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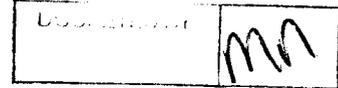
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Oct - 7 2008

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



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

IN THE MATTER OF QWEST CORPORATION'S FILING OF RENEWED PRICE REGULATION PLAN

Docket No. T-01051B-03-0454

GALLAGHER & KENNEDY, P.A.
2575 E. CAMELBACK ROAD
PHOENIX, ARIZONA 850169225
(602) 530-8000

AT&T'S ISSUES MATRIX AND PROCEDURAL RECOMMENDATIONS

Pursuant to the Procedural Order entered in these dockets¹ dated August 20, 2008, AT&T Communications of the Mountain States, Inc. and TCG Phoenix (collectively referred to as "AT&T") file this matrix of issues and procedural recommendations concerning switched access ("access") charge reform and possible revisions to the Arizona Universal Service Fund ("AUSF") Rules.

INTRODUCTION

Over eight years ago, the Commission recognized the need to examine the reasonableness of carriers' intrastate switched access charges ("access charges"). With the passage of those

¹ Commission records indicate that per "Decision No. 67047, dated 6/18/04 T-01051B-03-0454 and T-00000D-00-0672 are Consolidated."

1 eight years, the telecommunications marketplace has undergone a metamorphosis of substantial
2 proportions, which has transformed what was an important need for access reform into an urgent
3 one. Simply put, the unreasonably high access charges of some carriers are distorting
4 competition in the telecommunications marketplace. Implicit subsidies buried in access charges
5 cause rates for some services to be priced too low, while other rates—most notably in-state long
6 distance rates—remain too high. The result is pricing signals being given to Arizona customers
7 are blurred, resulting in consumers shifting usage to services that may be less economically
8 efficient, but nonetheless attractive solely because they are subsidized. The Commission should
9 act now to correct this problem; it can wait no longer.

10 For the past several months, the parties have exchanged information and discussed their
11 respective positions on the issues involved in this proceeding. This exchange of information has
12 helped parties understand how various changes to access and AUSF rules could affect their
13 revenues, impact rates for basic residential and business services and adjust the size of the AUSF
14 fund. As a result, the parties agree for the most part on the key issues in this proceeding. AT&T
15 has listed those issues in the matrix below, along with AT&T's current position on each.

16 Notwithstanding their discussions, however, the parties have not made significant
17 progress in reaching a consensus on resolution of the issues. AT&T believes, therefore, that the
18 Commission should begin a formal process for resolving these issues and also provides below its
19 recommendation for the structure of that process. AT&T would be willing to have further
20 informal discussions with the parties if desired while the formal process is being conducted, but
21 believes that informal discussions alone will not be fruitful. AT&T's procedural
22 recommendations are designed to facilitate a prompt resolution of the important issues of access
23 reduction and AUSF reform.

1 **ISSUES MATRIX**

ISSUE	AT&T POSITION
<p>2 Which carriers' access rates should be the</p> <p>3 subject of this proceeding? Rural ILECs</p> <p>4 only? CLECs, too?</p>	<p>The access rates of all wireline carriers operating in Arizona should be the subject of this proceeding, including but not limited to CLECs and Qwest.</p>
<p>5 What access rate level and structure should</p> <p>6 be targeted? Interstate? Qwest's current</p> <p>7 intrastate access rate level? Elimination of</p> <p>8 the CCL?</p>	<p>Incumbent LECs' intrastate access rates should be capped at the level of their interstate access rates—now and as those interstate rates change in the future. CLECs' intrastate access rates should be capped at the level of the incumbent LEC with which the CLEC competes—now and as those ILEC rates change in the future.</p>
<p>9 How much of the access cost recovery, if</p> <p>10 any, should be shifted to end users? What</p> <p>11 showing should be required for such a</p> <p>12 shift? What should be the role of</p> <p>13 "benchmark" rates, and how should</p> <p>14 benchmarks be set?</p>	<p>The Commission should establish a statewide rate comparability "benchmark," based on residential rate levels, that is designed to ensure rate comparability among providers and to determine the amount of access shift to be recovered from end-user rates versus targeted, supplemental AUSF funding. The benchmark would be a rate level sufficient to ensure that the rates charged to end-users in rural and high cost areas are reasonably comparable to rates charged in urban areas. A carrier whose retail rate for basic service is less than the benchmark should have any draw potential from the AUSF offset by the revenue that would be gained if the carrier raised its retail rate to the benchmark level. Such action would limit increases in the size of the AUSF. A carrier, however, should <i>not be required</i> to raise local retail rates to the benchmark level in order to draw from the AUSF because the amount of access revenue reduction a carrier would recover in retail rate increases would be constrained by competitive forces in the telecommunications market.</p>

