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BEFORE THE ARIZONA CORPORATION C



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- 2 **COMMISSIONERS**
- 3 KRISTIN K. MAYES, Chairman
- 4 GARY PIERCE
- 5 PAUL NEWMAN
- 6 SANDRA D. KENNEDY
- 7 BOB STUMP

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 ARIZONA CORPORATION COMMISSION
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8 IN THE MATTER OF THE REVIEW AND
 9 POSSIBLE REVISION OF ARIZONA
 10 UNIVERSAL SERVICE FUND RULES,
 11 ARTICLE 12 OF THE ARIZONA
 12 ADMINISTRATIVE CODE

DOCKET NO. RT-00000H-97-0137

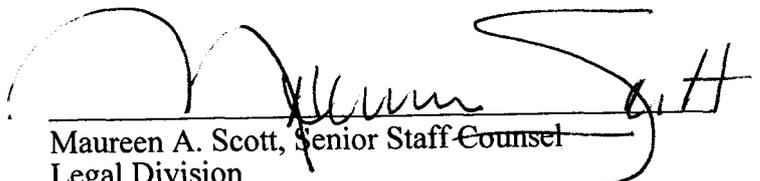
13 IN THE MATTER OF THE INVESTIGATION
 14 OF THE COST OF TELECOMMUNICATIONS
 15 ACCESS

DOCKET NO. T-00000D-00-0672

STAFF'S NOTICE OF FILING DIRECT TESTIMONY

16 Staff of the Arizona Corporation Commission ("Staff") hereby files the Direct Testimony of
 17 Wilfred Shand of the Utilities Division in the above-referenced matter. A confidential version of Mr.
 18 Shand's testimony has been provided under seal to the Commissioners, their Aides and the assigned
 19 Administrative Law Judge. A confidential version of Mr. Shand's testimony has also been provided
 20 to the signatories of Exhibit "A" to the Protective Order.

RESPECTFULLY SUBMITTED this 8th day of January, 2010.



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BEFORE THE ARIZONA CORPORATION COMMISSION

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

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

PUBLIC

DIRECT

TESTIMONY

OF

WILFRED SHAND

PUBLIC UTILITIES ANALYST MANAGER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 8, 2010

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EXECUTIVE SUMMARY

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

This case is about the appropriate rates for intrastate switched access services. Intrastate switched access rates are the rates charged by providers of local exchange services to interexchange carriers to access their networks. Intrastate switched access rates make a significant contribution to a carrier's joint and common costs which has helped to keep local rates more affordable. Most parties agree that switched access charges need to be reformed to achieve the following benefits: 1) price efficiency; 2) reduction of arbitrage opportunities; 3) elimination of differences in rates that occur because of regulatory decisions; and 4) establishment of more consistent and rational intrastate switched access rates.

The Arizona Corporation Commission ("Commission") has jurisdiction only over intrastate service of the set of services provided by telecommunications companies and consequently is unable to establish consistent rates for all services in all cases. The Commission can only insure that the rates that it has the ability to set are consistent. The Federal Communications Commission ("FCC") has an open docket in which it intends to address intercarrier compensation on a comprehensive basis. The FCC's proceeding is intended in part to eliminate inconsistencies in the rates for essentially the same services involving multiple carriers' access and use of networks and facilities in originating and terminating calls. As has been pointed out by AT&T Communications of the Mountain States, Inc., there is a significant difference in the usage-based rates for interstate and intrastate switched access services.

Staff supports intrastate switched access charge reform in order to achieve the benefits discussed above. Staff believes that requiring Arizona Local Exchange Carrier Association ("ALECA") members' rates be set at Qwest intrastate rates is a reasonable step in the move toward consistency with interstate rates. Qwest Corporation's access rates have already been reduced by \$27 million a year and Staff in not recommending further reductions as a result of this docket at this time.

As discussed below, Staff believes that carriers that elect not to absorb the access charge reductions, should be required to file a rate case so that a benchmark rate can be established by the Commission. If a carrier's rates exceed that level, and the carrier is entitled to further support based upon the financial data submitted, only then would Staff recommend Arizona Universal Service Fund ("AUSF") support. Staff's alternative recommendation, in the event the Commission wants to immediately proceed with switched access charge rate reductions would be to require any ALECA member not willing to absorb the reduction in access charges, to file an application for immediate temporary AUSF support on a revenue neutral basis which would be used to offset the access charge revenue reductions. The surcharge would remain in effect until the Commission addressed the

Company's rates in a rate case. Staff recommends an R14-2-103 filing by each of the ALECA members electing to receive temporary AUSF support with the first filing made within twelve months of a Commission Decision in this matter.

Staff positions on the list of issues posed by the Administrative Law Judge in the October 1, 2009 Procedural Order are as follows:.

1. What carriers should be covered by access reform?

ALECA members
CLECs

2. To what target level should access rates be reduced?

ALECA members' access rates should be reduced to Qwest's intrastate rates
CLECs' access rates should be capped at the incumbent LEC's rates.

3. What procedures should the Commission implement to achieve the desired reduction in access rates?

The following alternatives assume that the ALECA member company is not willing to simply absorb the switched access charge reductions.

Alternative A:

It is Staff's position that a company should be required to show that it, in fact, has no other source of funds to offset switched access charge rate reductions before it is authorized to receive an AUSF surcharge subsidy. As is shown in Exhibit WMS-2, the residential local exchange service rates for the rural incumbent LECs range from \$9.25 to \$24.46 per month. Staff believes that it would be inequitable to require ratepayers with a \$24.46 monthly rate to provide an AUSF surcharge subsidy to a company and its ratepayers whose monthly local service rate is, for example, \$9.25. Staff recommends that the rural incumbent local exchange companies be required to file R14-2-103 information to allow the Company and the Commission to increase rates to levels that generate additional revenues while providing service at reasonable rates, before they are authorized to receive AUSF surcharge subsidies.

Alternative B:

If the Commission does not accept Alternative A, and desires to proceed with access reform immediately without a full R14-2-103 filing; Staff recommends the following process to address this phase of access charge reform for ALECA members.

First step – AUSF surcharge until the company's rates have been addressed by the Commission in a rate case. With 3 months of the Commission's Decision, the company may file for AUSF support on a revenue neutral basis. The amount of the surcharge would be equal to the amount of the carrier's reduction in access charges. Such application would include financial information sufficient for the Commission to make a fair value finding and fair value rate or return determination. Beginning twelve months of a Commission decision granting the temporary AUSF support, Companies would be required to file a rate case or rate review filing pursuant to A.A.C. R14-2-103. The company may elect to reduce its access charges on its own without AUSF support in which case it would not be

required to file a rate case, unless it wants authorization to change other rates and charges.

