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ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

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AZ CORP 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

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NOTICE OF FILING
DIRECT TESTIMONY OF DOUGLAS DUNCAN MEREDITH

The Arizona Local Exchange Carriers Association ("ALECA") hereby files the Direct
Testimony of Douglas Duncan Meredith.

RESPECTFULLY SUBMITTED on December 1, 2009.

Arizona Corporation Commission
DOCKETED

DEC - 1 2009

DOCKETED BY

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**TESTIMONY OF
DOUGLAS DUNCAN MEREDITH
ON BEHALF OF
THE ARIZONA LOCAL EXCHANGE
CARRIERS ASSOCIATION**

1 **I INTRODUCTION**

2 **Q: PLEASE STATE YOUR FULL NAME, PLACE OF EMPLOYMENT AND**
3 **POSITION.**

4 **A:** My full name is Douglas Duncan Meredith. I am employed by John Staurulakis, Inc.
5 (“JSI”) as Director – Economics and Policy. JSI is a telecommunications consulting firm
6 headquartered in Greenbelt, Maryland. My office is located at 547 Oakview Lane,
7 Bountiful, Utah 84010. JSI has provided telecommunications consulting services to rural
8 local exchange carriers since 1963.

9 **Q: PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND**
10 **EDUCATIONAL BACKGROUND.**

11 **A:** As the Director of Economics and Policy at JSI, I assist clients with the development of
12 policy pertaining to economics, pricing and regulatory affairs. I have been employed by

1 JSI since 1995. Prior to my work at JSI, I was an independent research economist in the
2 District of Columbia and a graduate student at the University of Maryland – College
3 Park.

4 In my employment at JSI, I have participated in numerous proceedings for rural and non-
5 rural telephone companies. These activities include, but are not limited to: the creation of
6 forward-looking economic cost studies; the development of policy related to the
7 application of federal safeguards for rural local exchange carriers; the determination of
8 Eligible Telecommunications Carriers pursuant to the Communications Act of 1934, as
9 amended (“Act”); and the sustainability and application of universal service policy for
10 telecommunications carriers.

11 In addition to assisting telecommunications carrier clients, I have served as the economic
12 advisor for the Telecommunications Regulatory Board of Puerto Rico since 1997. In this
13 capacity, I provide economic and policy advice to the Board Commissioners on all
14 telecommunications issues that have either a financial or economic impact. I have
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16 interconnection issues under Section 252(b) of the Telecommunications Act of 1996 (the
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19 carrier and telecommunications groups, including those headed by NTCA, OPASTCO,
20 USTA, and the Rural Policy Research Institute. My participation in these groups focuses
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22 telecommunications capabilities in rural communities and other policy matters.

23 I have testified or filed pre-filed regulatory testimony in various states including Indiana,
24 New Hampshire, Vermont, Maine, New York, Michigan, Wisconsin, North Dakota,

1 South Dakota, South Carolina, Texas, Kentucky, Utah, Florida, and Tennessee. I have
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3 formal testimony, including Florida, Washington, Louisiana, Mississippi, North Carolina,
4 Puerto Rico and Virginia. In addition to participation in state regulatory proceedings, I
5 have participated in federal regulatory proceedings through filing of formal comments in
6 various proceedings and submission of economic reports in an enforcement proceeding.

7 I have a Bachelor of Arts degree in economics from the University of Utah, and a
8 Masters degree in economics from the University of Maryland – College Park. While
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11 examinations for a Doctorate of Economics without completing my dissertation.

12 **Q: ON WHOSE BEHALF ARE YOU TESTIFYING?**

13 A: I am testifying on behalf of the Arizona Local Exchange Carrier Association
14 (“ALECA”).

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17 (“Commission”) is to propose three revisions to the AUSF program. First, I explain
18 ALECA’s proposed revision to Arizona’s current intrastate switched access service
19 regime under which ALECA members provide service. Specifically, I review reform
20 efforts of interstate switched access in recent past and compare interstate reform with the
21 current intrastate switched access rate experience in Arizona. I explain the motivation for
22 ALECA’s position in this proceeding and outline a proposal for intrastate access reform
23 for ALECA’s members regulated by the Commission. Second, I introduce a proposed
24 rule that would establish a new mechanism that provides support for carrier’s high cost
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24 rule that would establish a new mechanism that provides support for carrier’s high cost
25 loop in concert with the Federal High Cost Loop Support mechanism. Lastly, I also

1 provide a proposed rule related to the administration of lifeline and linkup that also would
2 be in the public interest.

3 **II FEDERAL INTERSTATE ACCESS REFORM**

4 **Q: WHY IS SWITCHED ACCESS SERVICE REFORM SO IMPORTANT FOR**
5 **RURAL LOCAL EXCHANGE CARRIERS, INCLUDING ALECA MEMBERS?**

6 A: Switched exchange access service is provided by local exchange carriers and enables
7 end-user customers to send and/or receive long distance calls from the long distance
8 provider of their choice. (Long distance providers are also known as interexchange
9 carriers or “IXCs” on the wholesale side of the business transaction.) Per minute-of-use
10 rates charged for intrastate switched exchange access service provide revenue to the local
11 exchange carrier, which is essential to keep basic local exchange rates affordable in rural
12 Arizona.

13 **Q: YOU SPECIFICALLY MENTION INTRASTATE SWITCHED EXCHANGE**
14 **ACCESS SERVICE. IS THERE A CORRESPONDING INTERSTATE**
15 **EXCHANGE ACCESS SERVICE PROVIDED BY ALECA MEMBERS?**

16 A: Yes. Because of jurisdictional separations mandated by the Federal Communications
17 Commission (“FCC”), interstate switched exchange access service is governed by the
18 FCC, while this Commission regulates intrastate switched exchange access service for
19 ALECA members under its jurisdiction.

20 **Q: HAS THE FCC IMPLEMENTED INTERSTATE SWITCHED EXCHANGE**
21 **ACCESS REFORM IN THE RECENT PAST?**

22 A: Yes.

23 **Q: HOW HAS THE FCC REFORMED INTERSTATE SWITCHED EXCHANGE**
24 **ACCESS SERVICE FOR ALECA MEMBERS?**

1 A: Briefly, the FCC has implemented various reforms affecting interstate switched access
2 service. Most notable is the reform implemented earlier this decade, where per minute-
3 of-use interstate switched exchange access service rates were reduced.¹ These rates were
4 reduced in an attempt to reduce or eliminate implicit support embedded in the various
5 rates—support that provided essential revenues to rate-of-return local exchange carriers.
6 These revenues were used to promote the widespread availability of basic local exchange
7 services in remote areas of the nation. After these reforms, the interstate revenues
8 formerly received through interstate switched exchange access service were transferred
9 either to an explicit federal universal service program or to increase the federal end-user
10 common line charge. Thus, rural carriers were able to receive the same level of revenues
11 they would have received before these reforms.

12 **Q: DID THE FCC ALSO REFORM INTERSTATE SWITCHED EXCHANGE**
13 **ACCESS RATES FOR PRICE-CAP LOCAL EXCHANGE CARRIERS LIKE**
14 **QWEST?**

15 A: Yes. Similar reforms also occurred for price-cap carriers, including rural LECs. These
16 reforms were ordered under the adoption of the “CALLS” plan.²

17 **III THE NEED FOR INTRASTATE SWITCHED ACCESS REFORM IN ARIZONA**

18 **Q: WHAT IS THE DIFFERENCE BETWEEN COMPOSITE INTERSTATE AND**
19 **INTRASTATE SWITCHED EXCHANGE ACCESS RATES?**

¹ See Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service, Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation, Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers, Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166, 16 FCC Red 19613 (2001).

² See Access Charge Reform, CC Docket Nos. 96-262, 94-1, 99-249, 96-45, Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45, 15 FCC Red 12962 (2000) (CALLS Plan)

1 A: The ALECA members reported earlier this year that there difference between their
2 interstate and intrastate composite switched exchange access rates is approximately nine
3 cents per minute-of-use. This difference is an average; for some ALECA members the
4 difference is much greater than nine cents.

5 **Q: WHAT PROBLEMS ARISE WHEN THERE IS SUCH A DIFFERENCE**
6 **BETWEEN INTERSTATE AND INTRASTATE PER MINUTE-OF-USE**
7 **COMPOSITE RATES?**

8 A: Experience has shown that when there is a large difference in rates for a similar service,
9 there is a strong financial incentive for purchasers of switched exchange access services,
10 notably the IXCs, to rate intrastate calls as interstate—thereby paying a lower rate for the
11 same network function, i.e., the origination or termination of an interexchange call. This
12 activity is a type of price arbitrage that reduces the legitimate revenues a local exchange
13 carrier should receive. Therefore, the current intrastate access regime appears to be
14 contrary to the Commission’s policy to preserve and promote the widespread
15 affordability of basic local exchange services throughout rural Arizona.

16 **Q: IS INTRASTATE SWITCHED EXCHANGE ACCESS SERVICE REFORM IN**
17 **THE PUBLIC INTEREST?**

18 A: Yes. My experience and observation in other states shows that intrastate access reform is
19 in the public interest and promotes the widespread affordability of basic local exchange
20 services. If switched access rates can be reduced—with a corresponding increase in
21 disbursement from a state-based high cost universal service fund—the arbitrage incentive
22 will be eliminated or reduced and rural carriers will be able to promote the widespread
23 affordability of basic local exchange services.

24 **IV THE ALECA ACCESS REFORM PROPOSAL**

1 **Q: WHAT IS ALECA'S PROPOSAL FOR INTRASTATE SWITCHED EXCHANGE**
2 **ACCESS SERVICE REFORM.**

3 A: ALECA'S proposal is quite simple and is similar to the essential component of what was
4 done in the interstate regime. The Commission should reduce each carrier's composite
5 intrastate switched exchange access rate, calculate the total revenue reduction associated
6 with this loss and compensate the carrier by funds provided from an explicit high-cost
7 universal service program. This would shift revenues received from intrastate exchange
8 access to high-cost universal service support. Its design is revenue neutral.

9 **Q: WHAT RATE DOES ALECA PROPOSE TO USE FOR THE INTRASTATE**
10 **SWITCHED EXCHANGE ACCESS COMPOSITE RATE?**

11 A: ALECA proposes to use the Qwest statewide intrastate composite rate of \$0.0220 per
12 minute-of-use.³ While this rate is higher than the estimated ALECA interstate composite
13 rate (reported to be 1.66 cents per minute-of-use), using the Qwest statewide intrastate
14 composite rate is an appropriate step in reforming Arizona's intrastate switched access
15 regime. By reducing each ALECA member composite rate to the Qwest composite rate,
16 the Commission would promote equity between urban/suburban and rural areas of the
17 state. Furthermore, since the Qwest composite rate is publically available, it provides a
18 simple and straightforward target rate for switched access reform. Lastly, using the
19 Qwest composite rate instead of the ALECA members' composite interstate rates will
20 lessen the burden of the Arizona high-cost universal service fund and corresponding
21 surcharge that may be applied to end-user bills.

