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Sprint

ORIGINAL

Sprint Nextel
201 Mission Street, Ste 1500
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December 1, 2009

Arizona Corporation Commission
Docket Control
1200 W. Washington Street
Phoenix, AZ 85007

RE: Docket Nos. RT-00000H-97-0137 and T-00000D-00-0672

Dear Docket Officer:

Enclosed for filing the the Arizona Corporation Commission you will find an original and 13 copies of the Direct Testimony of James A. Appleby on Behalf of Sprint Communications L.P., Sprint Spectru, L.P. and Nextel West Corp. in the above-referenced dockets. A copy of this document has been served upon all parties of record.

Please feel free to contact me at 415-572-8358 or at stephen.h.kukta@sprint.com with any questions or concerns you may have regarding this filing.

Very truly yours,

Stephen H. Kukta/km

Stephen H. Kukta

BEFORE THE ARIZONA CORPORATION COMMISSION

COMISSIONERS

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

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

DIRECT TESTIMONY

OF

JAMES A. APPLEBY

ON BEHALF OF

SPRINT COMMUNICATIONS COMPANY, L.P.,

SPRINT SPECTRUM, L.P. AND NEXTEL WEST CORP

December 1, 2009

Q. Please state your name and business address.

A. My name is James A. Appleby. My business address is 6450 Sprint Parkway, Overland Park, Kansas 66251.

Q. What is your position and who are you representing in this proceeding?

A. I am employed as a Regulatory Policy Manager for Sprint Nextel Corporation. I am testifying on behalf of Sprint Communications Company, L.P., Sprint Spectrum, L.P. and Nextel West (collectively, "Sprint Nextel"). Sprint Nextel is a provider of wireline long distance service, wireless communications services and wholesale telecommunications to our cable telephony partners in Arizona.

Q. Please summarize your educational background and business experience.

A. I hold a Bachelor of Science degree in accounting from Shippensburg University in the state of Pennsylvania. I became a Certified Public Accountant in Pennsylvania in 1989. I have been employed by Sprint since 1989. I began working with Sprint's Regulatory Policy Group in 1996. In my current position as Regulatory Policy Manager, I am responsible for the development of state and federal regulatory and legislative policy for all divisions of Sprint Nextel Corporation. I am also responsible for the coordination of policy across business units. The specific policy issues that I address include, among other things, intercarrier compensation, universal service, pricing, access reform, reciprocal compensation, interconnection, and local competition.

Q. Have you previously testified before other state Commissions?

A. Yes. In my position I have also testified before the Public Service Commission of South Carolina, the Missouri Public Service Commission, the Indiana Utility Regulatory Commission, the Michigan Public Service Commission, the New Jersey Board of Public Utilities, the Virginia State Corporation Commission, the Nebraska Public Service Commission, the Kansas Corporation Commission, Pennsylvania Public Utility Commission and the Iowa Utilities Board. Additionally, I have testified before state legislative committees, and I have also worked with the various state Commissions' staff and the Federal Communication Communication's ("FCC") staff.

Purpose, Scope and Summary of Testimony

Q. What is the purpose and scope of your testimony?

A. My testimony will explain why the subsidies embedded in local exchange carriers ("LEC") intrastate switched access rates are unreasonable in today's market and harmful to competition and consumers. My testimony explains why it is essential to the development of a fully competitive Arizona telecommunications market that the prices of intrastate switched access[1] be reduced for all LECs. I will further demonstrate that high wholesale switched access rates inflate the price for all retail voice telecommunications services that require those access services as an essential input. My testimony also explains how the consumers of Arizona will

[1] To the extent that I use the term intrastate access, or simply access, I mean intrastate switched access.

benefit from reductions to LEC switched access charges. Finally, my testimony will provide Sprint Nextel's specific recommendation for LEC intrastate access reductions and why LECs no longer require access subsidies.