Second step – rate review for the purpose of increasing local and other service rates to levels that do not harm ratepayers and continued AUSF surcharge revenue if the rate increases are not sufficient to cover the access revenue reductions or the new revenue requirement. Staff recommends filing on a staggered basis due to Staff resource constraints. Staff recommends the following schedule for the ALECA members' filings:

<i>Frontier (White Mountains)</i>	<i>Within 12 months of a Decision</i>
<i>Valley Telephone Coop</i>	<i>15 months after a Decision</i>
<i>SCUTA</i>	<i>18 months after a Decision</i>
<i>Navajo Communications</i>	<i>21 months after a Decision</i>
<i>Frontier (Rural)</i>	<i>24 months after a Decision</i>
<i>Copper Valley</i>	<i>27 months after a Decision</i>
<i>Accipiter</i>	<i>30 months after a Decision</i>
<i>Arizona Telephone Company</i>	<i>33 months after a Decision</i>
<i>Table Top Telephone Company</i>	<i>36 months after a Decision</i>
<i>Southwestern Telephone Company</i>	<i>39 months after a Decision</i>
<i>Midvale Telephone Exchange</i>	<i>42 months after a Decision</i>

4. Should carriers be permitted to contract for access rates that differ from their tariffed rates?

Yes. While the Commission has not required the filing of switched access service agreements in the past, Staff recommends that the Commission require the filing of these agreements on a going forward basis. The Commission has jurisdiction to require the filing of any interconnection agreement between carriers impacting their operations in Arizona. Moreover, Staff believes that if a company enters into an agreement for switched access service with an IXC or other provider, the contracts' provisions should be made available to any other similarly situated customer/carrier which desires to enter into a similar agreement. The CLECs should be required to amend their tariffs to allow contracts and further indicate the agreements will be filed with the Commission for public inspection and made available to other similarly situated carriers.

5. What revenue sources should be made available to carriers to compensate for the loss of access revenues?

Staff believes that rate increases should be authorized where appropriate, and then AUSF surcharges should be implemented to recover any revenue shortfall. However, if the Commission wants to immediately provide the benefits of access rate reductions, Staff recommends that the companies be able to receive AUSF surcharge revenues to offset access charge reductions on a temporary basis but that they subsequently be required to make a R14-2-103 filing. A waiver of the current AUSF rules would have to be requested and granted by the Commission to allow immediate recovery of access charge reductions through the AUSF surcharge mechanism. In this manner, the Commission could immediately implement a revenue neutral rate change in order to allow intrastate intercarrier compensation reform to progress.

6. How much of access cost recovery, if any, should be shifted to end users? What showing should be required for such a shift? What should be the role of "benchmark" rates and how should benchmarks be set?

Staff does not recommend implementation of statewide benchmark local service rates at this time. However, a "benchmark rate" for each company should be set when the company submits its rate review filing as recommended above.

7. Procedurally what will be required of a carrier if it seeks a "revenue neutral" increase in local rates?

Staff believes that a change to other rates of the company could be made to offset the switched access charge reduction as long as the change in rates was overall revenue neutral outside of a rate case. Staff believes that such a scenario would be permissible under the Scates case.

Similarly, a revenue neutral change could be accomplished by reducing the companies' switched access rates and using the AUSF on a temporary basis to offset the switched access rate reductions on a revenue neutral basis. Or, Staff believes that a combination of changes to local rates and AUSF surcharges could be used to offset any access charge reductions on a revenue neutral basis outside of a rate case.

Procedurally, under any of these scenarios, the company would have to make a filing with the Commission showing the rate changes and demonstrating that they were in fact revenue neutral. Staff would also recommend that company be required to file financial information sufficient for the Commission to make a fair value finding and a fair value rate of return finding. Finally, if the carrier were to be given temporary AUSF support outside of a rate case, the carrier would have to obtain a waiver of the Commission's current AUSF rules.

8. Assuming that AUSF funds will also be used as a compensating revenue source, what specific revisions (including specific recommended amendment language) to the existing rules are needed to allow use of AUSF funds for that purpose?

The existing rules appear to allow the use of the AUSF surcharge as a means of keeping rates in high cost areas affordable. A specific provision would have to be added to the rules to allow for the use of AUSF revenues to compensate carriers for revenue reductions resulting from Access Reform. However, a waiver of the rules would allow the Commission to immediately proceed to implement intercarrier compensation reform, which Staff believes is in the public interest.

9. Which carriers should be eligible for AUSF support?

Staff recommends that carriers of last resort that have a requirement to provide service to all prospective customers should be eligible to have a portion of their costs recovered through a surcharge on all telecommunications services provided in the State.

Under Staff's proposal, further reduction in Qwest's access rates is not recommended in this docket at this time. Such reductions would occur in the future and therefore, Qwest would not be eligible for AUSF surcharge support at this time.

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

Until the company files a rate case, only access reform replacement revenues should be supported through the implementation of an AUSF surcharge. Given that the a reduction in access rates from current rates to Qwest's current access

rates will shift approximately \$23 million and the fact that the FCC currently has a High Cost Loop Support mechanism in place that provides significant revenues for high cost loops and that the companies have not been subject to a rate review for longer than a decade, Staff is only recommending AUSF surcharge support in connection with switched access charge reform.

Staff does not propose to redefine the AUSF rules at this time. For purposes of this case, Staff believes that only access charge reform replacement revenues are at issue. Staff further recommends that any other changes to the AUSF rules be addressed at the time that the FCC issues its order on intercarrier compensation or modifying the federal High Cost Fund.

Staff recommends that Arizona Eligible Telecommunications Carriers ("Arizona ETCs") implement the recommendations contained in the Report and Recommendations of the Arizona Eligible Telecommunications Carriers ("ETCs") on Lifeline and Link-Up ("the Industry Report") which was submitted to the Commission on December 21, 2005. Staff does not recommend that the costs of implementing these recommendations be recoverable through an AUSF surcharge. If the projections contained in the industry report are accurate, the incumbent local exchange companies stand to gain \$38 million a year in additional revenues that they would not receive absent the federal programs. Given this potential increase in revenues, Staff believes that the beneficiaries of these funds will contribute the relatively small amount of money to reap a potentially substantial return on those expenditures.

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

Staff recommends that the AUSF surcharges be assessed on jurisdictional retail revenues rather than the current methodology which assessed the AUSF surcharge on intrastate long distance revenues and on interconnection trunks. Implementation of this recommendation would require a rule change or amendment.