22 **Q: SHOULD THE COMMISSION REQUIRE A RATE CASE FOR EACH ALECA**
23 **MEMBER TO OFFSET REVENUES LOST AS A RESULT OF LOWERING THE**
24 **INTRASTATE SWITCHED EXCHANGE ACCESS COMPOSITE RATE?**

³ Qwest Corporation's Responses to ALECA's Set One, Data Request 1.1. Qwest has lowered its intrastate per minute-of-use access rates four times over the past eight years.

1 A: No. Requiring each ALECA member to file a rate case to initialize a revenue-neutral
2 shift of access revenues would result in a very costly, long and protracted review
3 involving each of the ALECA members and would not be a wise use of the
4 Commission's resources. The Commission should instead order a revenue-neutral shift
5 of revenues from intrastate switched access to the Arizona high-cost universal service
6 fund using 2009 as the base year. The Commission should also adopt ALECA's position
7 that these high-cost fund disbursements will be frozen for at least three years—thereafter
8 it may make adjustments to these disbursements as it deems necessary.

9 **Q: SHOULD THE COMMISSION ESTABLISH A LOCAL RATE BENCHMARK AS**
10 **PART OF INTRASTATE ACCESS REFORM?**

11 A: No. Establishing a revenue benchmark is not necessary to begin intrastate switched
12 exchange access reform in Arizona. A revenue-neutral shift of revenues from intrastate
13 access to a high-cost universal service fund provides for expedited reform, without
14 adding complications related to establishing a benchmark.

15 **V ESTIMATED AUSF HIGH-COST NEEDED FOR ACCESS REFORM**
16 **PROPOSAL**

17 **Q: WHAT IS THE AMOUNT OF ANNUAL HIGH-COST DISBURSEMENT**
18 **NEEDED TO IMPLEMENT THE ALECA PROPOSAL?**

19 A: Based on 2008 data I received from each ALECA member, I have computed the
20 composite average revenue per minute-of-use for each member.⁴ By subtracting the
21 Qwest composite intrastate access rate from each rate and multiplying this difference

⁴ Using 2009 as a base year, the ALECA members can produce their intrastate switched access revenues and corresponding minutes-of-use to the Commission. These data can be used to develop a member specific composite intrastate switched access rate. The difference between this 2009 composite and the Qwest composite multiplied by the corresponding ALECA member's minutes-of-use can be used to determine the annual disbursement needed from a high-cost fund. ALECA members would file tariffs for specific rate elements that achieve the Qwest composite rate based on individualized experiences, *e.g.*, transport facilities will be unique to each ALECA member due to mileage considerations.

1 with the total intrastate access minutes for each member, the aggregate annual amount of
2 AUSF support needed is approximately \$23 million.

3 **Q: HOW CAN THE COMMISSION CONFIRM AND FINALIZE THIS ESTIMATE?**

4 A: After establishing the AUSF high-cost program, the ALECA members will provide the
5 Commission with the data necessary to calculate the base year composite average
6 intrastate access revenue per minute-of-use for each ALECA member. Thereafter, the
7 Commission would be able to verify a member's revenue-neutral disbursement and order
8 that the disbursement be distributed monthly, after the member files revisions to its
9 intrastate switched access tariff and shows how its base-year activity with revised rates
10 produces a composite intrastate access rate equal to \$0.022 per minute-of-use.

11 **Q: HOW SHOULD AUSF HIGH-COST SUPPORT BE COLLECTED?**

12 A: The Commission should adopt a revenue-based surcharge on intrastate retail
13 communications billed revenues of all communications carriers, including LECS, IXC's,
14 wireless carriers, and interconnected VoIP service providers. Recipients of AUSF High-
15 Cost support should be reimbursed for their contributions by adding their contribution
16 amount to their disbursement amount. This will ensure that net support received through
17 disbursements is equal to the amount of intrastate revenue shifted from the intrastate
18 switched exchange access regime to the AUSF High-Cost program.

19 VI ARIZONA HIGH-COST LOOP SUPPORT

20 **Q: SHOULD THE AUSF BE USED TO PROVIDE HIGH-COST LOOP SUPPORT?**

21 A: Yes. I recommend a portion of the AUSF support be based on the cost model used to
22 calculate Federal High-Cost Loop Support (HCLS). The federal HCLS uses an algorithm
23 that calculates a company's Study Area Cost Per Loop (SACPL) based on the actual
24 investment, expenses, and loops of the company. The SACPL is then compared to the
25 national average cost per loop (NACPL) and the ILEC receives federal support for a

1 portion costs exceeding 115 percent of the NACPL. The information from the federal
2 HCLS algorithm is readily available and can be used to develop a state mechanism that
3 complements the federal HCLS mechanism.

4 **Q: WHAT MECHANISM DO YOU PROPOSE FOR THE ARIZONA HIGH-COST**
5 **LOOP SUPPORT?**

6 **A:** ALECA proposes the Commission adopt rules establishing support for loop costs that
7 exceed the current federally determined qualification thresholds. Carriers are presently
8 eligible for federal HCLS when SACPL loop costs exceed 115 percent of the NACPL.
9 Costs in excess of 115 percent, but less than 150 percent, are eligible for 65 percent
10 federal recovery. Costs in excess of 150 percent are eligible for 75 percent federal
11 recovery. The ALECA proposal would complement this federal support by providing
12 support for the remaining portion of eligible high loop costs. Specifically, for carriers
13 who receive 65 percent federal cost recovery, the State would provide a 35 percent cost
14 recovery. For carriers who receive 75 percent federal recovery of loop costs in excess of
15 the NACPL, the state would provide support of 25 percent for any loop costs in excess of
16 150 percent.

17 This state support would be in addition to a revenue-neutral draw from the AUSF to
18 offset intra-state access reductions. ALECA's members serve rural and remote areas of
19 Arizona. Low customer density makes ALECA's members and their customers
20 dependent on high-cost support mechanisms. There are three revenue streams available
21 to the rural ILECs: local service revenues, access revenues, and universal service support.
22 ALECA's members do not have a large enough customer base to recover a sufficient
23 amount of revenue to cover the cost of providing local service. Local service revenues
24 and access revenues, which have been designed to keep local service rates affordable,
25 would be used to recover loop costs that do not exceed the 115 percent NACPL

1 threshold. All loop costs above this threshold would be recovered through either the
2 existing federal HCLS mechanism or through the new state high-cost loop mechanism.
3 ALECA proposes a high-cost loop mechanism that allows using the federal calculation in
4 Arizona.

5 **Q: HAVE YOU ESTIMATED THE AMOUNT OF ARIZONA HIGH-COST LOOP**
6 **SUPPORT THAT WOULD BE NEEDED FOR THIS NEW PROGRAM?**

7 A: Yes. I have used 2007 federal HCL disbursements and for estimation purposes, I have
8 assumed that federal support has been received under the 65 percent cost recovery
9 mechanism. Based on this information, the remaining 35 percent required under the
10 Arizona high cost loop mechanism would be approximately \$9 million. Upon adoption
11 of the rules, the ALECA members will provide specific amounts to the Commission that
12 would provide an exact amount that the Arizona high cost loop mechanism would
13 provide. The \$9 million estimate is higher than what would be needed to the extent that
14 some carriers have costs in excess of the 150 percent federal threshold and have federal
15 recovery at 75 percent. For every dollar recovered from the federal HCL at 75 percent
16 instead of 65 percent, the requirements of the Arizona fund would decline.

17 VII LIFELINE AND LINK-UP

18 **Q: SHOULD THE AUSF BE USED FOR ANY OTHER PURPOSES?**

19 A: Yes. I recommend that the Commission adopt the proposals contained in the Report and
20 Recommendations of the Eligible Telecommunications Carriers (ETCs) on Lifeline and
21 Link-Up Issues, docketed December 21, 2005. In this report, the ETCs recommended
22 that the Department of Economic Security (DES) centrally administer the Lifeline and
23 Link-Up programs of all of Arizona's ETCs and that the DES be reimbursed for the
24 administrative costs incurred from the AUSF. Centralized administration enables

1 automatic enrollment, and as the ETCs recognized, automatic enrollment is a very
2 effective, if not the most effective, form of outreach.

3 VIII PROPOSED AUSF RULES

4 **Q: HAVE YOU ATTACHED THE PROPOSED RULES TO YOUR TESTIMONY?**

5 A: Yes. I have included ALECA's proposed rules, which would implement the
6 recommendations that I have just discussed. Exhibit DDM-01 is a clean version of the
7 AUSF rule proposed by ALECA, which incorporates the proposed access reforms.
8 Exhibit DDM-02 is a redline version of the proposed AUSF rule, which shows changes
9 from the existing rules. Finally, Exhibit DDM-03 contains a proposed AUSF rule for the
10 lifeline and linkup provisions discussed above and referenced in the 2005 ETC report.

11 IX SUMMARY

12 **Q: IS THE ADOPTION OF THE ALECA PROPOSALS IN THE PUBLIC**
13 **INTEREST?**

14 A: Yes. The reform of intrastate switched access service rates as described will help align
15 the wholesale industry to promote the public interest in the retail offerings of multiple
16 carrier groups. Long distance providers, as well as wireless providers who pay for access
17 services, will see reductions in their costs. Since these markets are generally very
18 competitive, their end-user customers will likely see reductions in service prices when
19 switched access service is used as an input. Moreover, billing disputes at the wholesale
20 level will likely be reduced as there will be less incentive to engage in price arbitrage.
21 High-cost loop support will further support rural Arizona carriers' efforts to provide
22 affordable, reliable service to their constituents. Finally, the lifeline and link-up
23 administration reform will encourage outreach, which will lead to increases in
24 participation by end-users in these vital low-income programs.