Q. Please summarize your testimony.

A. Switched access is a monopoly service. All carriers that compete against LECs in the retail market must use switched access to terminate non-local calls to the LECs' customers. This includes traffic originated by wireless providers who pay terminating access on wireless calls to landline customers when such calls cross Metropolitan Trading Area ("MTA") boundaries. Wireless carriers, however, do not collect access charges on toll calls received from other carriers, including the LECs. Carriers cannot compete on an equal footing with LECs if the LECs are permitted to impose on their competitors input costs that are far above the actual cost of providing those functions.

Access prices were historically inflated as a mechanism to subsidize the price of basic local service in a regulated monopoly setting. But this interplay between local service rates and intrastate access services rates was established long before LECs developed the ability to collect revenues from numerous other services provisioned over the same network on which they provide local exchange and exchange access services. The LECs, within their service territories, now offer wireline long distance, numerous new calling features, broadband and video entertainment services. These services are often bundled together to provide the consumer's complete service needs. The average revenue per customer the LECs

collect continues to expand. The historic trend of retail revenue growth and the potential for further growth in the future makes the collection of subsidies from competing carriers in the form of grossly inflated access rates unnecessary and anti-competitive. The LECs can and should collect the costs of providing retail services from the customers purchasing those retail services instead of collecting a portion of those costs from competitors by charging inflated rates for monopoly switched access. This change is essential to developing a level competitive playing field for all service providers.

Sprint recommends that all LECs operating in Arizona be required to set their intrastate switched access rate and structure for each individual access element equal to the equivalent interstate switched access rate and structure.

How Did We Get to This Point?

A Historic Context of High Access Rates

Q. Why are intrastate switched access rates so high?

A. Back when LECs were the only provider of local exchange service and interexchange carriers were the only providers of interLATA toll service, LECs regulated by rate of return regulation submitted revenue requirements which exceeded the amount they were permitted to collect from providing local exchange service. Under policies intended to promote monopoly universal service, regulators limited the amount LECs could charge for local exchange

service, so regulators permitted LECs to collect the remaining revenue requirement through intrastate switched access rates.

Q. At that time, was this a competitively neutral way to support the public policy goal of universal service?

A. Since there was no competition for local exchange service, the fact that the LECs local service rates were presumably priced below the cost of providing service had no adverse impacts on competition in the local exchange market. And all providers of long distance service were required to pay the same level of access charges to the LEC for the origination and termination of toll calls. While the retail rates for toll service were therefore inflated by the high access rates, all toll provider's rates were equally impacted and therefore, the high access rates still permitted a competitively neutrality on the toll market.

Q. What has changed since that point in time?

A. Everything! The LECs are not longer the only provider of service in their territories. Cable telephony providers, VoIP service providers and wireless service providers are all vying for the voice communications needs of the masses. The separate and distinct long distance market has been engulfed by the all-distance service offerings that voice service providers market today. LECs, cable telephony and wireless providers are not just selling voice services over their networks. Those providers can now include broadband connections to the internet, video entertainment services and more to their customers.

Q. Do you believe these changes warrant a revisit of the initial premise upon which switched access charges were priced so high?

A. Yes. Today, high switched access rates impede competition and the advancement of broadband, to the detriment of consumers. Consumers of Arizona are not receiving the full benefits a competitive market can provide. LECs do not need to collect subsidies from switched access given all of the other revenue opportunities their local networks now provide. I will detail the basis for these conclusions in the sections that follow.

Competition and Consumers Are Harmed by High Switched Access Rates

Q. Are telecommunication carriers affected by inflated switched access rates?

A. Yes. All carriers providing voice communication services in Arizona terminate calls to LEC customers. Because switched access is an essential input to the services other carriers are providing, these carriers' input costs are increased by inflated access rates. Further, the high access rates carriers pay the LECs can then be used by the LECs to undercut the competing carriers' retail service offerings. Obviously, a market in which competing carriers are forced to pay LECs a subsidy is not one in which a level playing field exists.

Q. How do telecommunication carriers recover these higher input costs?

A. Because the carriers are in business to make a profit, the access costs are recovered in the price of the retail services they are offering in the market just like other input costs.

Q. Are wireless carriers impacted by high access rates? Don't they only pay reciprocal compensation rates to terminate their traffic?