12. Any other specific revisions to the AUSF rules.

None.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Wilfred Shand. I am a Public Utility Analyst Manager employed by the
4 Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division
5 ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.
6

7 **Q. Briefly describe your responsibilities as a Public Utility Analyst Manager.**

8 A. In my capacity as a Public Utility Analyst Manager, I develop research reports and policy
9 positions on economic issues pertinent to the telecommunications industry. I have
10 developed and presented testimony before the Commission in rate proceedings,
11 proceedings to consider granting operating authority to interexchange and local exchange
12 companies, and in telecommunications policy development proceedings. I review
13 telecommunications utility industry filings and make recommendations to the
14 Commission.
15

16 **Q. Please describe your educational background and professional experience.**

17 A. In 1975, I graduated from the University of Texas at El Paso, receiving a Bachelor of Arts
18 degree in Economics. I received a Master of Arts degree in Economics from the
19 University of Texas at El Paso in 1983. I have been employed by the Arizona Corporation
20 Commission since May 1984 as a Rate Analyst, Economist, Acting Chief of the
21 Economics and Research Section, and Public Utilities Analyst Manager.
22

23 **Q. What is the scope of your testimony in this case?**

24 A. I will present the Staff recommendations on the issues to be addressed in this docket.

1 **Q. Does Staff agree with Qwest Corporation's ("Qwest's") view that this is a**
2 **policymaking docket?**

3 A. No. Staff will recommend certain steps that the Commission may take at this time to
4 address Access Charge issues that have been presented by both the interexchange carriers
5 ("IXCs") and the members of the Arizona Local Exchange Carriers Association
6 ("ALECA") over which the Commission has jurisdiction.

7
8 **ACCESS CHARGE-RELATED ISSUES**

9 ***ALECA Member Companies Intrastate Switched Access Charge Reform***

10 **Q. What are the current switched access rates in Arizona for Qwest and the ALECA**
11 **members?**

12 A. Exhibit WMS-1 contains the current intrastate switched access rates in Arizona for Qwest
13 and the ALECA members over which the Commission has jurisdiction.

14
15 **Q. What is Staff's recommendation on the appropriate level of switched access rates in**
16 **Arizona for Qwest and the ALECA members?**

17 A. Staff recommends that Arizona Local Exchange Carrier Association ("ALECA")
18 members' rates be set at Qwest intrastate rates. This is a reasonable second in the move
19 toward consistency with interstate rates. Qwest's intrastate switched access rates have
20 already been reduced by \$27 million annually. Staff is not recommending further
21 reductions to Qwest's intrastate switched access rates as a result of this docket at this time.

22
23 **Q. What is the interexchange carriers' position on Qwest's switched access charges?**

24 A. The interexchange carriers believe that Qwest's intrastate switched access rates should be
25 reduced to mirror its interstate rates.

1 **Q. Does Staff believe that Qwest's intrastate switched access rates should be reduced to**
2 **mirror its interstate rates?**

3 A. No. As stated previously, Qwest's switched access rates have already been reduced by
4 \$27 million annually.

5
6 **Q. Does Staff believe that CLECs should be able to enter into contracts with IXCs for**
7 **switched access service?**

8 A. Qwest raised an issue concerning the propriety of contracts entered into between CLECs
9 and IXCs or others in which the CLEC has given the IXC a rate for switched access
10 service that is generally lower than its tariffed rate. Such contracts are interconnection
11 agreements in the broad sense in that they are a business contract between
12 telecommunications providers for the purpose of interconnecting their networks and
13 exchanging telecommunications traffic. This type of interconnection agreement is to be
14 distinguished from interconnection agreements between incumbents and CLECs falling
15 within the purview of Section 251 of the 1996 Act. While this is not the typical
16 interconnection agreement which carriers are required to file pursuant to Section 251, the
17 Commission has broad jurisdiction over interconnections agreements between carriers.
18 While the Commission has not required the filing of switched access service agreements
19 in the past, Staff recommends that the Commission require the filing of these agreements
20 on a going forward basis. The Commission has jurisdiction to require the filing of any
21 interconnection agreement between carriers impacting their operations in Arizona.
22 Moreover, Staff believes that if a company enters into an agreement for switched access
23 service with an IXC or other provider, the contracts' provisions should be made available
24 to any other similarly situated customer/carrier which desires to enter into a similar
25 agreement. The CLECs should be required to amend their tariffs to allow contracts and

1 further indicate the agreements will be filed with the Commission for public inspection
2 and made available to other similarly situated carriers.

3
4 **Q. Why are interstate access charges lower than intrastate access charges?**

5 A. Interstate access charges are generally lower than intrastate access charges because of the
6 manner in which costs that have been allocated to interstate access are recovered.
7 Customers currently pay a monthly Subscriber Line Charge ("SLC") that the FCC
8 instituted when it concluded that non-traffic sensitive costs should be recovered through a
9 non-traffic sensitive charge rather than through usage-sensitive access charges. No
10 intrastate equivalent charge has been implemented by the Commission. If the
11 Commission were to adopt the FCC's approach to access charge cost recovery and access
12 charge reform, customers would see an increase in their monthly charge through the
13 implementation of an intrastate SLC, and IXC's would see a reduction in the rates that they
14 pay for intrastate switched access service.

15
16 **Q. Please describe the Coalition for Affordable Local and Long Distance Service**
17 **("CALLS") Order.**

18 A. Since the Telecommunications Act of 1996, the FCC has been moving the price of long
19 distance companies' access to local telephone networks towards levels that reflect costs.
20 The CALLS plan was approved by the FCC on May 31, 2000 and applies to those
21 companies (generally, the larger and urban companies) that were providing service under
22 the terms and conditions of an interstate Price Cap Plan. Implementation of the CALLS
23 Plan resulted in, among other things, the following changes to interstate access service.

24
25 **Increases to the Primary Residential and Single-Line Business Subscriber Line**
26 **Charge ("SLC") Caps:**

- 27
28 • SLC caps would begin at \$4.35 on July 1, 2000 and gradually increase to an
29 amount no higher than \$6.50 on July 1, 2003.