1 **Q: DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

2 A: Yes.

Direct Testimony of Douglas Duncan Meredith
Arizona Corporation Commission
December 1, 2009
Exhibit DDM-01

ARTICLE 12. ARIZONA UNIVERSAL SERVICE FUND

R14-2-1201 Definitions

In this Article, unless the context otherwise requires, the following definitions shall apply:

1. **“Administrator”** is the person designated pursuant to R14-2-1212 to administer the AUSF and perform the functions required by this Article.
2. **“Arizona Corporation Commission”** or **“Commission”** is the regulatory agency of the state of Arizona having jurisdiction over public service corporations operating in Arizona.
3. **“Arizona Universal Service Fund”** or **“AUSF”** is the funding mechanism established by this Article through which surcharges are collected and support paid in accordance with this Article.
4. **“AUSF Support”** is the amount of money, calculated pursuant to this Article, which a provider of basic local telephone exchange service is eligible to receive from the AUSF pursuant to this Article.
5. **“AUSF Support Area”** is the geographic area for which a local exchange carrier’s eligibility to receive AUSF support is calculated.
6. **“Basic” local exchange telephone service** is telephone service that provides the following features:
 - a. Access to 1-party residential service with a voice grade line;
 - b. Access to touchtone capabilities;
 - c. Access to an interexchange carrier;
 - d. Access to emergency services, including but not limited to emergency 911;
 - e. Access to directory assistance service;
 - f. Access to operator service;
 - g. Access to a white page or similar directory listing; and
 - h. Access to telephone relay systems for the hearing and speech impaired.
7. **“Basic local exchange rate”** means an incumbent local exchange carrier’s tariffed, monthly, single-line flat rate charged to its retail customers for the provision of local exchange service.
8. **“Benchmark rates”** for a telecommunications services provider are those rates approved by the Commission for that provider for basic local exchange telephone service, plus the Customer Access Line Charge approved by the Federal Communications Commission.
9. **“Commercial Mobile Radio Service”** is any radio communication service carried on between mobile stations or receivers and land stations, or by mobile stations communicating among themselves, that is provided for profit and that makes available to the public service that is connected to the public switched network.
10. **“Eligible telecommunications carrier (ETC)”** means an entity with Arizona operations that provides retail telecommunications services that has been designated by the

Commission as eligible to receive disbursements from the AUSF or from the federal universal service fund

11. **“Intrastate retail telecommunications revenue”** means the revenue collected from the sale of intrastate telecommunications services to end users for voice over internet protocol (VOIP) and similar services. (The portion of total retail revenues attributable to intrastate retail telecommunications shall be equal to the proportion of calls originating and terminating in Arizona to all calls originating in Arizona)
12. **“Intrastate retail telecommunications services”** means services including, but not limited to: all types of local exchange service; non-basic, vertical or discretionary services, also known as advanced features, or premium services, such as, but not limited to, call waiting, call forwarding, and caller ID; listing services; directory assistance services; cellular telephone and paging services; commercial mobile radio services; personal communications services (PCS); both optional and non-optional operator services; wide area telecommunications services (WATS) and WATS-like services; toll-free services; 900 services and other informational services; message telephone services (MTS or toll; CENTREX, Centron and Centron-like services; video conferencing and teleconferencing services; the resale of intrastate telecommunications services; payphone services; services that provide telecommunications through an Arizona telephone number using voice over internet protocol (VOIP) or comparable technologies; any services regulated by the Commission; and such other services as the Commission may by order designate from time to time as equivalent or similar to the services listed above, without regard to the technology used to deliver such services;
13. **“Large Local Exchange Carriers”** are incumbent providers of basic local exchange telephone service serving more than 200,000 access lines in Arizona.
14. **“Small Local Exchange Carriers”** are incumbent providers of basic local exchange telephone service with 200,000 or fewer access lines in Arizona.
15. **“Telecommunications Service Provider”** means any carrier that provides intrastate retail public telecommunications services or comparable retail alternative services in Arizona, including but not limited to incumbent local exchange carriers, interexchange carriers, wireless carriers, and carriers providing fixed or nomadic service utilizing voice over internet protocol.
16. **“Total Service Long Run Incremental Cost”** is the total additional cost incurred by a telecommunications company to produce the entire quantity of a service, given and the telecommunications company already provides all of its other services. Total Service Long Run Incremental Cost is based on the least cost, most efficient technology that is capable of being implemented at the time the decision to provide the service is made.
17. **“U.S. Census Blocks”** are geographic areas defined by the U.S. Department of Commerce. The areas, which define the way in which census data is aggregated, generally contain between 250 and 550 housing units.

R14-2-1202
Calculation of AUSF High-Cost Loop Support

- A. An ETC shall be eligible to receive High Cost Loop Support (HCLS) for a given AUSF support area. For small local exchange carriers, the algorithm used to determine federal HCLS, which calculates loop cost in excess of 115% of the national average, shall be used as the basis for calculating state HCLS. For ETCs that receive federal HCLS, the AUSF shall provide the ETC an amount equal to the unreimbursed loop costs in excess of 115% of the national average.
- B. For a small local exchange carrier, the AUSF support area shall be identical to the support area or areas as identified by the FCC for federal USF. The appropriate cost of providing basic local exchange telephone service for purposes of determining AUSF support for a small local exchange carrier shall be the embedded cost of the incumbent provider
- C. For a large local exchange carrier, the AUSF support area shall be U.S. census block groups, and the appropriate cost of providing basic local exchange telephone service for purposes of determining AUSF support shall be the Total Service Long Run Incremental Cost. In the event that the FCC adopts a somewhat different forward-looking costing methodology and/or a different geographic study/support area for the Federal universal service fund program, a local exchange carrier may request a waiver from this rule in order to utilize the same cost study methodology and/or geographic study areas in both jurisdictions. Any request for AUSF support by a large local exchange carrier shall include a Total Service Long Run Incremental Cost study, or cost study based on FCC adopted methodology, of basic local exchange service. The cost study shall be developed and presented in a manner that identifies the cost for the individual support areas for which AUSF funding is being requested.

R14-2-1202(A)
Calculation of Revenue Neutral AUSF Support

- A. Effective January 1, 2011, a local exchange carrier's intrastate switched access charges may not exceed its historical access rate, less one-half of the difference between its historical access rate and Qwest's composite intrastate switched access rate.
- B. Effective January 1, 2012, a local exchange carrier's intrastate switched access charges may not exceed Qwest's composite intrastate switched access rate.
- C. Prior to October, 1 2010, each local exchange carrier shall submit to the administrator and the Commission the schedule of its intrastate access charge rate reductions in conformity with this rule and shall submit to the Commission proposed tariff revisions reflecting the schedule of rate reductions and other changes necessary to assure that, upon completion of the reductions, all tariffed intrastate switched access charge elements and structure will match Qwest's composite intrastate switched access rate. Included in this schedule of proposed reductions, each local exchange carrier shall submit a report containing their originating and terminating intrastate minutes-of-use for the calendar year 2009 (base year) and its calculation of AUSF support to be received under its proposed schedule filed under this section. Prior to November 1, 2010, the administrator shall issue its recommendation to the Commission regarding each local

exchange carrier's schedule of its intrastate access charge rate reductions and corresponding AUSF support based on 2009 (base year) data. Prior to December 1, 2010, the Commission shall approve or deny each carrier's proposed reductions and AUSF support amounts,

- D. After receipt of Commission approval, the administrator shall calculate the monthly amount of AUSF support for each carrier and begin distribution of AUSF support provided for under this section. Monthly disbursements shall commence January 2011. Monthly disbursements under this section for each carrier shall remain fixed until an order mandating the revision of AUSF support is received under this section. Notwithstanding, no revisions to AUSF support received under this section shall occur until January 1, 2014.
- E. On or after January 1, 2014, the Commission, on its own motion or on the motion of a party or the administrator, may order the revision of a local exchange carrier's intrastate access charge rate reduction schedule and corresponding AUSF support received under this section.
- F. The Commission may, upon motion of a carrier or the administrator, or upon the Commission's own motion, authorize further intrastate switched access charge reductions for a carrier to correspond to any changes in Qwest's intrastate switched access service charge rates, elements or structure subsequent to January 1, 2011. Such changes to rates, elements or structure would continue to use 2009 (base year) minutes-of-use of each carrier in calculating the amount of AUSF support provided for under this section.

R14-2-1202(B)
Facility Extension Requests

- A. Applications for Distribution:
 - (1) Potential customers not presently receiving basic local service because facilities are not available many apply to the Commission for distribution from the fund for extension of service to themselves or to a group of customers.
 - (2) Those distributions are to be approved by the Commission, and made only in circumstances where traditional methods of funding and service provision are infeasible.
 - (3) Distributions will not be made for customers who are not full time residents.
 - (4) An application for a distribution may be filed with the Commission by an individual or group of consumers desiring telephone service, a telecommunications corporation on behalf of those consumers, the Commission staff, or any entity permitted by law to request agency action. An application shall identify the service(s) requested, the area to be served and the individuals or entities that will be served if the distribution is approved.
 - (5) Following the application's filing, the affected telecommunications corporations shall provide any pertinent information requested by the Commission Staff including

engineering, facilities and cost information that will assist in the Commission's consideration of the application.

- (6) In considering the application, the Commission will examine relevant facts including the type and grade of service to be provided, the cost of providing the service, the demonstrated need for the service, whether the customer is within the service territory of a telecommunications corporation, whether the proposed service is for a primary full time residence and other relevant factors to determine whether the one-time distribution is in the public interest.

B. Presumed reasonable amounts and terms:

- (1) Unless otherwise ordered by the Commission, the maximum distribution will be no more than \$25,000 per customer. The Commission will presume a wireline company's service or line extension terms and conditions reasonable for a subscriber connection with universal service fund distribution requests, if the costs of service extension are recovered as follows:
 - a. The first \$500 of cost coverage is provided by the company, and
 - b. For cost amounts exceeding the \$500 level, up to two times the statewide average loop investment for all regulated companies as determined annually by the Commission, equally provided by the company and the customer.
- (2) When the Commission approves an application for the use of AUSF: 95 percent of service extension costs above those recovered through the service extension cost recover terms specified above, shall be paid through AUSF, up to the maximum universal service fund expenditure levels specified by this rule. The remaining five percent or any additional amounts shall be paid by additional customer contributions beyond those specified above.
- (3) Potential customers in the area shall be notified by the telecommunications corporation of the nature and extent of the proposed service extension, the Commission's approval of the application, and the necessary customer contribution amounts to participate in the project. Customer contribution payments shall be made prior to the start of construction.
- (4) Within five years following approval of the application, any customer that seeks telecommunications service in the project area serviceable by an AUSF-funded loop drop shall pay a customer contribution equal to the original customer contributions in the project. Funds received through these payments shall be sent to the AUSF administrator.
- (5) For each customer added during the five-year period following project completion, the telecommunications corporation and new customers shall bear the costs to extend service pursuant to the company's service or line extension terms and conditions and up to the telecommunications corporation's original contribution per customer for the project and the customer contribution required by this rule. The company may petition the Commission for a determination of the recovery from universal service fund and the new customer for costs which exceed this amount.

- (6) Impact of distribution on Companies – A distribution from the fund under this subsection shall be recorded on the books of a regulated LEC as an aid to construction and treated as an offset in rate base.
- (7) Notice and Hearing – Following notice that a distribution application has been filed any interested party may request a hearing or seek to intervene to protect its interest.
- (8) Bidding for Unserved Areas – If only one telecommunications corporation is involved in the distribution request, the distribution will be provided based upon the actual costs of that company. If additional telecommunications corporations are involved, the distribution will be determined on the basis of a competitive bid. The estimated amount of the distribution will be considered in evaluating each bid. Fund distributions in that area will be based on the winning bid.