A. Wireless carriers pay reciprocal compensation rates to terminate calls within a Metropolitan Trading Area ("MTA"). But if the end points of a call cross an MTA boundary, LECs impose access rates on wireless carriers.

Q. How many MTAs are within the state of Arizona?

A. There are two MTAs that have at least part of their area within Arizona. As a result, wireless carriers are impacted by high access rates they incur for calls that remain within Arizona but cross MTA boundaries within the state.

Q. Are consumers harmed by inflated access rates?

A. Yes. Consumers are harmed by unreasonable access rates. It is true that consumers are now afforded more choices for their voice communications needs than when the incumbent LECs were the only providers of local exchange service. Most consumers have a choice between alternative carriers providing cable telephony, traditional CLEC service, wireless service, and VoIP service. But each of these carriers pay inflated rates to LECs they are attempting to compete

against. Because these carriers strive to cover their input costs to earn a profit, inflated intrastate switched access costs are impeding the retail offers competing carriers can make available in the market. Consumers are not receiving the best offers in the market because high switched access rates, originally meant to keep service affordable, are now inflating the rates for all alternative services. If the switched access rates are reduced, consumers will benefit from better pricing of competitive offerings.

Q. Are price reductions the only benefit to consumers from the elimination of access subsidies?

A. No. Reduced retail prices are only one way consumers can benefit from lower access rates. When access rates are lowered, consumers will benefit because service providers will have more resources to expand service coverage, enhance service quality, develop new and innovative service offerings, and provide better pricing in the market. Thus, reducing LEC intrastate switched access charges to reasonable levels will promote competition, and its many benefits, within the market.

Other States and the FCC Have Addressed Switched Access Reform

Q. Have other states taken action to reduce intrastate switched access rates?

A. Yes. Many states have taken the pro-consumer, pro-competitive action to reduce intrastate access rates. In Exhibit JAA – 1, I show that, so far, 17 states require

the largest ILEC to have intrastate rates at approximately the same level as their interstate rates. Many of these states have established a mirroring policy in which intrastate rates must equal interstate rates.[2] Additionally, several states have tied access rate reductions to ILEC retail rate deregulation.[3] Legislation passed several years ago in the state of Texas transitions LEC access rates to interstate levels prior to granting retail deregulation.[4] Similarly, the West Virginia Public Service Commission announced that a new deregulatory framework must address and reduce intrastate switched access rates[5]. Other state commissions are in the middle of proceedings to address intrastate switched access rates.[6] The telecommunications industry and state commissions widely recognize the need to take action to reduce intrastate switched access rates to promote competition and a level playing field.

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[2] *See* Order, Investigation by the Department of Telecommunications and Energy on its own Motion into the Appropriate Regulatory Plan to succeed Price Cap Regulation for Verizon New England, Inc. d/b/a Verizon Massachusetts' intrastate retail telecommunications services in the Commonwealth of Massachusetts, Mass. D.T.E. 01-31 Phase I (May 8, 2002) (order requiring that Verizon's intrastate access rates mirror its interstate rates); Report of Alexander F. Skirpan, Jr., Senior Hearing Examiner, Petition of Sprint Nextel For reductions in the intrastate carrier access rates of Central Telephone Company of Virginia and United Telephone-Southeast, Inc., Case No. PUC-2007-00108 (January 28, 2009)(the Hearing Examiner's recommended decision, if adopted will require Embarq to mirror its interstate rates for intrastate switched access in Virginia).

[3] *See e.g.,* K.S.A. 66-2005 (requiring local exchange carriers to reduce intrastate access charges to interstate levels over a three year period and at the same time giving the Kansas Commission authority to grant further price flexibility); Wis. Stat. 196.196 (requiring Wisconsin utilities with more than 150,000 access lines to set intrastate switched access rates at the utility's interstate rates and at the same time giving LECs further price flexibility); O.C.G.A. § 46-5-166(f) (permitting Georgia local exchange companies to become subject to alternative regulation provided they set their intrastate access rates no higher than interstate access rates).