- 1 • Price cap LECs must justify any increases to the SLC cap above \$5.00.
- 2
- 3 • Commission will review SLC rates prior to the increase scheduled for July 1, 2002,
- 4 including evaluation of price cap LECs' forward-looking costs.
- 5

6 **\$2.1 Billion in Switched Access Usage Charge Reductions:**

- 7
- 8 • Reductions would be made immediately, on July 1, 2000.
- 9
- 10 • Reductions will be taken by
- 11
- 12 • targeting the 6.5% X-factor to switching and switched transport
- 13 services until the target rates are reached;
- 14
- 15 • reducing Common Carrier Line ("CCL") charges through
- 16 application of \$650 million in universal service support;
- 17
- 18 • reducing CCL charges through application of primarily rural
- 19 carriers' 6.5% X-factor to the common line basket.
- 20
- 21 • If these reduction do not total \$2.1 billion on July 1, 2000, price cap LECs
- 22 will make additional reductions to switched access usage charges to equal
- 23 that amount.¹

24 **Q. Please describe the Multi-Association Group ("MAG") Order.**

25 A. In its implementation of the MAG Plan, the (FCC) modified its interstate access charge
26 rules and universal service support system for rate-of-return incumbent local exchange
27 carriers (LECs). These companies are rate-of-return carriers, as opposed to price cap
28 carriers, are typically small, rural telephone companies concentrated in one area, but they
29 range in size from a few hundred lines to approximately one million. The following
30 summarizes the Order in relevant part:

- 31
- 32 • The Order increases the caps on SLCs to the levels paid by most subscribers
- 33 nationwide. The residential and single-line business SLC cap will increase to \$5.00
- 34 on January 1, 2002, and may increase up to \$6.00 on July 1, 2002, and \$6.50 on
- 35 July 1, 2003, subject to a cost review study for the SLC caps of price cap carriers.
- 36 The multi-line business SLC cap will increase to \$9.20 on January 1, 2002.
- 37 Lifeline support will be increased in an amount equal to any SLC rate increases for
- 38 low-income subscribers.

¹ FCC Summary of CALLS Proposal Access Charge Provisions, dated May 31, 2000.

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- The Order allows limited SLC deaveraging, which will enhance the competitiveness of rate-of return carriers by giving them important pricing flexibility. The SLC deaveraging method inconsistent with the Rural Task Force universal service support disaggregation scheme.
- The Order reforms the local switching and transport rate structure. In particular, it shifts the nontraffic sensitive costs of local switch line ports to the common line category, and reallocates the remaining costs contained in the Transport Interconnection Charge to other access rate elements. These measures align the rate structure more closely with the manner in which costs are incurred and reduce per-minute switched access charges.
- The Order creates a new universal service support mechanism, Interstate Common Line Support, to convert implicit support in the rate structure to explicit support that is available to all eligible telecommunications carriers. Specifically, Interstate Common Line Support will replace the carrier common line (CCL), which will be phased out as of July 1, 2003, when SLC caps reach their maximum levels. The new support mechanism will ensure that changes in the rate structure do not affect the overall recovery of interstate access costs by rate-of-return carriers serving high cost areas.
- The Order does not adopt proposals to prescribe a single, target rate for per-minute charges, either on an optional or a mandatory basis. The reforms adopted in the Order will reduce per minute charges for all rate-of-return carriers, while giving them the flexibility to establish rates based on their own costs in the areas they serve.
- The Order streamlines the rules for introduction of new access services by rate-of-return carriers.
- The Order terminates the proceeding on the represcription of the authorized rate-of-return, which was set at 11.25 percent in 1990.²

² Federal Communications Commission Summary of MAG Item, dated October 11, 2001.

1 **Q. How do the carriers, other than ALECA, propose that any revenue shortfall that**
2 **results from the reduction of intrastate access rates be addressed?**

3 A. Qwest believes that there should be increases in local service rates up to a benchmark and
4 to the extent that those increases are not enough to make up for the revenue shortfall, then
5 carriers should be allowed to obtain any revenue shortfall via an AUSF surcharge.³
6 AT&T believes The Commission should first require all LECs 1 to reduce their intrastate
7 switched access rates to parity with the corresponding interstate rates, and at the same time
8 it should give ILECs the flexibility, but not a mandate, to increase rates up to a reasonable
9 benchmark level (subject to reasonable limits on annual rate increases during a transition
10 period). To the extent that the allowed rate increases are not sufficient to recover the
11 reductions in access revenues, an ILEC will be allowed to obtain explicit subsidies from
12 the AUSF.⁴ Sprint's position is that LECs should recover revenue from services provided
13 to their end user customers. Sprint further believes the aggregate retail revenue
14 opportunity available to a LEC exceeds the aggregate costs for all retail services provided
15 to their customer base and states that, "Unless proven otherwise through a thorough
16 financial review of the LECs total operations, only then would Sprint concede that some
17 targeted support would be an acceptable alternative recovery mechanism."⁵ Verizon
18 stated its position is as follows: To the extent carriers choose not to absorb access
19 reductions ordered in this proceeding, the Commission should give them sufficient retail
20 rate flexibility to recover lost access revenues from the retail rates they charge their own
21 customers. Above all, the Commission should reject proposals to permit access revenue
22 recovery from the AUSF, which should remain small and devoted to its primary purpose
23 of establishing reasonably comparable rates between urban and high-cost areas.

³ Direct Testimony Of Peter B. Copeland On Behalf Of Qwest Corporation ,, Page 5

⁴ Direct Testimony of Dr. Ola Oyefusi On Behalf of AT&T Communications of the Mountain States, Inc. and TCG Phoenix,, Page 8

⁵ Direct Testimony Of James A. Appleby On Behalf Of Sprint Communications Company, L.P., Sprint Spectrum, L.P. And Nextel West Corp. , Page 21

1 Expanding the AUSF would have the inefficient and undesirable result of continuing to
2 subsidize carriers that prefer to dip into their competitors' pockets to replace lost access
3 revenue, rather than recovering those revenues from their own customers. Such a result is
4 incompatible with a healthy, competitive market for communications services.⁶

5
6 **Q. Does AT&T propose to increase local service rates at the same time that switched
7 access rates are reduced?**

8 A. Not necessarily. AT&T has indicated that under its proposal companies would be able to
9 recover the difference between the revenues generated from increasing the rates to the
10 benchmark rate and the revenue reduction associated with reducing the rates to a level
11 approved by the Commission immediately. AT&T states the following:

12
13 First, the Commission should give all carriers the opportunity to increase
14 retail rates for local service up to a "benchmark" established by the
15 Commission (to the extent they do not already have that flexibility);
16 However, the Commission should not require carriers to raise local service
17 rates by any amount. Rather, the actual decision to raise price, and the
18 amount (within the constraints of the benchmark cap), should be left to the
19 carriers as they are best positioned to make decisions about their own
20 businesses.⁷

21
22 **Q. What carriers do the non-ALECA carriers believe should be covered by access
23 reform?**

24 A. The non-ALECA carriers generally believe that Qwest and all other carriers should be
25 addressed at this time.

⁶ Direct Testimony Of Don Price On Behalf Of Verizon, Page 21, lines 6 - 20.

⁷ Direct Testimony of Dr. Ola Oyefusi On Behalf of AT&T Communications of the Mountain States, Inc. and TCG Phoenix, Page 51, line 24 to Page 25, line 4.