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	<p>To raise rates to the benchmark, ILECs should be required to demonstrate only (1) the annual amount of their expected access revenue reduction and (2) that their proposed rate increase would leave their end-user rates at or below the benchmark and would be expected to produce additional revenues no greater than the amount of their access revenue reduction. Because of their increased pricing flexibility, CLECs should have no limit on the size of the price increases they can implement to recover lost access revenues.</p>
<p>How much of access cost recovery, if any, should be shifted to the AUSF? What showing should be required for such a shift?</p>	<p>All carriers required to reduce switched access rates should be given the opportunity to fully rebalance such revenue reductions. Carriers having carrier of last resort (COLR) obligations should be permitted to obtain targeted, supplemental AUSF support to offset a portion of the COLR's intrastate access revenue reductions from the AUSF with the following caveats: (1) the Commission should set a statewide comparability benchmark as described above, and (2) for any carrier whose end-user rates are less than the benchmark, its draw from the AUSF should be offset by the revenue that would be gained if the carrier raised its retail rate to the benchmark level.</p> <p>Carriers without COLR obligations, such as CLECs with increased pricing flexibility, should have no limit on the size of retail rate increases they can implement to recover lost access revenues.</p> <p>To draw from the AUSF, a carrier should be required to supply data that specifies (1) the amount of its switched access reduction, (2) the amount of revenue it would recover if it raised its retail rates to the benchmark level, and (3) the net funding for which it qualifies (i.e., the</p>

1		amount of its switched access reduction less the amount it would recover if it raised its rates to the benchmark level).
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3	How long should a transition period be, if any?	Switched access rates should be reduced immediately in a single step (i.e., no transition). If a certain carrier would require a large end-user rate increase to reach the statewide comparability benchmark, then any retail rate increases that carrier elects to make should be transitioned over a reasonably short period (e.g., two years) to minimize rate shock.
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8	Which carriers should be eligible for AUSF support?	For purposes of intrastate access rebalancing, only LECs having COLR obligations should receive targeted, supplemental access replacement support from the AUSF.
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11	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?	The AUSF should support intrastate access rate rebalancing by LECs with COLR obligations less any revenue that would be gained if the carrier raised its retail rate to the benchmark level. The AUSF should not support any up-front construction costs, including up-front loop costs.
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15	What should be the basis of AUSF contributions and what should be the structure of any AUSF surcharge(s)?	The contribution methodology should mirror that of the federal USF, which currently is based on a percentage of interstate and international retail telecommunications revenues. If the federal USF contribution methodology changes in the future (e.g., change to a numbers-based methodology), the AUSF contribution methodology should change along with it. The Commission, thus, should continue to monitor federal activities.
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21	How is the best way to proceed resolving the foregoing issues?	See below.
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1 **PROCEDURAL RECOMMENDATION**

2 The Commission should adopt a procedural schedule for this proceeding that will lead to
3 the prompt reduction of all carriers' access rates to the levels described above because the
4 excessively high access rates currently being charged by some carriers substantially reduce the
5 incentive of interexchange carriers to deploy infrastructure and market their services to
6 consumers in Arizona. Also, high intrastate access rates translate into higher intrastate long
7 distance rates charged to consumers and fewer choices being made available to those consumers.
8 To achieve a prompt reduction in access rates, AT&T proposes the following schedule.