[4] PURA 65.202 and 65.203

[5] *See* Commission Order, Petition for approval of Joint Stipulation and Agreement for Settlement and Joint Petition for Expedited Approval of a Joint Stipulation for a Market Transition Plan for Verizon West Virginia, Inc., Case No. 06-1935-T-PC (3/26/07) (approving rate changes pursuant to a joint stipulation between the Consumer Advocate Division, Commission Staff, and Verizon for a "Market Transition Plan")

[6] *See* In the Matter of the Board's Investigation and Review of Local Carrier Intrastate Exchange Access Rates, New Jersey Board of Public Utilities Docket No. TX08090830, Order (October 6, 2008).

Q. Has the FCC reformed the interstate switched access rates of the LECs?

A. Yes. The FCC has authorized reform of the interstate switched access rates of the incumbent LECs both large[7] and small,[8] as well as the rates of the competitive LECs.[9]

Q. Has the Commission previously addressed the level of LEC's intrastate switched access?

A. Yes. In 2006, Qwest was required to reduce their switched access rates.[10] But Qwest's rates remain far above their interstate rate levels. The other incumbent LECs have not reduced their rates leaving their rate far too high as well. And the Commission has not addressed the high switched access rates charged by CLECs.

[7] *See Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers,* CC Docket Nos. 96-262 and 94-1, Sixth Report and Order, *Low-Volume Long Distance Users,* CC Docket No. 99-249, Report and Order, *Federal-State Joint Board on Universal Service,* CC Docket No. 96-45, Eleventh Report and Order, 15 FCC Rcd 12962 (2000).

[8] *See Federal-State Joint Board on Universal Service,* CC Docket No. 96-45, Fourteenth Report and Order and Twenty-Second Order on Reconsideration, *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers,* CC Docket No. 00-256, Report and Order, 16 FCC Rcd 11244 (2001)

[9] *See Access Charge Reform, Reform of Access Charges Imposed by Competitive Local Exchange Carriers,* CC Docket No. 96-262, Seventh Report, 16 FCC Rcd. 9923 (2001)("FCC CLEC Access Order")

[10] Arizona Corporation Commission, Decision No. 68604

Qwest Advocates Access Rate Reductions in Other Jurisdictions

Q. Has Qwest expressed concern with high access rates?

A. Yes. Qwest has clearly shown support for lowering access rates.

Qwest Communications International Inc. ("Qwest") supports the Federal Communications Commission's ("Commission") goal of reforming the existing intercarrier compensation ("ICC") and universal service fund (or "USF") regimes.[11]

Qwest has also advocated intrastate switched access rate reductions of other ILEC's rates in at least one other state.[12]

The Arizona LECs' Intrastate Switched Access Rates are Unreasonably High in Comparison to Their Interstate Rates

Q. Does the ILEC provide the same network functionality to complete a call when both ends of the call are within Arizona as when one end point of the call is in another state?

A. Yes. The same ILEC network elements are used to complete a call on the LEC network regardless of where that call originated. The same switches and transport facilities are utilized by the LEC to complete the call. Therefore, the cost to

[11] Comments filed November 2008 in response to the FCC's FNPRM in 01-92
[12] Pennsylvania – Dockets C-20027195, I-00040105 and C-2009-2098380

terminate an interstate or an intrastate call is identical. This holds true for calls that originate on the LEC network as well.

Q. Is there evidence that LEC intrastate switched access rates are too high by a wide margin?

A. Yes. As documented by AT&T, the Arizona carriers collect cumulatively [Begin Confidential] $57M [End Confidential] more in intrastate switched access rates at current intrastate rates versus the revenue that would be collected if interstate rate levels were charged.[13] This wealth transfer may have been justified in a market that includes only one local service provider and multiple IXC competing on an equal footing with one another. But today's market has LEC, Cable, VoIP and wireless carriers competing for all of the customers' communications needs. Requiring all other carriers to subsidize the LECs through inflated access rates is no longer competitively neutral.

Q. Has Qwest or the other LECs operating in Arizona asked permission of the FCC to charge a higher interstate switched access rate to evidence a concern that its current interstate access rates are not compensatory?