1 **Q. Companies have argued that there are different rates for essentially the same service**
2 **thus providing incentives for arbitrage. Does Staff agree?**

3 A. Yes. Most of the participants in the Access and AUSF workshops stated that arbitrage is a
4 possible outcome when discussing potential access charge reform. In addition, the FCC's
5 pending intercarrier compensation reform proceeding is driven by its desire to eliminate
6 unreasonable differences in the rates for access services.⁸

7
8 **Q. What are the benefits of switched access charge reform?**

9 A. Essentially, the benefits of switched access charge reform are:

- 10 1. Price efficiency.
- 11 2. Reduction of arbitrage opportunities.
- 12 3. Elimination of differences in rates that occur because of regulatory decisions.
- 13 4. Establishment of more consistent and rational intrastate switched access rates.

14
15
16 ***CLEC Intrastate Switched Access Charge Reform***

17 **Q. What is Staff's response to the Eschelon, et al. claim that there are legitimate reasons**
18 **why access rates charged by different carriers are different?**

19 A. Eschelon, et al. have posited that if carriers who pay access charges believe a certain
20 carrier's rates are unreasonable, the complaint process makes the most sense rather than
21 overarching reform which treat all carriers the same. The CLECs can't have it both ways.
22 On the one hand they argue that they have no market power, that they are price takers in
23 the market and that any differences in the rates they charge will be bid away by the
24 competitive market. With respect to termination of a call to a CLECs' customers, the
25 IXC's have no alternative but to pay the CLECs' rates to terminate calls. It is because of

⁸ *In the Matter of Developing a Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, Released: April 27, 2001, para. 2.

1 this lack of a competitive alternative that Staff believes that the terminating access rate for
2 CLECs should be capped at the incumbent LECs rates.

3
4 **Q. Has the FCC addressed this particular issue with respect to CLEC access changes?**

5 A. Yes. In its proceeding on Access Charge reform the FCC issued a decision that put a
6 benchmark mechanism in place to limit the potential for some CLECs to inappropriately
7 shift onto the long distance market in general a substantial portion of the CLECs' start-up
8 and network build-out costs.⁹

9 In its decision, the FCC noted that:

10
11 IXC purchasers of CLEC access services contend that CLECs have
12 tariffed switched access rates at unjust and unreasonable levels. They
13 assert that it is an anomaly for a "competitive" provider to enter a market
14 by charging well in excess of the rate charged by the market's incumbent
15 and that such entry could not be maintained in a competitive market. The
16 IXCs argue that high access charges allow CLECs unfairly to shift their
17 operational expenses and their network build-out expenses to IXCs and,
18 through them, to long distance ratepayers generally. Moreover, IXC
19 commenters complain that these unreasonable rates are unilaterally
20 imposed through tariffs, rather than through negotiation with a willing
21 purchaser. (footnotes omitted)

22
23 The FCC further noted that:

24
25 By contrast, CLECs assert that their rates are justified by their substantial
26 network development costs and their significantly higher per-unit cost of
27 providing service that arises from the smaller customer base over which
28 they may spread their operational costs. They argue that ILECs were for
29 many years protected monopoly providers of local exchange and exchange
30 access services; during that time, they funded the build-out of their
31 networks through rates imposed on captive customers and through access
32 rates that were dramatically higher than they are today.

33

⁹ *In the Matter of Access Charge Reform and Reform of Access Charges Imposed by Competitive Local Exchange Carriers*, CC Docket No. 96-262, Seventh Report And Order And Further Notice Of Proposed Rulemaking, Adopted: April 26, 2001, Released: April 27, 2001

1 **Q. How did the FCC address these conflicting opinions?**

2 A. In its decision, the FCC concluded:

3
4 CLECs will be restricted only in the manner that they recover their costs
5 from those access-service consumers that have no competitive alternative.
6 We implement this restriction on the CLEC's exercise of their monopoly
7 power by establishing a benchmark level at which CLEC access rates will
8 be conclusively presumed to be just and reasonable and at (or below)
9 which they may therefore be tarified.

10

11 **Q. What is Staff's recommendation with respect to CLEC access charges?**

12 A. Staff recommends that CLECs' maximum switched access rates be capped at the
13 incumbent LEC's rates and that the CLECs should be required to reduce their maximum
14 switched access rates to the level of the incumbent local exchange carrier. If Staff's
15 access charge rate reformation is adopted by the Commission, the incumbent LEC's rates
16 will be Qwest's current intrastate rates. Staff believes that the FCC solution is
17 appropriate.

18

19 If, however, a CLEC believes that its costs of providing switched access services exceed
20 those of the incumbent local exchange company, such that it believes a higher maximum
21 rate level is appropriate, it should have the option of filing information with the
22 Commission to demonstrate these higher costs and a hearing on the issue, if desired.

23

1 ***Switched Access Charge Reform Funding***

2 **Q. Does Staff agree with Qwest and the Joint CLECs that AUSF contributions “should**
3 **come from all sectors of the industry, i.e. ILEC, CLEC, Cable, Wireless and VOIP**
4 **providers...”?**¹⁰

5 A. Yes. Staff agrees that funding for AUSF should come from all sectors of the industry over
6 which the Commission has jurisdiction.

7
8 **Q. What is Staff recommendation regarding the Joint CLECs’ disagreement with**
9 **Qwest’s proposal that the Commission to automatically follow the FCC, should the**
10 **FCC change its method of funding the federal USF?**¹¹

11 A. Staff also agrees with the CLECs that the Commission should not automatically adopt the
12 FCC’s method of funding federal USF for purposes of the AUSF. The method that the
13 FCC adopts may not be appropriate for the State of Arizona.

14
15 **Q. Does Staff agree that access charge reform is in the public interest only with a**
16 **resultant reduction in toll rates?**¹²

17 A. No. A reduction in toll rates is a benefit, however the restructuring of access rates to
18 provide more consistency in the price of inputs provides a societal benefit in that the costs
19 (through the use of society’s resources) of providing a service can be weighed against the
20 costs of providing that same service or alternatives to that service. The market can only
21 determine the more efficient (least cost use of society’s resources) method of production if
22 the prices reflect the costs of production

23

¹⁰ Direct Testimony of Douglas Denney On behalf of Joint CLECs, December 1, 2009, Page 69, lines 8 – 12.

¹¹ Direct Testimony of Douglas Denney On behalf of Joint CLECs, December 1, 2009, Page 69, lines 8 – 12.

¹² Presentation by Mark Starkey for Joint CLECs at the June 19, 2009 AUSF workshop.