**R-14-2-1203
Request for AUSF Support**

A provider of basic local exchange telephone service may request that the Commission authorize AUSF support with a filing under R14-2-103, R14-2-1202(A), R14-2-1202(B), or other method as the Commission may prescribe, and upon compliance with all applicable rules set forth in R14-2-1101 through R14-2-1115. A request for AUSF support shall include a statement describing the need for such funding. The Commission shall determine the appropriate cost of providing basic local exchange service for each AUSF support area for which AUSF support is requested and shall calculate in accordance with R14-2-1202 the amount of AUSF support, if any, to which the applicant is entitled. A provider of basic local exchange telephone service may request that the Commission authorize Revenue Neutral AUSF support, after fulfilling the requirements in Section R14-2-1202(A).

**R14-2-1204
Funding of the AUSF**

The AUSF shall be funded in accordance with this Article by all telecommunications service providers that interconnect to the public switched network. Within 30 days of the effective date of this Article, and thereafter on or before October 1 of each year, each telecommunications provider shall provide to the Administrator a list of all other telecommunications providers that interconnect to its facilities or network.

**R14-2-1205
Determination of AUSF Surcharge Rate and Contribution**

- A. The administrator, or the Commission, shall determine the state USF surcharge rate annually, on or before November 1 of each year, in sufficient time for contributions to be paid into and disbursements to be made from the fund. The surcharge rate will be based upon monthly and annual reports filed by ETCs, local exchange carriers eligible for revenue-neutral AUSF support pursuant to R14-2-1202(A), and contributing companies, and any other pertinent and reliable information available to the administrator or the Commission.

- B. Upon its determination of a USF surcharge rate, the administrator shall notify all contributing companies, ETCs, and the Commission. The rate determined by the administrator shall go into effect unless modified or disapproved by the Commission.
- C. The surcharge rate shall be equal to the annual fund requirement divided by the sum of intrastate retail telecommunications revenue for all contributing carriers in Arizona, and may be adjusted to account for any material deficit or surplus projected to exist at the start of the fund year.
- D. Each contributing company's monthly contribution shall equal the state USF surcharge rate multiplied by its intrastate retail telecommunications revenues in Arizona for the month.
- E. If, for any month the administrator finds that the fund balance is insufficient to cover required disbursements plus administrative expenses including audit fees, the administrator may, with the Commission's approval, increase contribution requirements to make up the shortfall. If the fund accumulates a surplus beyond what the administrator and the Commission believe is prudent under the circumstances, the administrator may, with the Commission's approval, decrease contribution requirements so as to lower the fund balance to an appropriate level.
- F. Each contributing company shall remit its monthly contribution to the administrator on a schedule to be determined by the administrator

**R14-2-1206
Implementation**

- A. Any provider of telecommunications service may file either an AUSF tariff or price list, if appropriate, establishing a flow-through mechanism to collect the surcharge approved by the Commission and calculated by the Administrator.
- B. On or before the 20th day of each month, each telecommunication service provider responsible for collecting AUSF surcharges shall remit to the Administrator the AUSF surcharge, collected by that telecommunications service provider during the preceding month. The telecommunications service provider shall submit such documentation of AUSF revenues from the AUSF surcharge as may be required by the Administrator.
- C. Eligible recipients of AUSF support are:
 - (1) Providers of telecommunications service engaged in providing basic local exchange telephone service in Arizona which have obtained a Commission order authorizing payments from the AUSF;
 - (2) Local exchange carriers eligible for revenue-neutral support based upon the provisions of R14-2-1202(A); and
 - (3) Providers that become entitled to AUSF support based upon the provisions of R14-2-1206(E).
- D. If the Commission approves AUSF support to a provider of telecommunications service for a defined area, such AUSF support shall also be available to competitive providers of basic

local exchange service in the same defined area that are contributing to the AUSF, and that are willing to provide service to all customers in the specific AUSF support area as defined by the Commission. The AUSF support to which the competitive provider is eligible shall be calculated based on the competitive carriers cost on a per-customer basis, but shall not result in an increase in the total cost based AUSF support available for the specific census block groups or study area. If basic exchange service is provided through the resale of another carrier's local loop facilities, AUSF based support will only be available to the retail service provider if AUSF support is not included in the wholesale price for the resold local service. This Section shall not apply to small local exchange carriers or to the universal service support being received by any telecommunications service provider as of the effective date of this Article.

- E. For small local exchange carriers and for any basic local exchange telephone service provider receiving universal service support as of the effective date of this Article, the AUSF cost based support shall not be available to competitive providers of basic local exchange service prior to completion of the review provided for in R14-2-1216. Following completion of the review, AUSF cost based support provided to small local exchange carriers shall be available to all competitive eligible telecommunications carriers providing basic local exchange service in the defined area and contributing to AUSF, and that are willing to provide service to all customers in the specific geographic study area as defined by the Commission, unless otherwise ordered by the Commission.
- F. Defined area, study area, geographic area, and support area mean the same area during the first three years of the effective date of this Article. After the first three years, they will still have the same meaning unless otherwise ordered by the Commission.

R14-2-1207

Calculation of Monthly Payments and the Associated Collections

- A. The monthly AUSF payment that each Telecommunications Service Provider shall remit to the Administrator is an amount equal to its total monthly intrastate revenue times the monthly surcharge percentage.
- B. Payments must be received by the Administrator by the 20th day of each month. If the payment amount is greater than \$10,000, then it shall be wire transferred to the Administrator.
- C. The Administrator shall enter into an appropriate non-disclosure agreement with each telecommunications service provider to assure that information necessary to allocate AUSF funding obligations and to calculate surcharges is reported, maintained, and used in a manner that will protect the confidentiality of company specific data. The Administrator shall not use confidential data for any purpose other than administering the AUSF.

R14-2-1208

Monthly AUSF Disbursements

- A. AUSF disbursement shall be made 30 days following the date of AUSF collections.

- B. The Administrator shall not make AUSF support payments to a provider of telecommunications service until the Administrator has received a copy of a Commission decision authorizing the provider to receive such support.

R14-2-1209

Procedures for Handling AUSF Rate Changes

- A. AUSF surcharges shall be revised when the Commission authorizes new or revised AUSF payments to any provider of telecommunications service. The Administrator shall calculate the new AUSF flow-through surcharges in accordance with this Article, which surcharge shall become effective upon the Commission's approval of the new or revised AUSF payments.
- B. An annual calculation to revise AUSF flow-through surcharges shall be made by the Administrator on December 1 of each year with an effective date the following January 1. The flow-through surcharges shall be calculated so that the total AUSF funding will equal the AUSF revenue requirements plus administrative costs including audit fees as well as any corrections and true-ups. No later than December 1 of each year, the Administrator shall provide notice to the Commission and all telecommunication service providers who pay into the AUSF of the flow-through surcharge rates for the following calendar year.

R14-2-1210

**Statement of Participation of All Telecommunications
Service Providers in the AUSF**

- A. Within 30 days of the effective date of this Article, each telecommunications service provider shall provide a letter to the Administrator acknowledging that provider's obligation under this Article to pay AUSF surcharges. Failure to provide such a letter shall be grounds for termination after written notice from the Administrator of the provider's interconnection with the public switched network.
- B. Any telecommunications service provider which begins providing telecommunications service after the effective date of this Article shall, within 30 days of beginning to provide intrastate service in Arizona, provide a letter to the Administrator acknowledging that provider's obligation under this Article to make monthly payments for the local and/or toll portion, as appropriate, of the AUSF contribution in accordance with this Article. Failure to provide such a letter shall be grounds for denying to the provider interconnection with the public switched network.

R14-2-1211

Duties and Responsibilities of the AUSF Administrator

The Administrator shall:

- (1) Develop, obtain, and, on or before December 15 of each year, file with the Commission such information and documentation as the Administrator deems necessary for the establishment and calculation of the surcharges for the succeeding year. Such a filing

shall also be made each time the Commission authorizes a change in the AUSF funding requirement.

- (2) Monitor the AUSF payments of all telecommunications providers.
- (3) Oversee the billing of AUSF surcharges.
- (4) Prepare the necessary forms to be used in reporting the AUSF collections and disbursements and maintain monthly records.
- (5) Coordinate the collection and disbursement of AUSF monies in accordance with this Article.
- (6) Prepare an annual report that provides a detailed accounting of the AUSF collections and disbursements and that identifies the annual cost of administration. The report shall be filed with the Commission on or before April 15 of each year.
- (7) Monitor procedures for auditing the AUSF collections and disbursements. The audit function shall be performed by an independent outside auditor.
- (8) Oversee reimbursement of the responsible agency's costs of administering Lifeline and Link-Up programs of Eligible Telecommunications Carriers pursuant to Article 22.

**R14-2-1213
Guidelines for Auditing the AUSF**

- A. The AUSF records covering both collections and disbursements shall be audited at the end of the first year following the designation of a third party administrator. The AUSF records will then be audited at least once every other year in the subsequent years of operations.
- B. The records shall be examined for accuracy and the existence of effective internal controls to ensure that the AUSF is being administered appropriately and properly.
- C. An independent external auditor selected by the Commission shall be utilized to provide an unbiased audit opinion concerning the AUSF administration procedures and controls.
- D. Any costs for conducting audits will be deducted from the revenues of the AUSF prior to disbursement of funds.

**R14-2-1214
Enforcement of Collection of Delinquent AUSF Amounts**

- A. The Administrator shall issue past due notices to each provider of telecommunications service that is 15 days or more delinquent in submitting its AUSF payments to the Administrator. A copy of this notice shall be provided to the Commission.
- B. AUSF support payments shall be withheld from any provider of telecommunications service that is delinquent in submitting its AUSF payments to the Administrator. Each provider of telecommunications service will be fully liable for any accrued interest owing on its AUSF contributions that remain unpaid for 30 days. Such delinquent AUSF payments will begin

accruing interest at the rate of 1 and ½% per month beginning with the 31st day until such amount is paid in full along with all accrued interest.

- C. Failure by the Telecommunications service provider to comply with the provisions of this Article any result in sanctions as determined by the Commission.

**R14-2-1215
AUSF Annual Report**

- A. On or before April 1 of each year, the Administrator shall file with the Commission an annual report which shall summarize the preceding year activity and contain the following:
 - (1) A statement of AUSF collections and disbursements.
 - (2) A record of the total cost of administration of the AUSF.
 - (3) Audit reports from the audits conducted during the year.
- B. A copy of the annual report shall be provided to each provider of telecommunications service who contributes to the AUSF.