A. No. Qwest has not, to my knowledge, asked the FCC to increase its interstate access rates above the rate cap that has controlled its rates since 2000. If Qwest believed its Arizona interstate access rates were not covering its costs, it could have petitioned the FCC to increase the rates. Similarly, the other Arizona LECs

[13] AT&T presentation to the Arizona Corporation Commission in the Universal Service Workshop on July 27, 2009 – Figure calculated from Arizona carrier's response to Staff first data request.

have not attempted to show their interstate rates are not compensatory. Therefore, since the LEC has apparently concluded that its interstate rates are adequate to cover their costs, there is no reason why its intrastate rate should be any higher.

LECs Continue to Expand Average Revenue per User

Q. Have the ILECs greatly expanded the number of the services they now have to offer to their local telephone customers?

A. Yes. Today, LECs offer much more than just local exchange service to their customer base. The LECs now offer in-territory long distance, broadband, video entertainment services and an expansive list of customer calling features. These services are packaged and bundled together with local exchange service. These service bundles are the lead product offerings for the LECs in today's market. The discounts offered on these bundles provide significant incentive for customers to purchase all of their services from one provider. With the development of these new retail services and the corresponding bundling of the new services with local service, the LECs are not limited to their basic local service as the only means to recover the cost of the local network connection from their end-user customers. The LECs can now cover that basic network connection cost over a combination of services, offered in most cases over the same local network connection. The LECs are now capable of recovering their full basic network connection costs from their own end user customers. There is no policy reason to continue to

require the competitors of the LEC to fund LEC operations through access rates that are far above the actual cost of the access functions or through explicit universal service support. In fact, just the opposite is true. In this environment of expanding revenue opportunities for LECs, allowing them to charge inflated access rates in order to extract an anti-competitive subsidy is unreasonable and contrary to good public policy.

Q. Is there any public information that would demonstrate the expanding revenue opportunities for the LECs?

A. Yes. The financial reporting of many of the publicly traded LECs provides meaningful information about the financial strength of the LEC corporations. The data in the financial reporting is provided for the LECs total operating territories not Arizona specific information. On Exhibit JAA–2, I have provided information I have gathered about the two largest LECs operating in Arizona (Qwest and Frontier).

Q. Do Qwest and Frontier report average revenue information in their quarterly financial disclosures?

A. Yes. LECs do report average revenue information but the characteristics of data reported by each LEC is slightly different. Qwest reports average retail revenue per user (ARPU) for consumer customers only. Frontier reports average revenue per access line. But the characteristics of the reported information are not as

important as the magnitude of the average revenues and the growth the LECs have reported.

Q. Do the Qwest financial reports reveal significant revenue growth in a consumer ARPU driven by the value of the new services?

A. Yes. Qwest has been able to increase consumer ARPU from $53.05 in the 3rd quarter of 2007 to $58.81 in the 3rd quarter of 2009.[14] That is an increase in the average bill of $2.57 and $3.19 over the last two years. Adoption of new services propels this average revenue growth.

Q. Do the Frontier financial reports provide similar average revenue trends?

A. Yes. Frontier reports average service revenue per access line per month growing from $62.14 in the 3rd quarter of 2007 to $66.90 in the 3rd quarter of 2009 for an increase of 7.7%.[15]

Q. Is there financial information about some of the other services the LECs are offering in Arizona?

A. Yes. The LECs have developed the capability to deliver broadband services to their customer set.

[14] ARPU trend for Qwest compiled from publicly available financial reports or news releases. – See Exhibit JAA-2

[15] Average revenue per access line trend for Frontier compiled from publicly available financial reports or news releases. – See Exhibit JAA-2

Q. Do the LECs provide high-speed internet service over the same network connection to the customer premise as traditional voice services?

A. Yes. LECs provision their high-speed internet service using Digital Subscriber Line ("DSL") and Fiber to the Node ("FTTN") technology over the same customer network connection, or local loop, as traditional voice services.

Q. Do Qwest's financial reports provide any instructive data on their ability to sell broadband service to their local telephone subscribers?