1 **Q. Should the IXC's be required to make a filing with the Commission to show that they**
2 **have passed through the reductions that result from rate reductions?**

3 A. Yes. Staff recommends that the IXC be required to make a filing with the Commission to
4 show that they have passed through the revenue reductions that result from the switched
5 access charge rate reductions. This requirement insures the end users will see a concrete
6 benefit from the reform of access charges. In addition, AT&T has indicated that it would
7 also eliminate its Intrastate Connection charge. Staff recommends that the Commission
8 require all other interexchange carriers to withdraw all similar charges.

9
10 **ARIZONA UNIVERSAL SERVICE FUND-RELATED ISSUES**

11 **Q. Does the Commission currently have a mechanism whereby it provides subsidies to**
12 **high cost companies?**

13 A. Yes. The Commission currently has rules in place that allow companies operating in high
14 cost areas to apply for AUSF surcharge subsidies to keep its rates at an affordable level.

15
16 **Q. Do you believe there is a better way to describe the mechanism than "Arizona**
17 **Universal Service Fund?"**

18 A. Yes. The name AUSF seems to imply that there is a pot of money that has been set aside
19 for the purpose of having companies apply for revenue from the fund and that is sits in a
20 bank account somewhere unused. This is not the case. Because of the manner in which
21 the AUSF works today, a more appropriate description of the mechanism might be the
22 "Arizona Universal Service Surcharge."

23
24 **Q. Please describe AUSF mechanism that is in place today.**

25 A. Pursuant to A.A.C. R14-2-1203:

26
27 A provider of basic local exchange telephone service may request that the Commission
28 authorize AUSF support with a filing under R14-2-103 or other method as the

1 Commission may prescribe, and upon compliance with all applicable rules set forth in
2 R14-2-1101 through R14-2-1115. A request for AUSF support shall include a statement
3 describing the need for such funding. The Commission shall determine the appropriate
4 cost of providing basic local exchange service for each AUSF support area for which
5 AUSF support is requested and shall calculate in accordance with R14-2-1202 the amount
6 of AUSF support, if any, to which the applicant is entitled.

7
8 **Q. How is the amount to be recovered through the AUSF surcharge calculated?**

9 A. Pursuant to A.A.C. R14-2-1202:

10
11 The amount of AUSF support to which a provider of basic local exchange telephone
12 service is eligible for a given AUSF support area shall be based upon the difference
13 between the benchmark rates for basic local exchange telephone service provided by the
14 carrier, and the appropriate cost to provide basic local exchange telephone service as
15 determined by the Commission, net of any universal service support from federal sources.

16
17 **Q. What companies currently receive AUSF surcharge revenue subsidies?**

18 A. Currently, only Citizens Telecommunications Company of the White Mountains, Inc. dba
19 Frontier Communications of the White Mountains receives and AUSF surcharge subsidy.
20 In Decision No. 56657, dated October 10, 1989, the Commission concluded that
21 residential and business rates should increase by no more that 5 percent and that any
22 residual revenue requirement should be supported by an AUSF surcharge subsidy.
23 Citizens is currently authorized to receive \$769,620, annually.

24
25 **Q. How is the fund administered and by whom?**

26 A. The Commission entered into an agreement for professional services with the National
27 Exchange Carriers Association (now "Solix, Inc.") to administer the AUSF. Solix
28 requested and received data from all Arizona telecommunications providers for use in
29 calculating the surcharges that would be applied to all telecommunications providers for
30 each year. From this data, Solix calculates that the annual monthly surcharge for Category
31 One (local exchange service) providers and Category Two (toll service) providers, The
32 collection of the surcharge amounts over the year generate sufficient funds to cover the

1 AUSF distributions that Citizens has been authorized to receive, cover Solix' contract
2 costs to administer the program, and provide a cushion against any unexpected events that
3 could disrupt the flow of funds to the subsidy recipient. As of December 31, 2009, the
4 AUSF was expected to have a fund balance of \$243,731.

5
6 **Q. How much of an AUSF subsidy does Citizens (Frontier) receive, per access line
7 basis?**

8 A. Citizens currently receives approximately [REDACTED]
9 [REDACTED] per access line.

10
11 **Q. What are the reasons that the ALECA members believe that AUSF revenues are
12 necessary?**

- 13
14 - Access revenues are declining,
15
16 - Access rates will be reduce to eliminate the incentive for arbitrage and so that
17 prices reflect the costs of the service,
18
19 - Because of this, there is pressure on other services to cover the costs of providing
20 service in rural area. The ALECA members believe that the resulting prices will
21 be too high to maintain the level of subscribership that currently exists¹³ and
22
23 - A potential for reduced subsidies from the Federal High Cost Fund in the future.

24
25 *Use and Establishment of Benchmark Rates*

26 **Q. What is Qwest's recommendation regarding a statewide basic local service rate
27 benchmark rate?**

28 A. Qwest recommends that the Commission set a benchmark rates at 125 percent of the state-
29 wide average rates for residential and business local exchange rates. Under Qwest's
30 proposal, a local exchange company would increase its local service rates to the

¹³ Presentation by Curt Huttshell for ALECA at the June 19, 2009 AUSF workshop.

1 benchmark and recover any access revenue reductions. If the company did not need to
2 increase its rates all the way to the benchmark rates, the company would only be allowed
3 to increase rates to the level that provide sufficient revenue to offset the access revenue
4 reduction. Under Qwest's proposal, the benchmark rate would be set by the Commission
5 in a rulemaking.¹⁴

6
7 **Q. How does this benchmark rate compare to the current residential local service rates**
8 **for ALECA members?**

9 A. Exhibit WMS-2 contains the current rates in Arizona for the ALECA members.

10
11 **Q. What is Staff's recommendation on whether there should be a statewide benchmark**
12 **local service rate that must be met before a company is eligible to receive AUSF?**

13 A. Staff recommends that the Commission reject the proposal for a statewide benchmark
14 local service rate that must be met before a company is eligible to receive AUSF.
15 Individual LEC circumstances differ and the Commission should retain its flexibility to
16 address each company and its ratepayers on an individual company basis. Current LEC
17 residential local service rates range from \$9.25 to \$24.46 per month. Qwest's current
18 residential local service rate is \$13.18 per month. To require the ratepayers of all
19 companies to be subject to a statewide benchmark rate ignores the disparate cost of
20 providing service and the different effects the rate increase required might produce.

¹⁴ Direct Testimony of Peter B. Copeland On Behalf Of Qwest Corporation, Page 6, lines 17 – 25.

1 ***Impact of Access Charge Reform on AUSF Contribution Rates***

2 **Q. How many access lines are served by ALECA members?**

3 A. Based on ALECA's Response to Staff Data Request 1-12, Staff has estimated that
4 ALECA serves [REDACTED] business and
5 residence access lines.