**F14-2-1216
Review Process**

- A. Three years from the effective date of this Article, the Commission may consider the necessity of a comprehensive review of this Article. Upon recommendation from the Commission, the Commission staff shall initiate such review of this Article and shall provide the Commission with recommendations regarding any necessary changes to the Article. The Commission shall consider these recommendations in such proceeding as the Commission deems appropriate.
- B. The costs used to calculate AUSF funding levels for a given provider or AUSF support area may be reviewed by the Commission at least every three years following the effective date for any authorized AUSF support for the provider or study area. The Commission may reduce the authorized funding level and require that the AUSF surcharge be recalculated on the basis of this review.

**F14-2-1217
Supersession of Existing USF Mechanism**

The universal service funding mechanism initially approved by the Commission in Decision No. 56639 (September 22, 1989) is superseded by this Article, except that any calculation, contribution or collection of, or entitlement to, universal service fund support approved by the Commission prior to the adoption of this Article shall remain in effect until otherwise ordered by the Commission or until the Application of this Article leads to a different result.

Direct Testimony of Douglas Duncan Meredith
Arizona Corporation Commission
December 1, 2009
Exhibit DDM-02

ARTICLE 12. ARIZONA UNIVERSAL SERVICE FUND

R14-2-1201 Definitions

In this Article, unless the context otherwise requires, the following definitions shall apply:

1. **"Administrator"** is the person designated pursuant to R14-2-1212 to administer the AUSF and perform the functions required by this Article.
2. **"Arizona Corporation Commission"** or **"Commission"** is the regulatory agency of the state of Arizona having jurisdiction over public service corporations operating in Arizona.
3. **"Arizona Universal Service Fund"** or **"AUSF"** is the funding mechanism established by this Article through which surcharges are collected and support paid in accordance with this Article.
4. **"AUSF Support"** is the amount of money, calculated pursuant to this Article, which a provider of basic local telephone exchange service is eligible to receive from the AUSF pursuant to this Article.
5. **"AUSF Support Area"** is the geographic area for which a local exchange carrier's eligibility to receive AUSF support is calculated.
6. **"Basic" local exchange telephone service** is telephone service that provides the following features:
 - a. Access to 1-party residential service with a voice grade line;
 - b. Access to touchtone capabilities;
 - c. Access to an interexchange carrier;
 - d. Access to emergency services, including but not limited to emergency 911;
 - e. Access to directory assistance service;
 - f. Access to operator service;
 - g. Access to a white page or similar directory listing; and
 - h. Access to telephone relay systems for the hearing and speech impaired.
7. **"Basic local exchange rate"** means an incumbent local exchange carrier's tariffed, monthly, single-line flat rate charged to its retail customers for the provision of local exchange service.
- ~~7-8.~~ **"Benchmark rates"** for a telecommunications services provider are those rates approved by the Commission for that provider for basic local exchange telephone service, plus the Customer Access Line Charge approved by the Federal Communications Commission.
- ~~8-9.~~ ~~8.~~ **"Commercial Mobile Radio Service"** is any radio communication service carried on between mobile stations or receivers and land stations, or by mobile stations communicating among themselves, that is provided for profit and that makes available to the public service that is connected to the public switched network.
- ~~9.~~ **"Conversion Factor"** is a multiplier that is used to convert a quantity of interconnecting trunks for both wireless and wireline customers into equivalent access lines, for the sole

purpose of developing Category 1 surcharges. The value of the Conversion Factor shall be 10 until completion of the review provided for in R14-2-1216.

- ~~10.~~ "Interconnecting Trunk" is a 1-way or 2-way voice grade or equivalent voice grade switched message transmission channel furnished by a local switched access provider to a provider of wireless services or to a wireline customer of such local switched access provider to interconnect the provider of wireless service or wireline customer to the public switched network.
- ~~11.~~ "Intermediate Local Exchange Carriers" are incumbent providers of basic local exchange telephone service with more than 20,000 access lines but fewer than 200,000 access lines in Arizona.

~~12.~~

10. "Eligible telecommunications carrier (ETC)" means an entity with Arizona operations that provides retail telecommunications services that has been designated by the Commission as eligible to receive disbursements from the AUSF or from the federal universal service fund

11. "Intrastate retail telecommunications revenue" means the revenue collected from the sale of intrastate telecommunications services to end users for voice over internet protocol (VOIP) and similar services. (The portion of total retail revenues attributable to intrastate retail telecommunications shall be equal to the proportion of calls originating and terminating in Arizona to all calls originating in Arizona)

12. "Intrastate retail telecommunications services" means services including, but not limited to: all types of local exchange service; non-basic, vertical or discretionary services, also known as advanced features, or premium services, such as, but not limited to, call waiting, call forwarding, and caller ID; listing services; directory assistance services; cellular telephone and paging services; commercial mobile radio services; personal communications services (PCS); both optional and non-optional operator services; wide area telecommunications services (WATS) and WATS-like services; toll-free services; 900 services and other informational services; message telephone services (MTS or toll; CENTREX, Centron and Centron-like services; video conferencing and teleconferencing services; the resale of intrastate telecommunications services; payphone services; services that provide telecommunications through an Arizona telephone number using voice over internet protocol (VOIP) or comparable technologies; any services regulated by the Commission; and such other services as the Commission may by order designate from time to time as equivalent or similar to the services listed above, without regard to the technology used to deliver such services;

~~8-13.~~ "Large Local Exchange Carriers" are incumbent providers of basic local exchange telephone service serving more than 200,000 ~~or more~~ access lines in Arizona.

~~10-14.~~ ~~13.~~ "Small Local Exchange Carriers" are incumbent providers of basic local exchange telephone service with 20,000 or fewer access lines in Arizona.

~~14.~~

15. "Telecommunications Service Provider" means any carrier that provides intrastate retail public telecommunications services or comparable retail alternative services in Arizona, including but not limited to incumbent local exchange carriers, interexchange carriers, wireless carriers, and carriers providing fixed or nomadic service utilizing voice over internet protocol.

~~11-16.~~ **“Total Service Long Run Incremental Cost”** is the total additional cost incurred by a telecommunications company to produce the entire quantity of a service, given and the telecommunications company already provides all of its other services. Total Service Long Run Incremental Cost is based on the least cost, most efficient technology that is capable of being implemented at the time the decision to provide the service is made.

~~12-17.~~ ~~15.~~ **“U.S. Census Blocks”** are geographic areas defined by the U.S. Department of Commerce. The areas, which define the way in which census data is aggregated, generally contain between 250 and 550 housing units.

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-1202

Calculation of AUSF High-Cost Loop Support

~~A. The amount of AUSF support to which a provider of basic local exchange telephone service is eligible for a given AUSF support area shall be based upon the difference between the benchmark rates for basic local exchange telephone service provided by the carrier, and the appropriate cost to provider basic local exchange telephone service as determined by the Commission, net of any universal service support from federal sources.~~

A. B. For a An ETC shall be eligible to receive High Cost Loop Support (HCLS) for a given AUSF support area. For small local exchange carriers, the algorithm used to determine federal HCLS, which calculates loop cost in excess of 115% of the national average, shall be used as the basis for calculating state HCLS. For ETCs that receive federal HCLS, the AUSF shall provide the ETC an amount equal to the unreimbursed loop costs in excess of 115% of the national average.

B For a small local exchange carrier, the AUSF support area shall include all exchanges served by the local exchange carrier in Arizona, be identical to the support area or areas as identified by the FCC for federal USF. The appropriate cost of providing basic local exchange telephone service for purposes of determining AUSF support for a small local exchange carrier shall be the embedded cost of the incumbent provider. For any request for AUSF support by a small local exchange carrier filed more than three years after the effective date of this Article, the AUSF support area shall be the geographic areas as determined by the Commission.

~~C. For any intermediate local exchange carrier, the AUST support area shall be either all exchanges in Arizona served by the carrier, or such other support area as may be approved by the Commission. The appropriate cost of providing basic local exchange telephone service for purposes of determining AUSF support for an intermediate local exchange carrier shall be the embedded cost of the incumbent provider. For any request for AUSF support by an intermediate local exchange carrier filed more than three years after the effective date of this Article, the AUSF support area shall be geographic area as determined by the Commission, and the appropriate cost of providing basic local exchange telephone service for purposes of determining AUSF support shall be the Total Service Long Run Incremental Cost of the incumbent provider. In the event that the FCC adopts a somewhat different forward-looking costing methodology and/or a different geographic study/support area for the Federal universal service fund program, a local exchange carrier may request a waiver from this rule in order to utilize the same cost study methodology and/or geographic study areas in both jurisdictions.~~

~~D. _____~~

C. For a large local exchange carrier, the AUSF support area shall be U.S. census block groups, and the appropriate cost of providing basic local exchange telephone service for purposes of determining AUSF support shall be the Total Service Long Run Incremental Cost. In the event that the FCC adopts a somewhat different forward-looking costing methodology and/or a different geographic study/support area for the Federal universal service fund program, a local exchange carrier may request a waiver from this rule in order to utilize the same cost study methodology and/or geographic study areas in both jurisdictions. Any request for AUSF support by a large local exchange carrier shall include a Total Service Long Run Incremental Cost study, or cost study based on FCC adopted methodology, of basic local exchange service. The cost study shall be developed and presented in a manner that identifies the cost for the individual support areas for which AUSF funding is being requested.

Historical Note

~~Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).~~

R14-2-1202(A)
Calculation of Revenue Neutral AUSF Support

- A. Effective January 1, 2011, a local exchange carrier's intrastate switched access charges may not exceed its historical access rate, less one-half of the difference between its historical access rate and Qwest's composite intrastate switched access rate.
- B. Effective January 1, 2012, a local exchange carrier's intrastate switched access charges may not exceed Qwest's composite intrastate switched access rate.
- C. Prior to October 1 2010, each local exchange carrier shall submit to the administrator and the Commission the schedule of its intrastate access charge rate reductions in conformity with this rule and shall submit to the Commission proposed tariff revisions reflecting the schedule of rate reductions and other changes necessary to assure that, upon completion of the reductions, all tariffed intrastate switched access charge elements and structure will match Qwest's composite intrastate switched access rate. Included in this schedule of proposed reductions, each local exchange carrier shall submit a report containing their originating and terminating intrastate minutes-of-use for the calendar year 2009 (base year) and its calculation of AUSF support to be received under its proposed schedule filed under this section. Prior to November 1, 2010, the administrator shall issue its recommendation to the Commission regarding each local exchange carrier's schedule of its intrastate access charge rate reductions and corresponding AUSF support based on 2009 (base year) data. Prior to December 1, 2010, the Commission shall approve or deny each carrier's proposed reductions and AUSF support amounts.
- D. After receipt of Commission approval, the administrator shall calculate the monthly amount of AUSF support for each carrier and begin distribution of AUSF support provided for under this section. Monthly disbursements shall commence January 2011. Monthly disbursements under this section for each carrier shall remain fixed until an order mandating the revision of AUSF support is received under this section. Notwithstanding, no revisions to AUSF support received under this section shall occur until January 1, 2014.
- E. On or after January 1, 2014, the Commission, on its own motion or on the motion of a party or the administrator, may order the revision of a local exchange carrier's intrastate access charge rate reduction schedule and corresponding AUSF support received under this section.
- F. The Commission may, upon motion of a carrier or the administrator, or upon the Commission's own motion, authorize further intrastate switched access charge reductions for a carrier to correspond to any changes in Qwest's intrastate switched access service charge rates, elements or structure subsequent to January 1, 2011. Such changes to rates, elements or structure would continue to use 2009 (base year) minutes-of-use of each carrier in calculating the amount of AUSF support provided for under this section.