A. Yes. Qwest's system average penetration of mass market lines for high-speed Internet has grown from 28.3% to 41.9% from 3rd quarter 2007 to the 3rd quarter of 2009.[16] Although Qwest does not share publicly the average revenue they derive from broadband service, a similarly sized LEC reported revenues greater than $30 recently.[17] To put this into perspective, the LECs have added a retail service to their existing local network that generates much more revenue per customer than the original service the network was built to provide. Further, with only 41.9% of local service subscribers purchasing Qwest's high-speed internet service, Qwest has further opportunity to expand the revenues generated from this new service. Greater customer penetration with broadband presents more revenue opportunity. Clearly, the incremental services, those services that have been added to the existing local network, must be considered when determining whether the ILECs switched access rates should remain at the levels that were established before the LECs began generating most of these new revenues.

[16] Qwest broadband subscriber trend compiled from publicly available financial reports or news releases. See Exhibit JAA-2

[17] 1st quarter 2009 Embarq News Release on Financials, pages 8 and 9 of 10.

Q. Does Frontier report similar success in selling broadband service to their customers?

A. Yes. As shown on Exhibit JAA–2, Frontier is selling broadband service to 28.9% of their total access lines as of 9-30-09 up from 20.2% in the 3rd quarter of 2007. Although Frontier has not shared its broadband service yield per customer lately, in the 3rd quarter of 2007, Frontier disclosed "Our residential high speed penetration is 30 percent and high speed revenues continue to be over $40.00 per customer per month." These broadband revenues are incremental revenues that were not collected when the access rates were originally set.

Q. Are the LECs also providing long distance service to the majority of their local service customers?

A. Yes. Some publicly traded LECs disclose the percentage of their local customers that also purchase their long distance service. For example, Frontier reported in its 4th quarter 2007 financial reports that 64.5% of total access lines are presubscribed to the Frontier long distance service. Qwest reported 55.3% of mass market lines presubscribed in its 4th quarter 2007 financial reports.

Q. Why is long distance market share also important?

A. Again, the more products you are able to sell to your customers, the more revenues you have to recover your fixed costs like the cost of the basic local network connection.

Q. Are video entertainment services also becoming an important service product for the LECs?

A. Yes. LECs are offering satellite video services to their customers. Qwest is reselling DIRECTV and Frontier is selling DISH video services. 15% of Qwest's residential primary access line customers purchase DIRECTV services from Qwest as of 9-30-09.[18] Frontier sells video services to 7.6 of its total access lines as of 9-30-09.[19] These services provide yet another revenue stream over which to recover fixed costs of their local operations.

Q. Do the LECs have opportunities to expand the revenue they collect from other services such as broadband and video entertainment?

A. Yes. As documented above, the ILECs are selling broadband and video entertainment services to only a small subset of their customer base. A substantial portion of the LEC local customer base has yet to purchase broadband services from the LECs. Video services, either resale of satellite services or self-provisioned over the local network such as FTTN[20], also provide significant opportunity for the LECs in the future.

[18] Qwest statement in their 3Q 2009 publicly available financial reports or news releases – www.qwest.com

[19] Video service penetration for Frontier compiled from publicly available financial reports or news releases. – See Exhibit JAA-2

[20] FTTN technology is capable of delivering video service. Other LEC have chosen this path but Qwest has yet to announce any plans to offer video in this manner choosing instead to continue to resell satellite TV services.

Sprint's Recommendations - #1

Arizona LECs Should Reduce Their Intrastate Switched Access Rates to Interstate Levels and Mirror Their Interstate Rate Structure

Q. What changes does Sprint believe are essential for the intrastate switched access rates?

A. Sprint recommends the Commission require all LECs operating in Arizona to set their intrastate switched access rate and structure for each individual access service equal to the equivalent interstate switched access service rate and structure. This includes incumbent and competitive LECs.

Q. Why is it appropriate for the Commission to reduce ILEC intrastate switched access rates to interstate rate levels in this proceeding?

