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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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ARIZONA CORPORATION COMMISSION
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Arizona Corporation Commission
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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.¹

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

¹ 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 sary 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.

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2 on October 7, 2008, with:

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4 Docket Control
5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007

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9 **Copy of the foregoing faxed on**
10 October 7, 2008, to:

11
12 Jane L. Rodda, Administrative Law Judge
13 Hearing Division
14 Arizona Corporation Commission
15 1200 West Washington Street
16 Phoenix, AZ 85007
17 Fax: (520) 628-6559

18
19 **Copies of the foregoing mailed on**
20 October 7, 2008, to:

21
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

Dennis Ahlers
Associate General Counsel
730 Second Avenue, Suite 900
Minneapolis, MN 55402

Thomas Bade, President
Arizona Dialtone, Inc.
6115 South Kyrene Road
Tempe, AZ 85283

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

Greg L. Rogers
Level 3 Communications, LLC
1025 Eldorado Blvd.
Broomfield, CO 80021

22 **Copies of the foregoing e-mailed on**
23 October 7, 2008, to:

24
Maureen A. Scott, Senior Staff Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007
mScott@azcc.gov

Ernest Johnson Director
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007
eJohnson@acc.gov

Dan Pozefsky
Residential Utility Consumer Office
1110 West Washington, Suite 220
Phoenix, AZ 85007
dpozefsky@azruco.com

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

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

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

Joan S. Burke
Osborn Maledon, PA
2929 North Central Avenue, Suite 2 100
Phoenix, AZ 85027
jburke@omlaw.com
Attorneys for Time Warner Telecom

Mark A. DiNunzio
MS DV3- 16, Building C
Phoenix, AZ 85027
Mark.dinunzio@cox.com

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

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

Arizona Payphone Association
c/o Gary Joseph
Sharet 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

William A. Haas
Deputy General Counsel
6400 C Street SW
Cedar Rapids, Iowa 52406
Bill.Haas@mcleodusa.com

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

W. John Hayes, General Manager
Table Top Telephone Company, Inc.
600 N. Second Ave.
Ajo, AZ 85321
jhayes@tabletoptelephone.com

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3
4
5
6
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By: /s/ Craig A. Marks
Craig A. Marks