R14-2-1202(B)
Facility Extension Requests

- A. Applications for Distribution:

- (1) Potential customers not presently receiving basic local service because facilities are not available many apply to the Commission for distribution from the fund for extension of service to themselves or to a group of customers.
- (2) Those distributions are to be approved by the Commission, and made only in circumstances where traditional methods of funding and service provision are infeasible.
- (3) Distributions will not be made for customers who are not full time residents.
- (4) An application for a distribution may be filed with the Commission by an individual or group of consumers desiring telephone service, a telecommunications corporation on behalf of those consumers, the Commission staff, or any entity permitted by law to request agency action. An application shall identify the service(s) requested, the area to be served and the individuals or entities that will be served if the distribution is approved.
- (5) Following the application's filing, the affected telecommunications corporations shall provide any pertinent information requested by the Commission Staff including engineering, facilities and cost information that will assist in the Commission's consideration of the application.
- (6) In considering the application, the Commission will examine relevant facts including the type and grade of service to be provided, the cost of providing the service, the demonstrated need for the service, whether the customer is within the service territory of a telecommunications corporation, whether the proposed service is for a primary full time residence and other relevant factors to determine whether the one-time distribution is in the public interest.

B. Presumed reasonable amounts and terms:

- (1) Unless otherwise ordered by the Commission, the maximum distribution will be no more than \$25,000 per customer. The Commission will presume a wireline company's service or line extension terms and conditions reasonable for a subscriber connection with universal service fund distribution requests, if the costs of service extension are recovered as follows:
 - a. The first \$500 of cost coverage is provided by the company, and
 - b. For cost amounts exceeding the \$500 level, up to two times the statewide average loop investment for all regulated companies as determined annually by the Commission, equally provided by the company and the customer.
- (2) When the Commission approves an application for the use of AUSF: 95 percent of service extension costs above those recovered through the service extension cost recover terms specified above, shall be paid through AUSF, up to the maximum universal service fund expenditure levels specified by this rule. The remaining five percent or any additional amounts shall be paid by additional customer contributions beyond those specified above.

- (3) Potential customers in the area shall be notified by the telecommunications corporation of the nature and extent of the proposed service extension, the Commission's approval of the application, and the necessary customer contribution amounts to participate in the project. Customer contribution payments shall be made prior to the start of construction.
- (4) Within five years following approval of the application, any customer that seeks telecommunications service in the project area serviceable by an AUSF-funded loop drop shall pay a customer contribution equal to the original customer contributions in the project. Funds received through these payments shall be sent to the AUSF administrator.
- (5) For each customer added during the five-year period following project completion, the telecommunications corporation and new customers shall bear the costs to extend service pursuant to the company's service or line extension terms and conditions and up to the telecommunications corporation's original contribution per customer for the project and the customer contribution required by this rule. The company may petition the Commission for a determination of the recovery from universal service fund and the new customer for costs which exceed this amount.
- (6) Impact of distribution on Companies – A distribution from the fund under this subsection shall be recorded on the books of a regulated LEC as an aid to construction and treated as an offset in rate base.
- (7) Notice and Hearing – Following notice that a distribution application has been filed any interested party may request a hearing or seek to intervene to protect its interest.
- (8) Bidding for Unserved Areas – If only one telecommunications corporation is involved in the distribution request, the distribution will be provided based upon the actual costs of that company. If additional telecommunications corporations are involved, the distribution will be determined on the basis of a competitive bid. The estimated amount of the distribution will be considered in evaluating each bid. Fund distributions in that area will be based on the winning bid.

**R-14-2-1203
Request for AUSF Support**

A provider of basic local exchange telephone service may request that the Commission authorize AUSF support with a filing under R14-2-103, R14-2-1202(A), R14-2-1202(B), or other method as the Commission may prescribe, and upon compliance with all applicable rules set forth in R14-2-1101 through R14-2-1115. A request for AUSF support shall include a statement describing the need for such funding. The Commission shall determine the appropriate cost of providing basic local exchange service for each AUSF support area for which AUSF support is requested and shall calculate in accordance with R14-2-1202 the amount of AUSF support, if any, to which the applicant is entitled. A provider of basic local exchange telephone service may request that the Commission authorize Revenue Neutral AUSF support, after fulfilling the requirements in Section R14-2-1202(A).

Historical Note

~~Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).~~

R14-2-1204
Funding of the AUSF

A. The AUSF shall be funded in accordance with this Article by all telecommunications service providers that interconnect to the public switched network. Within 30 days of the effective date of this Article, and thereafter on or before October 1 of each year, each telecommunications provider shall provide to the Administrator a list of all other telecommunications providers that interconnect to its facilities or network.

B. ~~The AUSF shall be funded equally by toll and local customers of the providers of telecommunications services, and shall be accessed in the following manner:~~

1. ~~Category 1 — Providers of basic local exchange service, as discussed in R14-2-1204(B)(1)(a), and other service providers as required under R14-2-1204(B)(1)(a)(i) or permitted under R14-2-1204(B)(3)(b), shall be considered providers of category 1 service.~~

~~a. One half of the AUSF funding requirement will be collected through Category 1 service providers. Category 1 AUSF assessment will be based upon access lines and interconnecting trunks, and assessed by providers of local switched access as either an access line or interconnecting trunk surcharge. The "per access line" surcharge to be in place during a given year will be calculated by the Administrator using the total number of access lines and equivalent access lines deriving from interconnecting trunks that were in service for all Category 1 service providers on October 1 of the previous year. Access lines shall include business and residence lines, public access lines, and other identifiable access lines. All wireless providers including but not limited to paging and other Commercial Mobile Radio Service providers, that interconnect to the public switched network will contribute to the AUSF under the requirements of Category 1. The number of interconnecting trunks obtained from the local access provider by the wireless provider shall be utilized in conjunction with a Conversion Factor to determine AUSF support from such wireless provider by means of a surcharge on such interconnecting trunks. A wireless provider that fails to contribute to the AUSF as required by this Article shall be subject to termination of its interconnection arrangements pursuant to R14-2-1214(C).~~

~~b. On or before November 1 of each year, each Category 1 local switched access service provider shall provide to the Administrator the number of access lines and number of interconnecting trunks that were in service on October 1 of that year. The Administrator will use these numbers together with the Conversion Factor in calculating the per access line surcharge and per interconnecting trunk surcharge for the following year. The Administrator will multiply the total number of interconnecting trunks by the Conversion Factor to obtain an equivalent number of access lines for the purpose of calculating the surcharges.~~

2. ~~Category 2 — Providers of Intrastate toll service or other service providers as permitted under R14-2-1204(B)(3), shall be considered providers of Category 2 service and shall be assessed AUSF charges as follows:~~

~~a. One half of the AUSF funding requirement will be collected through Category 2 service providers. The Category 2 AUSF assessment will be based on total Arizona intrastate toll revenue, and assessed as a percent of revenue. The percent of revenue assessment to be in place during a given year will be calculated by the Administrator using the annual Arizona intrastate revenue for all Category 2 service providers for the previous year.~~

- b. ~~On or before November 1 of each year, each Category 2 service provider shall report to the Administrator the total Arizona intrastate revenue collected between August 1 of the current year and Aug 1 of the previous year. The administrator will use this revenue so reported to calculate this AUSF assessment rate for the following year.~~
3. ~~New telecommunications service providers.~~
- a. ~~Telecommunications providers that begin providing basic local exchange service after the effective date of this Article shall be assessed AUSF charges pursuant to R14-2-1204(B)(1). Telecommunications providers that begin providing toll service after the effective date of this Article shall be assessed AUSF charges pursuant to R14-2-1204(B)(2).~~
- b. ~~All other telecommunications service providers that interconnect to the public switched network and begin providing telecommunications service after the effective date of this Article, shall choose to be considered either a Category 1, Category 2, or both Category 1 and Category 2 service provider. Such election shall be made in writing to the Administrator within 30 days of beginning to provide telecommunications service in Arizona, with a copy to the Director of Utilities. Written concurrence of the Director of Utilities must be received by the Administrator for such selection to be effective. Such selection will be irrevocable for a period of at least three years.~~
4. ~~A telecommunications provider that provides both Category 1 and Category 2 services shall be assessed AUSF charges pursuant to both R14-2-1204(B)(1) and R14-2-1204(B)(2).~~

Historical Note

Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).

R14-2-1205
Calculation of Surcharges

- A. ~~The Administrator will calculate the total AUSF support due all local exchange carriers who have been granted AUSF support by the Commission. Administrative costs and audit fees will be added to this amount. The amount of any excess funds in the AUSF will then be subtracted to determine the total funding requirement. The funding requirements from Category 1 and Category 2 service providers will then be calculated. One half of the funding will be obtained from Category 1 providers through surcharges applied to access lines and interconnecting trunks in service. The other half will be obtained from Category 2 providers through surcharges on intrastate toll revenues.~~
- B. ~~For the purpose of determining the surcharges, the Administrator will develop growth factors to apply to the total reported access lines and toll revenues. Such growth factors will be calculated at 1/2 of the estimated annual percentage growth in access lines and in toll revenues.~~
- C. ~~Category 1 Surcharge. One half of the total annual AUSF support approved by the Commission for all eligible recipients will be obtained from Category 1 service providers. A monthly per access line surcharge and a monthly per interconnecting trunk surcharge required to obtain this funding will be calculated as follows:~~
- ~~1. Adding together the number of access lines and equivalent access lines for all Category 1 service providers, adjusted by the growth factor;~~
 - ~~2. Dividing the total annual AUSF support approved by the Commission for all eligible recipients by 2 to obtain the portion of AUSF required from Category 1 service providers;~~
 - ~~3. Dividing the amount of Category 1 AUSF support calculated in subsection (C)(2) by the sum of access lines calculated in subsection (C)(1) to yield the per access line surcharge;~~
 - ~~4. Dividing the per access line surcharge calculated in subsection (C)(3) by 12 to determine the monthly access line assessment;~~
 - ~~5. Multiplying the surcharge obtained in subsection (C)(4) by the Conversion Factor to determine the monthly interconnecting trunk surcharge.~~
- D. ~~Category 2 Surcharge. One half of the total annual AUSF support approved by the Commission for all eligible recipients will be obtained from Category 2 service providers. A percent of revenue surcharge required to obtain this funding will be calculated as follows:~~
- ~~1. Totaling the annual intrastate toll revenues of all Category 2 service providers, adjusted by the growth factor;~~
 - ~~2. Dividing the total AUSF support approved by the Commission for all eligible recipients by 2 to obtain the portion of AUSF support required from Category 2 service providers;~~
 - ~~3. Dividing the amount of Category 2 AUSF support requirement calculated in subsection (D)(2) by the total annual intrastate toll revenues calculated in subsection (D)(1) to arrive at a percentage of revenue surcharge.~~
- E. ~~Recipients of lifeline or other low income support shall be exempt from paying a Category 1 surcharge.~~