9 The parties' discussions to this point have been based in large part on estimated data.
10 The Commission and the parties would benefit from having more definite information based on
11 actual data. AT&T proposes, therefore, that the Commission Staff issue a data request to all
12 parties, which seeks actual carrier-specific data concerning the issues relevant to this proceeding.
13 In that regard, AT&T has attached recommended data requests for Staff's consideration as
14 Appendix 1.

15 Parties should be given 30 days to provide the requested information to Staff and the
16 information should be treated as proprietary and confidential. In order to efficiently facilitate
17 other parties' review of the proprietary information, AT&T recommends that the Administrative
18 Law Judge issue a protective order for the proceeding, which would allow parties to request and
19 review the proprietary information subject to various nondisclosure restrictions. Alternatively,
20 the parties will need to execute nondisclosure agreements among themselves if they wish to
21 request and review the proprietary data of another carrier. Parties also should have 15 days from
22 the date the Staff receives the requested information to propound additional discovery on other
23 parties.

1 Parties should file and serve direct testimony on the issues specified above 60 days after
2 the Staff has notified the parties that it has received carriers' responses to the data requests.
3 Reply testimony should be due 30 days thereafter. A Hearing should be scheduled for no later
4 than 30 days after the reply testimony is filed. A briefing schedule should be established by the
5 Administrative Law Judge at the conclusion of the hearing.

6 The following matrix summarizes the schedule proposed by AT&T:

Action	Timeframe
Carriers respond to Staff data requests	30 days after Staff sends requests
Carriers propound additional discovery if desired	No later than 15 days after carriers respond to Staff data requests
Direct testimony filed and served	60 days after carriers respond to Staff data requests
Reply testimony filed and served	30 days after direct testimony is filed
Hearings	30 days after reply testimony filed
Briefs	Schedule established by ALJ

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12 **CONCLUSION**

13 The Commission started its access reform proceeding eight years ago and should proceed
14 promptly to tackle the urgent need for that reform as well as to address any necessary companion
15 revisions to the AUSF Rules. AT&T has proposed a matrix of issues and procedural
16 recommendations which will facilitate that process. The Commission should adopt AT&T's
17 proposal.

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RESPECTFULLY SUBMITTED this 7th day of October, 2008.

GALLAGHER & KENNEDY, P.A.

By 

Michael M. Grant
2575 East Camelback Road
Phoenix, Arizona 85016-9225
Attorneys for AT&T Communications
of the Mountain States, Inc. and
TCG Phoenix

Original and 17 copies filed this
7th day of October, 2008, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copies of the foregoing delivered
this 7th day of October, 2008, to:

Janice Alward, Chief Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ernest Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Maureen Scott
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Will Shand
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

1 **Copies of the foregoing mailed and/or**
2 e-mailed this 7th day of October, 2008, to:

3 Jane L. Rodda
4 Administrative Law Judge
5 Hearing Division
6 Arizona Corporation Commission
7 400 West Congress
8 Tucson, Arizona 85701-1347

Gregory L. Castle
Senior Attorney
AT&T Services, Inc.
525 Market Street, Room 2022
San Francisco, California 94105

6 Daniel W. Pozefsky, Chief Counsel
7 Residential Utility Consumer Office
8 1110 West Washington, Suite 220
9 Phoenix, Arizona 85007

Reed Peterson
Qwest Corporation
20 East Thomas Road, 16th Floor
Phoenix, Arizona 85012

8 Gary Joseph
9 National Brands, Inc. d/b/a
10 Sharenet Communications
11 4633 West Polk Street
12 Phoenix, Arizona 85043

Michael W. Patten
Roshka DeWulf & Patten, PLC
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