6
7 **Q. How much per access line would ALECA members require if the AUSF is used to
8 offset the reduction in access revenues resulting to going to Qwest intrastate rates?**

9 A. In its Response to Staff Data Request 3.2, ALECA estimates that [REDACTED]
10 [REDACTED] in annual AUSF support would be required if its rates
11 were to mirror Qwest's intrastate access rates. Given that ALECA serves [REDACTED]
12 [REDACTED] business and residence access lines, Staff has
13 estimated that that [REDACTED]
14 [REDACTED] per access line.

15
16 **Q. Based on the Commission's current methodology, what would the requisite AUSF
17 rates need to be to provide that level of support?**

18 A. On December 22, 2009, the Commission approved the following rates to provide in the
19 neighborhood of \$800,000 a year in AUSF Revenue to Frontier:

20
21 Category One providers: \$0.006942 per access line and \$0.069423 per
22 interconnecting trunk line.

23
24 Category Two providers: 0.4033 percent of intrastate toll revenues.

25
26 Since this amount is [REDACTED] the amount
27 currently funded through AUSF, Staff estimated that the AUSF monthly rates to support
28 ALECA's proposal to mirror Qwest's intrastate rates would be [REDACTED]
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[REDACTED]

Prerequisites for Receiving AUSF Support to Achieve Switched Access Reform

Q. Does Staff believe that the ALECA members should be required to file a rate case to receive AUSF support?

A. Yes. It is Staff's position that a company should be required to show that it, in fact, has no other source of funds to offset switched access charge rate reductions before it is authorized to receive an AUSF surcharge subsidy. As is shown in Exhibit WMS-2, the residential local exchange service rates for the rural incumbent LECs range from \$9.25 to \$24.46 per month. Staff believes that it would be inequitable to require ratepayers with a \$24.46 monthly rate to provide an AUSF surcharge subsidy to a company and its ratepayers whose monthly local service rate is, for example, \$9.25. Staff recommends that the rural incumbent local exchange companies be required to file R14-2-103 information to allow the Company and the Commission to increase rates to levels that generate additional revenues while providing service at reasonable rates, before they are authorized to receive AUSF surcharge subsidies.

If the Commission does not accept Staff's position, and instead desires to proceed with switched access charge reform prior to the processing of an R14-2-103 filing by a company, Staff alternatively recommends that the ALECA member companies (which elect not to absorb the switched access charge revenue reductions) be allowed to file an application to receive temporary AUSF surcharge revenues to offset access charge reductions, on a revenue neutral basis. Any amendments to the current AUSF rules should accommodate this expansion of the rules to allow AUSF surcharge monies to be used for

1 purposes of access charge reform. Until that time, in the interim, ALECA member
2 companies could request a waiver of the rules and an extension of time to submit the
3 requisite R14-2-103 filing. This would allow access charge reform to proceed
4 immediately without the delay occasioned by the processing of an R14-2-103 filing.

5
6 **Q. What requirements does ALECA believe a carrier would have to meet in order to**
7 **receive AUSF support?**

8 A. ALECA feels that to qualify for AUSF, the carrier would have bring their intrastate access
9 rates in line with the Qwest statewide intrastate composite rate of \$0.0220 per minute-of-
10 use, they would have to serve rural areas and that carrier would have to be an eligible
11 telecommunications carrier.¹⁵

12
13 **Q. Why does Staff support the current requirement in the rules that the LECs file a rate**
14 **case?**

15 A. With the exception of Midvale Telephone Exchange, Qwest is the only incumbent local
16 exchange company to have its rates examined in the last ten years. Staff has no bona fide
17 recent sense of the financial condition of the other ALECA companies other than their
18 assertion that they need AUSF in order to survive the decline in access revenues. To
19 Staff, it is not equitable to require customers of other companies to subsidize the ALECA
20 members based solely on anecdotal statements of need.

21
22 The ALECA members have taken the position that the Commission authorized them to
23 charge certain rates and therefore they are entitled to those revenues in perpetuity. As the
24 Commission well knows, conditions change, plant depreciates, customer counts change

¹⁵ Direct Testimony of Douglas Duncan Meredith On Behalf Of The Arizona Local Exchange Carriers Association, Exhibit DDM-01, Page 1.

1 and so forth, so that the rates approved for these companies may no longer be appropriate.
2 Further, the FCC has instituted the Multi-Association Group plan that, according to the
3 FCC, makes implicit subsidies explicit and also includes hold harmless provisions so the
4 rural companies were not harmed financially. However, there has been no evaluation of
5 the effects of those FCC actions on overall revenue requirements or a determination of
6 whether the ALECA members' intrastate rates should be revised.

7
8 **Q. What is Staff's proposal?**

9 A. Staff proposes that a company be required to show that it, in fact, has no other source of
10 funds to offset switched access charge rate reductions before it is authorized to receive an
11 AUSF surcharge subsidy. As is shown in Exhibit WMS-2, the residential local exchange
12 service rates for the rural incumbent LECs range from \$9.25 to \$24.46 per month. Staff
13 believes that it would be inequitable to require ratepayers with a \$24.46 monthly rate to
14 provide an AUSF surcharge subsidy to a company and its ratepayers whose monthly local
15 service rate is, for example, \$9.25. Staff recommends that the rural incumbent local
16 exchange companies be required to file R14-2-103 information to allow the Company and
17 the Commission to increase rates to levels that generate additional revenues while
18 providing service at reasonable rates, before they are authorized to receive AUSF
19 surcharge subsidies.

20
21 Staff's alternative position, if the Commission desires to proceed with switched access
22 charge reform without the need to wait for processing an R14-2-103 filing, is that each
23 ALECA company be allowed to file an application with the Commission which would
24 allow it to obtain AUSF surcharge support on an interim basis to offset revenues lost as a
25 result of access charge reform, or the reduction of its switched access charge rates to
26 Qwest's levels on a revenue neutral basis. The application should include sufficient

1 financial information for the Commission to consider fair value and fair value rate of
2 return. Thereafter, these companies seeking AUSF surcharge support would be required
3 to submit an R14-2-103 filing on a schedule recommended by Staff.