Historical Note

~~Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).~~

R14-2-1205
Determination of AUSF Surcharge Rate and Contribution

- A. The administrator, or the Commission, shall determine the state USF surcharge rate annually, on or before November 1 of each year, in sufficient time for contributions to be paid into and disbursements to be made from the fund. The surcharge rate will be based upon monthly and annual reports filed by ETCs, local exchange carriers eligible for revenue-neutral AUSF support pursuant to R14-2-1202(A), and contributing companies, and any other pertinent and reliable information available to the administrator or the Commission.
- B. Upon its determination of a USF surcharge rate, the administrator shall notify all contributing companies, ETCs, and the Commission. The rate determined by the administrator shall go into effect unless modified or disapproved by the Commission.
- C. The surcharge rate shall be equal to the annual fund requirement divided by the sum of intrastate retail telecommunications revenue for all contributing carriers in Arizona, and may be adjusted to account for any material deficit or surplus projected to exist at the start of the fund year.
- D. Each contributing company's monthly contribution shall equal the state USF surcharge rate multiplied by its intrastate retail telecommunications revenues in Arizona for the month.
- E. If, for any month the administrator finds that the fund balance is insufficient to cover required disbursements plus administrative expenses including audit fees, the administrator may, with the Commission's approval, increase contribution requirements to make up the shortfall. If the fund accumulates a surplus beyond what the administrator and the Commission believe is prudent under the circumstances, the administrator may, with the Commission's approval, decrease contribution requirements so as to lower the fund balance to an appropriate level.
- F. Each contributing company shall remit its monthly contribution to the administrator on a schedule to be determined by the administrator

R14-2-1206
Implementation

- A. A.—Any provider of telecommunications service may file either an AUSF tariff or price list, if appropriate, establishing a flow-through mechanism to collect the surcharge approved by the Commission and calculated by the Administrator.
- B. B.—On or before the 20th day of each month, each ~~Category 4~~telecommunication service provider responsible for collecting AUSF surcharges shall remit to the Administrator the AUSF surcharge, ~~including any surcharge on wireless providers, collected by that telecommunications service provider during the preceding month.~~ The ~~Category 4 telecommunications service~~ provider shall submit such documentation of AUSF revenues from the AUSF surcharge as may be required by the Administrator.
- C. C.—On or before the 20th day of each month, each ~~Category 2~~ service provider responsible for collecting AUSF surcharges shall remit to the Administrator the AUSF surcharge

~~collected by that provider during the third preceding month. The Category 2 provider shall submit such documentation of AUSF revenues from the AUSF surcharge as may be required by the Administrator.~~

C. ~~D.~~ Eligible recipients of AUSF support are:

(1) Providers of telecommunications service engaged in providing basic local exchange telephone service in Arizona which have obtained a Commission order authorizing payments from the AUSF; ~~and~~

(2) Local exchange carriers eligible for revenue-neutral support based upon the provisions of R14-2-1202(A); and

(2)(3) Providers that become entitled to AUSF support based upon the provisions of R14-2-1206(E).

D. ~~E.~~ If the Commission approves AUSF support to a provider of telecommunications service for a defined area, such AUSF support shall also be available to competitive providers of basic local exchange service in the same defined area that are contributing to the AUSF, and that are willing to provide service to all customers in the specific AUSF support area as defined by the Commission. The AUSF support to which the competitive provider is eligible shall be calculated based on the competitive carriers cost on a per-customer basis, at the same level at which the incumbent provider of telecommunications service receives AUSF support, ~~and but~~ shall not result in an increase in the total cost based AUSF support available for the specific census block groups or study area. If basic exchange service is provided through the resale of another carrier's local loop facilities, AUSF based support will only be available to the retail service provider if AUSF support is not included in the wholesale price for the resold local service. This Section shall not apply to small local exchange carriers ~~nor~~ to the universal service support being received by any telecommunications service provider as of the effective date of this Article.

E. ~~F.~~ For small local exchange carriers and for any basic local exchange telephone service provider receiving universal service support as of the effective date of this Article, the AUSF cost based support shall not be available to competitive providers of basic local exchange service prior to completion of the review provided for in R14-2-1216. Following completion of the review, AUSF cost based support provided to small ~~and intermediate~~ local exchange carriers shall be available to all competitive providers of eligible telecommunications carriers providing basic local exchange service in the defined area ~~that are~~ and contributing to AUSF, and that are willing to provide service to all customers in the specific geographic study area as defined by the Commission, unless otherwise ordered by the Commission.

F. ~~G.~~ Defined area, study area, geographic area, and support area mean the same area during the first three years of the effective date of this Article. After the first three years, they will still have the same meaning unless otherwise ordered by the Commission.

Historical Note

~~Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).~~

R14-2-1207

Calculation of Monthly Payments and the Associated Collections

- ~~A. For the monthly Category 1 AUSF payment, each provider of local switched access shall remit to the Administrator an amount equal to the number of access lines in service on the first day of the month, times the monthly surcharge per access line plus the number of interconnecting trunks in service on the first day of the month, times the monthly interconnecting trunk surcharge.~~
- A. ~~B.~~—The monthly AUSF payment that each ~~Category 2~~ Telecommunications Service Provider shall remit to the Administrator is an amount equal to its total monthly intrastate toll revenue times the monthly surcharge percentage.
- B. ~~C.~~—Payments must be received by the Administrator by the 20th day of each month. If the payment amount is greater than \$10,000, then it shall be wire transferred to the Administrator.
- C. ~~D.~~—The Administrator shall enter into an appropriate non-disclosure agreement with each telecommunications service provider to assure that information necessary to allocate AUSF funding obligations and to calculate surcharges is reported, maintained, and used in a manner that will protect the confidentiality of company specific data. The Administrator shall not use confidential data for any purpose other than administering the AUSF.

Historical Note

~~Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).~~

R14-2-1208
Monthly AUSF Disbursements

- | A. ~~A.~~—AUSF disbursement shall be made 30 days following the date of AUSF collections.
- | B. ~~B.~~—The Administrator shall not make AUSF support payments to a provider of telecommunications service until the Administrator has received a copy of a Commission decision authorizing the provider to receive such support.

Historical Note

~~Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).~~

R14-2-1209
Procedures for Handling AUSF Rate Changes

- | A. ~~A. Category 1 and Category 2~~ AUSF surcharges shall be revised when the Commission authorizes new or revised AUSF payments to any provider of telecommunications service. The Administrator shall calculate the new AUSF flow-through surcharges in accordance with this Article, which surcharge shall become effective upon the Commission's approval of the new or revised AUSF payments.

- | B. ~~B.~~—An annual calculation to revise AUSF flow-through surcharges shall be made by the Administrator on December 1 of each year with an effective date the following January 1. The flow-through surcharges shall be calculated so that the total AUSF funding will equal the AUSF revenue requirements plus administrative costs including audit fees as well as any corrections and true-ups. No later than December 1 of each year, the Administrator shall provide notice to the Commission and all telecommunication service providers who pay into the AUSF of the flow-through surcharge rates for the following calendar year.

Historical Note

~~Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).~~

R14-2-1210
Statement of Participation of All Telecommunications
Service Providers in the AUSF

- | A. A.—Within 30 days of the effective date of this Article, each telecommunications service provider shall provide a letter to the Administrator acknowledging that provider's obligation under this Article to pay AUSF surcharges. Failure to provide such a letter shall be grounds for termination after written notice from the Administrator of the provider's interconnection with the public switched network.

- | B. B.—Any telecommunications service provider which begins providing telecommunications service after the effective date of this Article shall, within 30 days of beginning to provide intrastate service in Arizona, provide a letter to the Administrator acknowledging that provider's obligation under this Article to make monthly payments for the local and/or toll portion, as appropriate, of the AUSF contribution in accordance with this Article. Failure to provide such a letter shall be grounds for denying to the provider interconnection with the public switched network.

Historical Note

~~Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).~~

R14-2-1211
Duties and Responsibilities of the AUSF Administrator

The Administrator shall:

- (1) Develop, obtain, and, on or before December 15 of each year, file with the Commission such information and documentation as the Administrator deems necessary for the establishment and calculation of the ~~Category 1 and Category 2~~ surcharges for the succeeding year. Such a filing shall also be made each time the Commission authorizes a change in the AUSF funding requirement.
- (2) Monitor the AUSF payments of all telecommunications providers.
- (3) Oversee the billing of AUSF surcharges.
- (4) Prepare the necessary forms to be used in reporting the AUSF collections and disbursements and maintain monthly records.
- (5) Coordinate the collection and disbursement of AUSF monies in accordance with this Article.
- (6) Prepare an annual report that provides a detailed accounting of the AUSF collections and disbursements and that identifies the annual cost of administration. The report shall be filed with the Commission on or before April 15 of each year.
- (7) Monitor procedures for auditing the AUSF collections and disbursements. The audit function shall be performed by an independent outside auditor.

Historical Note

~~Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).~~

R14-2-1212
Interim Administrator

~~US WEST Communications, Inc., will serve as interim Administrator of the AUSF and will perform the functions detailed herein that are required of the Administrator for a transition period until a private, neutral third party is appointed by the Commission to serve as Administrator of the AUSF. A neutral third party selected through the competitive bid process shall be appointed no later than July 1, 1997.~~

Historical Note

~~Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).~~

(8) Oversee reimbursement of the responsible agency's costs of administering Lifeline and Link-Up programs of Eligible Telecommunications Carriers pursuant to Article 22.

R14-2-1213

Guidelines for Auditing the AUSF

- A. A.—The AUSF records covering both collections and disbursements shall be audited at the end of the first year following the designation of a third party administrator. The AUSF records will then be audited at least once every other year in the subsequent years of operations.
- B. B.—The records shall be examined for accuracy and the existence of effective internal controls to ensure that the AUSF is being administered appropriately and properly.
- C. C.—An independent external auditor selected by the Commission shall be utilized to provide an unbiased audit opinion concerning the AUSF administration procedures and controls.
- D. D.—Any costs for conducting audits will be deducted from the revenues of the AUSF prior to disbursement of funds.