11 Craig A. Marks
12 Craig A. Marks, PLC
13 Suite 200-676
14 10645 North Tatum Boulevard
15 Phoenix, Arizona 85028

Nathan Glazier, Regional Manager
Alltel Communications, Inc.
4805 East Thistle Landing Drive
Phoenix, Arizona 85044

14 Thomas W. Bade, President
15 Arizona Dialtone, Inc.
16 7170 West Oakland Street
17 Chandler, Arizona 85226

Joan S. Burke
Osborn Maledon, P.A.
2929 North Central Avenue, Suite 2100
Phoenix, Arizona 85012-2765

17 Arizona Payphone Association
18 c/o Gary Joseph
19 Sharenet Communications
20 4633 West Polk Street
21 Phoenix, Arizona 85043

Mark A. DiNunzio
Cox Arizona Telcom, LLC
MS DV3-16, Bldg. C
1550 West Deer Valley Road
Phoenix, Arizona 85027

20 Dennis D. Ahlers
21 Associate General Counsel
22 Eschelon Telecom, Inc.
23 Electric Lightwave, Inc.
24 Advanced TelCom Group
730 Second Avenue South, Suite 900
Minneapolis, Minnesota 55402

Isabelle Salgado
General Attorney & Associate General
Counsel
AT&T Nevada
645 East Plumb Lane, B132
P.O. Box 11010
Reno, Nevada 89520

1 Lyndall Nipps
Vice President, Regulatory
2 Time Warner Telecom
845 Camino Sur
3 Palm Springs, California 92262
4
5 Karen E. Nally
Moyes Sellers & Sims, Ltd.
1850 North Central Avenue, Suite 1100
6 Phoenix, Arizona 85004
7 Thomas H. Campbell
Michael Hallam
8 Lewis and Roca, LLP
40 North Central Avenue
9 Phoenix, Arizona 85004
10 Brad VanLeur, President
OrbitCom, Inc.
11 1701 North Louise Avenue
Sioux Falls, South Dakota 57107
12
13 Demetrios G. Metropoulos
MAYER BROWN LLP
71 South Wacker Drive
14 Chicago, Illinois 60606

Charles H. Carrathers, III
General Counsel, South Central Region
Verizon, Inc.
HQE03H52
600 Hidden Ridge
Irving, Texas 75015-2092

Norman G. Curtright
Qwest Corporation
20 East Thomas Road, 16th Floor
Phoenix, Arizona 85012

Jeffrey W. Crockett
Snell & Wilmer L.L.P.
One Arizona Center
400 East Van Buren Street
Phoenix, Arizona 85004-2202

Greg L. Rogers
Level 3 Communications, LLC
1025 Eldorado Boulevard
Broomfield, Colorado 80021

Chris Rossie
11070 North 24th Avenue
Phoenix, Arizona 85029

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APPENDIX 1

PROPOSED DATA REQUESTS TO CARRIERS

1. Please provide the following information for each of your company's study areas (COSA) used for ARMIS reporting for calendar year 2007:
 - a. Total intrastate switched access revenues (revenue need not include non-switched items that are not rated on a minute of use basis, e.g., dedicated, 8YY database dip or query, non-recurring charges);
 - b. Total intrastate switched access minutes of use volume;
 - c. Average revenue per intrastate minute of use;
 - d. Total interstate switched access revenues (revenue need not include non-switched items that are not rated on a minute of use basis, e.g., dedicated, 8YY database dip or query, non-recurring charges);
 - e. Total interstate switched access minutes of use volume;
 - f. Average revenue per interstate minute of use;
 - g. The difference of c minus f; and
 - h. The product of b times g (the estimated annual revenue reduction).
2. Please provide your company's current retail local exchange rates including any mandatory EAS charges and touch tone charges, if not included in the basic rate, for:
 - a. primary line residential flat rate service;
 - b. single line business flat rate service; and
 - c. multi-line business flat rate service.
3. If your company offers different retail local exchange rates by exchange area or by some other classification, please provide the weighted average rate separately for 2. a, b and c above.