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BEFORE THE 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

MCLEODUSA'S STATEMENT ON ISSUES

Pursuant to the August 21, 2008, Procedural Order, McLeodUSA Telecommunications Services, Inc. ("McLeodUSA) submits its recommendations on certain initial issues that were identified during industry meetings related to this docket.

OVERVIEW

During the course of industry meetings concerning this docket, ALECA compiled a list of ten issues that it believed needed to be addressed. It also became clear during those meetings that it would not be possible to arrive at any sort of consensus on the key issues in the docket. The parties agreed that each interested party would submit its own position on the ten issues identified by ALECA and also would identify any additional issues that it believed should be addressed.

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Arizona Corporation Commission
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MCLEODUSA'S POSITION ON ISSUES

A. ALECA's Issue List.

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

McLeodUSA is unsure that any access rates should be the subject of a proceeding. particularly given the pendency of certain FCC proceedings that may impact access rates in Arizona (Missoula Intercarrier Compensation Reform Plan, ,CC Docket No. 01-92 and AT&T Petition for Interim Declaratory Ruling and Limited Waivers Regarding Access Charges and the "ESP Exemption", WC Docket No. 08-152). However, if the proceeding goes forward, then it makes sense to address the Rural ILEC access rate levels before addressing CLEC access rates. The issues concerning Rural ILEC rates are somewhat different that the issues concerning CLEC rates. Moreover, most CLEC access rates are relatively modest by comparison to several Rural ILEC access rates.

2. What access rate level and structure should be targeted? Rather than a target shouldn't it be based upon cost and economic and competitive factors? Interstate? Qwest's current intrastate access rate level? Elimination of the CCL?

All access rates should be cost based on a forward looking cost basis. That does not mean that the Commission cannot adopt benchmark safe harbor rate levels, but in doing so, the Commission should set the safe harbor for entities using an appropriate proxy. Given their relative scope and scale, the RBOC is not a valid proxy for any CLEC. In addition, each company should be allowed to select its own access rate structure. Access rate design should reflect how a LEC incurs costs to provide access services. That means that LECs with divergent network configurations should probably have divergent rate structures. Accordingly, mandating that a CLEC mirror an ILEC access rate structure makes it more difficult for a CLEC to accurately build rates appropriate for its network.

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3. How much of access cost recovery, if any, should be shifted to end users? How would that be done and what would be the effects on business users as well as residential users? What showing should be required for such a shift? What should be the role of "benchmark" rates, and how should benchmarks be set?

McLeodUSA does not agree that cost recovery for access services should be shifted to end users. End users are not the cost causers when it comes to access services. IXCs are the cost causers by their requirement of needing access to end users to originate and terminate long distance calls. Thus, basic economic principles dictate that IXCs pay the costs required to gain access.

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

McLeodUSA does not support shifting cost recovery for access services to the USF. Indeed, shifting cost recovery to the USF would be contrary to the goal of a USF fund of ensuring connectivity to the PSTN. All LECs that have pricing flexibility should not be able to use a USF fund as a revenue replacement mechanism. This is especially true if access to USF funds continues to be limited to eligible telecommunications carriers ("ETCs").

5. Which carriers should be eligible for AUSF support?

Only LECs that do not have pricing flexibility and that serve truly rural markets.

6. How long should a transition period be, if any?

Assuming there is access reform, the Commission should acknowledge that all LECs will have to adjust their business plan to account for declining access revenues. However, it is unquestionable that CLECs will require a longer period to adjust their business plans due to the nature of their existing customer base. Virtually all facilities-based CLECs primarily provide services to business customers under contractual arrangements. McLeodUSA has service agreements with virtually 100% of its existing business customers. Our average service agreement is 4.2 years. Due to having prices locked in under such agreements, McLeodUSA, and likely other CLECs, cannot offset declining access revenue by shifting cost recovery to end users until such time as its existing base of current service agreements expires and new agreements can be modified. In contrast, ILECs typically realize a much greater percentage of their revenues under month to month arrangements than CLECs. This enables ILECs to adjust their effective rate much faster. Therefore, at a minimum, a transition period should be at least five to seven years, and no changes should be instituted until no earlier than three years out from whenever a final rule or ruling becomes effective..

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

AUSF should primarily direct funds to subsidizing high cost loops. As previously noted, USF funds should not be used as a revenue replacement for declining access rates.

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

AUSF contributions should be structured to follow whatever method is used for the federal USF to ensure that customers are assessment twice on the same revenue.

9. Other substantive issues?

Other than the issue of whether this docket should be suspended pending resolution of the FCC dockets that may impact the issues in this docket, McLeodUSA does not take a position at this time on other substantive issues that should be addressed at this time.

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

McLeodUSA believes that this docket should be suspended pending resolution of the FCC dockets that may impact the issues in this docket.

RESPECTFULLY SUBMITTED this 7th day of October 2008.

McLeodUSA Telecommunications Services, Inc.

By ______________________

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