A. Reducing each Arizona LECs' intrastate switched access rates to its interstate rate levels is appropriate for several reasons. First, the ILECs are providing interstate switched access service at these FCC approved levels, and providing services at these rates eliminates the incentive to arbitrage the intrastate switched access rates.[21] Second, by using each LEC's existing interstate switched access rates the Commission will avoid the need to determine the cost standard to be used to set the rates at which LECs should exchange intrastate switched access traffic in this

[21] The FCC has recently discussed the possibility of moving interstate rates closer to cost and Sprint supports those efforts. Ideally, compensation for the exchange of all traffic should be based on incremental cost, a long overdue, interim step in the right direction is to have carriers match their interstate rates.

proceeding. Finally, and likely most important, the services and infrastructure used to provide intrastate switched access services are the same as the services and infrastructure used to provide interstate switched access services, so an order requiring ILECs to mirror their interstate rate levels in this proceeding is a reasonable next step in the reform of intrastate switched access service.

Sprint's Recommendation - #2

LECs Should Recover Revenue from Services Provided to their End User Customers

Q. Can the basic local rates of the LECs operating in Arizona be increased without jeopardizing affordability?

A. Yes. Although Sprint has not reviewed the local service rates of all ILECs operating within Arizona, Sprint believes the LECs rates can be increased and still remain affordable. The national average residential basic local service rate it was $15.62.[22] Qwest has suggested a residential retail local service rate benchmark of 125% of the current weighted average rate. AT&T has estimated that benchmark to be $16.38.[23] Qwest's suggested local service benchmark approximates the current national average rate. Sprint believes the LECs local services rates could be permitted to increase to the Qwest suggested local service rate benchmark

[22] FCC Reference Book of Rates, Price Indices and Household Expenditures for Telephone Service - Table 1.1 as of October 15, 2007 - More current data would likely show a higher average rate. The average rate increased nearly a dollar from 2005 to 2007. A similar increase in the average rate from 2007 to 2009 is likely.

[23] AT&T presentation to the Arizona Corporation Commission in the Universal Service Workshop on July 27, 2009

without concern that the resulting rates are not affordable. When a LEC files a tariff to change a local rate, and that changed rate remains at or below the local rate benchmark, the filing should be approved by the Commission. Business rates should also be permitted to increase the same rate per line as residential services. The local service rate increases can help offset LEC lost access revenues. Allowing LECs to recover revenue from their own end user services exposes that revenue to the rigors and efficiency of competition.

Sprint's Recommendation - #3

LECs Should Not Be Permitted to Shift Access Revenues to Arizona USF without Proving a Financial Need and a Public Benefit

Q. If the local service revenue increase does not offset the reduced intrastate access revenues from mirroring interstate rates and rate structures, where should LECs turn for revenue recovery?

A. Local telephone carriers are offering more services over their local networks and to their customers than at anytime in the past. These non-regulated services such as broadband, long distance and video services provide ample opportunities for the LEC to increase revenue not recovered through local service rate increases from their retail customers.

Q. Is it true, Sprint does not support recovering any lost access revenues through an Arizona state USF?

A. Sprint believes the aggregate retail revenue opportunity available to a LEC exceeds the aggregate costs for all retail services provided to their customer base. Unless proven otherwise through a thorough financial review of the LECs total operations, only then would Sprint concede that some targeted support would be an acceptable alternative recovery mechanism.

Q. What should a LEC be required to show to qualify for Arizona Universal Service Support?

A. As discussed above, the LECs access rates were set high to cover a presumed revenue shortfall when the retail local services provided on the local network did not provide sufficient revenues to cover the costs of local service. This same standard should be applied today. If the revenues available from all retail services cannot cover the costs of those services, then a LEC should be permitted to request support by making a demonstration that it is incapable of providing service without receiving support, specifying the amount of support it believes is necessary, and by providing a detailed description of how the support proceeds will be used.

Q. Does this conclude your testimony?

A. Yes it does.

Exhibit JAA - 1 to the
Direct Testimony of James A. Appleby
in Docket No. RT-00000H-97-0137 and Docket No.T-00000D-00-0672.