Historical Note

~~Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).~~

R14-2-1214

Enforcement of Collection of Delinquent AUSF Amounts

- A. ~~A.~~—The Administrator shall issue past due notices to each provider of telecommunications service that is 15 days or more delinquent in submitting its AUSF payments to the Administrator. A copy of this notice shall be provided to the Commission.
- B. ~~B.~~—AUSF support payments shall be withheld from any provider of telecommunications service that is delinquent in submitting its AUSF payments to the Administrator. Each provider of telecommunications service will be fully liable for any accrued interest owing on its AUSF contributions that remain unpaid for 30 days. Such delinquent AUSF payments will begin accruing interest at the rate of 1 and ½% per month beginning with the 31st day until such amount is paid in full along with all accrued interest.
- C. ~~The local switched access service provider shall promptly notify the Commission and the Administrator of the identity of any wireless provider which fails or refuses to pay its AUSF surcharge. Such notice shall also be directed to the wireless provider. If the wireless provider has not paid the amount due within 30 days of such notice, the interconnection provider shall terminate the wireless provider's interconnection until the full amount together with all accrued interest, is paid in full (unless the payment is in bonafide dispute and the wireless carrier has paid the undisputed amount).~~
- C. ~~D.~~—Failure by the Telecommunications service provider to comply with the provisions of this Article any result in sanctions as determined by the Commission.

Historical Note

~~Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).~~

R14-2-1215
AUSF Annual Report

- A. ~~A.~~—On or before April 1 of each year, the Administrator shall file with the Commission an annual report which shall summarize the preceding year activity and contain the following:
- (1) A statement of AUSF collections and disbursements.
 - (2) A record of the total cost of administration of the AUSF.
 - (3) Audit reports from the audits conducted during the year.
- B. ~~B.~~—A copy of the annual report shall be provided to each provider of telecommunications service who contributes to the AUSF.

Historical Note

~~Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).~~

F14-2-1216
Review Process

- A. ~~A. Not later than Three years from the effective date of this Article, the Commission staff shall initiate~~ may consider the necessity of a comprehensive review of this Article. Upon recommendation from the Commission, the Commission staff shall initiate such review of this Article and shall provide the Commission with recommendations regarding any necessary changes to the Article. ~~Any interested party may also make such recommendations.~~ The Commission shall consider these recommendations in such proceeding as the Commission deems appropriate.
- B. ~~B.—~~The costs used to calculate AUSF funding levels for a given provider or AUSF support area ~~shall~~may be reviewed by the Commission at least every three years following the effective date for any authorized AUSF support for the provider or study area. The Commission may reduce the authorized funding level and require that the AUSF surcharge be recalculated on the basis of this review.

Historical Note

~~Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).~~

F14-2-1217
Supersession of Existing USF Mechanism

The universal service funding mechanism initially approved by the Commission in Decision No. 56639 (September 22, 1989) is superseded by this Article, except that any calculation, contribution or collection of, or entitlement to, universal service fund support approved by the Commission prior to the adoption of this Article shall remain in effect until otherwise ordered by the Commission or until the Application of this Article leads to a different result.

Historical Note

~~Adopted effective April 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-2).~~

~~*Editor's Note: The Arizona Corporation Commission has determined that the following Article is exempt from the Attorney General approval provisions of the Arizona Administrative Procedure Act (A.R.S. § 41-1041) by a court order (State ex. rel. Corbin v. Arizona Corporation Commission, 174 Ariz. 216 848 P.2d 301 (App. 1992)).*~~

Direct Testimony of Douglas Duncan Meredith
Arizona Corporation Commission
December 1, 2009
Exhibit DDM-03

ARTICLE 22. LIFELINE AND LINKUP BENEFITS

R14-2-2201. Application

This rule applies to all entities that have been designated by the commission as eligible telecommunications carriers and that may receive disbursements from the state universal service fund or the federal universal service fund.

R14-2-2202. Definitions

For purposes of this Article, the following definitions apply unless the context otherwise requires:

1. "applicant" means an eligible customer of an eligible telecommunications carrier;
2. "carrier" means an entity that provides intrastate retail public telecommunications services or comparable retail alternative services in Arizona;
3. "eligible telecommunications carrier (ETC)" means a carrier that has been designated by the commission as eligible to receive disbursements from the state universal service fund or the federal universal service fund;
4. "federal poverty guidelines" means the poverty guidelines issued each year by the federal health and human services department and published in the federal register;
5. "income" means all income actually received by all members of the household. This includes salary before deductions of taxes, public assistance benefits, inheritances, alimony, child support payments, workers' compensation benefits, gifts, lottery winnings, and the like. The only exceptions are student financial aid, military housing and cost-of-living allowances, irregular income from occasional small jobs such as baby-sitting or lawn mowing, and the like;
6. "responsible agency" means the state government agency or other entity designated by the commission to administer the certification, verification and continued verifications of lifeline enrollment.

R14-2-2203. Eligibility Requirements

A. Program-Based Criteria: all ETCs shall provide lifeline and linkup benefits to any applicant who self-certifies, under penalty of perjury, that his or her household is eligible for public assistance under one or more of the following programs:

1. Temporary Assistance to Needy Families (TANF);
2. Food Stamps;
3. Low Income Home Energy Assistance Program (LIHEAP);
4. Medicaid, including KidsCare;
5. Supplemental Security Income;
6. National School Lunch Program; or
7. Federal Public Housing Assistance.

B. Income-Based Criteria: all ETCs shall provide lifeline and linkup benefits to any applicant who certifies, with supporting documentation and under penalty of perjury, that his or her household income is at or below 150 percent of the applicable federal poverty guidelines upon annual publication by the U. S. Department of Health and Human Services in the Federal Register.

1. income-based eligibility is based, in part, on household size. Therefore, an applicant must certify, under penalty of perjury, the number of individuals residing in his or her household.

2. an applicant must certify, under penalty of perjury, that the documentation supporting income-based certification accurately represents the applicant's annual household income. The following documents, or any combination of these documents, are acceptable to support certification based upon income:

- a. prior year's state, federal or Tribal tax returns;
- b. current year-to-date earnings statement from an employer or three consecutive months of paycheck stubs;
- c. Social Security Administration statement of benefits;
- d. Veteran's Administration statement of benefits;
- e. Retirement/pension statement of benefits;
- f. Unemployment/Workers Compensation statement of benefits;
- g. Federal or Tribal notice of participation in Bureau of Indian Affairs General Assistance; or
- h. Divorce decree or child support wage assignment statement.

C. Application: The application form for participation in lifeline and linkup benefits shall be available from each ETC, the commission's consumer services division, and the responsible agency, if one has been designated by the commission. Each completed application shall contain the following information, where applicable:

- 1. applicant's name, telephone number and home address;
- 2. the particular public assistance program(s), if applicable, and identification of the ETC that the applicant anticipates will provide service;
- 3. an affirmative statement that the applicant qualifies for lifeline or linkup benefits;
- 4. an affirmative statement under penalty of perjury affirming that the applicant is participating in one of the programs listed in R14-2-2203(A), or a statement under penalty of perjury affirming that the applicant's household income is at or below 150 percent of the federal poverty guidelines;
 - a. if the application is based on income criteria, a statement under penalty of perjury that identifies the number of individuals residing in the household and affirms that the documentation presented to support income-based eligibility accurately represents the applicant's household income;
- 5. an affirmative statement under penalty of perjury that the applicant is not receiving lifeline benefits of any kind on any other telephone or wireless account; and
- 6. the applicant's signature.

D. Document retention: the ETC and/or responsible agency shall retain eligibility applications for three [3] calendar years.

E. Tribal land lifeline and linkup benefits: customers who live on Tribal lands and who qualify for state lifeline and linkup benefits based on the program or income criteria set forth in R-14-2-2203(A) and (B) are eligible to receive prescribed federal benefits. Such federal benefits are not within the scope of, nor governed by, this rule.

R14-2-2204. Continuing Eligibility

A. Annual Verification: the continuing eligibility of customers for lifeline benefits shall be verified annually.

B. Verification Methods: the ETC and/or responsible agency shall verify the continued eligibility of lifeline customers under the program-based and income-based eligibility criteria.

- 1. the ETC and/or responsible agency shall establish methods by which program-based and income-based eligibility shall be verified on an annual basis including, but not limited to, self-certification, reviews of state computer data bases, beneficiary audits, income documentation, or the continued eligibility of a statistically valid sample of lifeline customers.

C. Termination Notices and Dispute Resolution: if a customer fails to establish continued eligibility, the ETC and/or responsible agency shall notify the customer of its intent to discontinue the customer's eligibility and the basis for that decision.

1. the eligibility termination notice shall be in writing and shall be delivered to the customer's mailing address.
2. the eligibility termination notice must allow the customer at least 60 days to demonstrate the continued eligibility consistent with this rule. The customer's participation in lifeline service may not be discontinued during this 60-day period.
3. the eligibility termination notice shall include a statement advising the customer of the option to continue local telephone service after termination of lifeline service benefits at the non-discounted rate.
4. if the customer fails to provide proof of continued eligibility as required, or the ETC and/or responsible agency does not accept the customer's proof of continued eligibility, the ETC and/or responsible agency shall notify the customer in writing of its determination to discontinue the customer's participation in lifeline benefits. The notice shall include instructions for filing an appeal of the determination.
5. if the customer disputes the non-eligibility determination, he or she shall notify the ETC or responsible agency. If the customer is still unable to resolve the dispute, he or she may appeal a non-eligibility determination within 60 days of the date of the notice from the ETC and/or responsible agency by filing a written notice of appeal with the commission. Lifeline benefits will continue pending an appeal of a non-eligibility determination.

R-14-2-2205. Lifeline And Linkup Benefits

A. Benefits: lifeline benefits provided by ETCs shall consist of basic service, or its functional equivalent and any other lifeline benefits established by the federal communications commission. ETCs shall provide linkup benefits in accordance with the federal linkup program utilizing the eligibility criteria set forth in R14-2-2103(A) and (B).

B. Deposits: when customer security deposits are otherwise required, they will be waived for lifeline service customers if the customer voluntarily elects to receive toll blocking.

C. Nonrecurring Charge Waiver: lifeline customers will receive a waiver of the nonrecurring charge for changing the type of local exchange usage service to lifeline, or changing from flat rate service to message rate service, or vice versa, but only one such waiver shall be allowed during any 12-month period.

D. Termination: lifeline benefits shall not be terminated for nonpayment of toll service.

E. Restrictions: a lifeline customer may receive lifeline and linkup benefits only for the customer's principal service line.

F. Other Services: a lifeline customer will not be required to purchase other services from the ETC, nor prohibited from purchasing other services, unless the customer has failed to comply with the ETC's terms and conditions for those services.

R-14-2-2206. Cost Recovery

The total cost of providing lifeline service, including the administrative costs of the ETCs and the costs incurred by the responsible agency, shall be recovered and funded from the state rural universal service fund pursuant to Article 12.