replacement only? High cost*  
6 *loops? Line extensions? Centralized administration and automatic enrollment for Lifeline and*  
7 *Link-Up?*

8 The AUSF should be utilized for revenue-neutral access replacement and to support high-  
9 cost loops. The ALECA members serve some of the most rural areas of the country and the  
10 AUSF should naturally be used to ensure universal service to these areas. ALECA supports the  
11 recommendation of the industry ETC's, that the AUSF should pay the costs of centralized  
12 administration and automatic enrollment.

13 The central issue in this docket is preserving and promoting the widespread availability  
14 and affordability of basic local exchange service in rural Arizona. The AUSF should support  
15 basic local exchange services, support intrastate access charge reform, and help defray the costs  
16 of certain line extensions. The existing contribution from state switched access revenues,  
17 defrays a significant portion of the costs ALECA members incur supplying basic local exchange  
18 service in rural Arizona. In fact, the ALECA members' financial survival depends on acces-  
19 charge revenues. Any state access reduction must be offset with an increase in AUSF and/or  
20 local rates. This revenue-neutral offset is critical to the ALECA member's ability to maintain  
21 universal service obligations. High cost loop support provides ALECA member companies with  
22 the ability to extend facilities to serve rural residents. As the rural ILEC's cost per loop increases  
23 in relation to the national average, or federal loop support declines, ALECA's proposal will  
24 provide Rural ILECS with greater support. Finally, ALECA believes automatic enrollment of  
25 Lifeline and Link-Up is the most effective means of reaching qualified households. The AUSF  
26 should be used to fund the centralized administration required to achieve this objective.

1           8.       *What should be the basis of AUSF contributions and what should be the structure*  
2 *of any AUSF surcharge(s)?*

3           All carriers providing intrastate retail telecommunications services should contribute to  
4 the AUSF. The surcharge would be based on the ratio of each carrier's intrastate retail revenues  
5 to total intrastate revenues provided by all carriers. Should the FCC change its USF financing  
6 mechanism to a connections-based contribution factor, ALECA recommends this Commission  
7 adopt a similar funding mechanism for the AUSF.

8           While ALECA also finds the current three-part AUSF surcharge mechanism broad-based  
9 and equitable, it is apparent from experience in other states that in-state toll revenues represent a  
10 declining source of contributions to state programs. Secondly, a revenue-based surcharge may  
11 be viewed as superior from the standpoint of competitive neutrality.

12           9.       *Other substantive issues?*

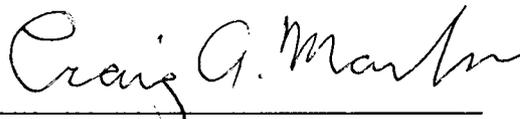
13           ALECA is not aware of any other substantive issues to be resolved.

14           10.      *How is the best way to proceed resolving the foregoing issues?*

15           At the October 10, 2008, Procedural Conference, ALECA intends to recommend that the  
16 parties be given 30 days to meet and consider each party's issues matrix, with the goals of  
17 narrowing the issues and recommending a procedural schedule to the Administrative Law Judge  
18 for the purpose of resolving any remaining issues. ALECA expects that the remaining issues  
19 would be addressed through a combination of workshops and evidentiary hearings.

20           Respectfully submitted on October 7, 2008, by:

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