States Where Largest ILECs Intrastate Switched Access Rates Approximate Their Interstate Rates

Rank	Largest ILEC	State		Intrastate Rate
1	QWEST	NM	$	0.0039
2	AT&T	GA	$	0.0040
3	AT&T	KS	$	0.0040
4	AT&T	KY	$	0.0041
5	AT&T	IL	$	0.0041
6	VERIZON	MA	$	0.0043
7	FAIRPOINT	ME	$	0.0043
8	FAIRPOINT	RI	$	0.0043
9	AT&T	NC	$	0.0045
10	AT&T	MS	$	0.0045
11	AT&T	TN	$	0.0046
12	AT&T	OH	$	0.0049
13	AT&T	IN	$	0.0049
14	AT&T	CA	$	0.0050
15	AT&T	MI	$	0.0056
16	QWEST	OR	$	0.0056
17	AT&T	WI	$	0.0063
18	AT&T	AL	$	0.0072
19	QWEST	NE	$	0.0077
20	QWEST	WY	$	0.0086
21	AT&T	SC	$	0.0090
22	AT&T	TX	$	0.0092
23	AT&T	LA	$	0.0084
24	EMBARQ	NV	$	0.0099
25	VERIZON	VA	$	0.0124
26	VERIZON	DE	$	0.0125
27	VERIZON	WV	$	0.0131
28	QWEST	IA	$	0.0136
29	AT&T	FL	$	0.0137
30	VERIZON	CT	$	0.0146
31	VERIZON	VT	$	0.0146
32	VERIZON	MD	$	0.0163
33	QWEST	MN	$	0.0167
34	VERIZON	PA	$	0.0169
35	QWEST	UT	$	0.0169
37	QWEST	AZ	$	0.0194
38	QWEST	WA	$	0.0196
36	QWEST	MT	$	0.0225
39	VERIZON	NY	$	0.0233
40	QWEST	CO	$	0.0247
41	AT&T	OK	$	0.0265
42	VERIZON	NH	$	0.0293
43	VERIZON	NJ	$	0.0296
44	AT&T	MO	$	0.0302
45	AT&T	AR	$	0.0319
46	QWEST	ND	$	0.0345
47	QWEST	ID	$	0.0374
48	QWEST	SD	$	0.0541

NOTE: Rates are a composite calculation of all applicable minute of use rates for ILEC tariffs

Exhibit JAA - 2 to the
Direct Testimony of James A. Appleby
in Docket No. RT-00000H-97-0137 and Docket No.T-00000D-00-0672

Publicly Reported Information on the Other Retail Services Offered by the LECs

	Qwest				Frontier	
	9/30/2009	9/30/2008	9/30/2007		9/30/2009	9/30/2008
AVERAGE REVENUE				**AVERAGE REVENUE**		
Consumer Ave. Revenue per User (ARPU)	$ 58.81	56.24	$ 53.05	Average Monthly Revenue per Access Line	$ 66.90	$ 65.89
Annual Change in ARPU	$ 2.57	$ 3.19		Annual Change in Ave. Revenue	$ 1.01	$ 3.75
Mass Market Access Lines	7,045,000	8,022,000	8,887,000	Total Access Lines	2,151,708	2,296,460
BROADBAND				**BROADBAND**		
Connections	2,951,000	2,793,000	2,516,000	Connections	621,331	571,946
Annual New Connections	158,000	277,000		Annual New Connections	49,385	74,705
Penetration - All Mass Market Lines	41.9%	34.8%	28.3%	Penetration - All Access Lines	28.9%	24.9%
VIDEO				**VIDEO**		
Video Subscribers (DIRECTV)	862,000	761000	605,000	Digital Satellite TV (DISH)	164,535	112,350
Video Penetration of Mass Market Lines	12.2%	9.5%	6.8%	Video Penetration of Total Lines	7.6%	4.9%

NOTES:
All data from Qwest and Frontier quarterly financial reporting for 3Q 2007, 2008 and 2009.

CERTIFICATE OF SERVICE

I hereby certify that I have this 1st day of December 2009 served the foregoing Direct Testimony of James A. Appleby on Behalf of Sprint Communications L.P., Sprint Spectrum, L.P. and Nextel West Corp. upon all parties in Docket Nos. RT-00000H-97-0137 and T-00000D-00-0672 by placing a copy of said document into the U.S. Mail, postage prepaid.

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