4
5 ***High Cost Loop Support***

6 **Q. What is ALECA's proposal with respect to High Cost Loop Support?**

7 A. According to ALECA Witness Meredith, "The ALECA proposal would complement this
8 federal support by providing support for the remaining portion of eligible high loop costs.
9 Specifically, for carriers who receive 65 percent federal cost recovery, the State would
10 provide a 35 percent cost recovery. For carriers who receive 75 percent federal recovery of
11 loop costs in excess of the NACPL, the state would provide support of 25 percent for any
12 loop costs in excess of 150 percent. This state support would be in addition to a revenue-
13 neutral draw from the AUSF to offset intra-state access reductions".¹⁶

14
15 **Q. What are the current requirements to receive Federal High Cost Loop Support?**

16 A. If an ILEC is deemed a rural carrier, it continues to receive high-cost support based on
17 embedded costs. The expense adjustment allows those study areas with an average
18 unseparated cost per loop that exceeds 115 percent of the national average to allocate an
19 additional portion of their NTS costs to the interstate jurisdiction and to have those costs
20 recovered by HCLS.¹⁷

21
22 **Q. Would you provide an example of how the federal HCLS is calculated?**

23 A. For example, suppose the national average cost per loop is \$240 and a company with
24 10,000 loops has a cost per loop of \$420, or 175 percent of the national average. Then for

¹⁶ Direct Testimony of Douglas Duncan Meredith On Behalf Of The Arizona Local Exchange Carriers Association, Page 10, lines 11 – 18.

¹⁷ *Universal Service Monitoring Report*, CC Docket No. 98-202, 2008, Page 3-3, footnote omitted.

1 the portion of their costs between \$276 (115 percent of the national average) and \$360
2 (150 percent of the national average) they would receive 65 percent of those costs [.65
3 times ($\$360 - \$276 = \$54.60$), plus they would receive 75 percent of their costs over \$360
4 [.75 times ($\$420 - \$360 = \$45$), resulting in HCLS totaling \$99.60 per loop, or \$996,000
5 total support.¹⁸

6
7 **Q. Does Staff have any information on the average cost per loop for Qwest and the**
8 **ALECA members?**

9 A. Yes. Attached as Exhibit WMS-3 are pages from the FCC's 2009 Universal Service
10 Monitoring Report. These pages include information on the unseparated non-traffic
11 sensitive ("NTS") costs (Revenue Requirement) per loop for incumbent local exchange
12 companies providing service in Arizona. The Report indicates at Page 3-164 that the
13 national average NTS cost per loop is \$336.73 with the Arizona average cost per loop at
14 \$424.19. This number, however, includes companies over which the commission has no
15 jurisdiction. Including only those companies over which the Commission has jurisdiction,
16 the Arizona average NTS cost per loop is \$417.84. The Arizona unseparated NTS costs
17 per loop are included in Table 3.31, Page 3-135 and 3-146.

18
19 **Q. If the Commission were to conclude that ALECA members' costs in excess of the**
20 **national average cost per loop should be recovered from through the AUSF, Does**
21 **Staff have an estimate of the effect of such a decision on the amount recoverable**
22 **from the AUSF?**

23 A. In its Response to Staff Data Request, ALECA estimates that [REDACTED]
24 [REDACTED] in additional AUSF support would be required if its

¹⁸ Universal Service Monitoring Report, CC Docket No. 98-202, 2008, Page 3-3, footnote 16.

1 proposal to provide intrastate high cost loop support for its members is approved by the
2 Commission.

3
4 **Q. Is Staff's recommendation to change to High Cost Loop rules at this time?**

5 A. No. Staff believes these changes should await further FCC action with respect to the
6 federal funding mechanism.

7
8 **LIFELINE AND LINK-UP RELATED ISSUES**

9 ***Existing Programs***

10 **Q. Please briefly describe the Lifeline and Link-Up Programs.**

11 A. The following describes the benefits to end users of the Lifeline and Link-Up Programs:

- 12
13 • **Lifeline Assistance** provides discounts on basic monthly service at the primary
14 residence for qualified telephone subscribers. These discounts can be up to \$10.00
15 per month, depending on your state.
16
17 • **Link-Up America** helps income-eligible consumers initiate telephone service.
18 This program pays one-half (up to a maximum of \$30) of the initial installation fee
19 for a traditional, wireline telephone or activation fee for a wireless telephone for a
20 primary residence. It also allows participants to pay the remaining amount they
21 owe on a deferred schedule, interest-free.

22
23 ***ALECA and Arizona ETC Recommendations***

24 **Q. Has ALECA made a recommendation on these programs?**

25 A. ALECA witness Meredith recommends that the Commission adopt the proposals
26 contained in the Report and Recommendations of the Eligible Telecommunications
27 Carriers ("Arizona ETCs") on Lifeline and Link-Up Issues ("Industry Report"), docketed
28 December 21, 2005. In this report, the ETCs recommended that the Department of
29 Economic Security ("DES") centrally administer the Lifeline and Link-Up programs of all

1 of Arizona's ETCs and that the DES be reimbursed for the administrative costs incurred
2 from the AUSF.¹⁹

3
4 **Q. What recommendation have the Arizona ETCs made with respect to Lifeline and**
5 **Link-Up Programs?**

6 A. Arizona ETCs recommends that the Commission approve the following two-phase
7 Lifeline enrollment program that it proposes:²⁰

8
9 **Phase I:** *Engage DES-FAA to automatically enroll individuals in Arizona Lifeline, as*
10 *well as Tribal Lifeline and have ETCs participate in cooperative outreach programs that*
11 *target ACAA offices.*²¹

12
13 **Phase II:** *Identify and implement additional outreach programs and engage the Arizona*
14 *Department of Revenue to include Arizona Lifeline Certification when sending the tax*
15 *returns of qualifying individuals.*²²

16
17 **Q. Why do the Arizona ETCs recommend that the costs associated with the new method**
18 **of enrolling participants in these programs be recoverable through the AUSF?**

19 A. ALECA feels a State-administered program, centrally administered with automatic
20 enrollment is the most effective form of outreach for Lifeline and Link-up and they
21 believe there is no better purpose that the AUSF could serve but to help pay those
22 administrative expenses.²³

¹⁹ Direct Testimony of Douglas Duncan Meredith On Behalf Of The Arizona Local Exchange Carriers Association, Page 11, lines 19 – 24.

²⁰ Report and Recommendations of the Eligible Telecommunications Carriers (“Arizona ETCs”) on Lifeline and Link-Up Issues (“Industry Report”), Page 2

²¹ Industry Report, Page 3

²² Industry Report, Page 4

²³ Industry Report, Page 11.

1 **Q. What effect do the participants believe the proposed process of enrolling participants**
2 **in these programs will have on enrollment levels?**

3 A. Arizona ETCs believes that:

4
5 "It is anticipated that through this process as many as 400,000 new households
6 could be enrolled in Arizona Lifeline over the course of a year, a substantial
7 increase in today's enrollment. It could result in an increase of over \$38 million
8 dollars in federal funding coming into the state (\$8.00 per month x 12 months x
9 400,000 households)."²⁴

10
11 **Q. What additional cost would be borne by the AUSF if proposal is accepted by the**
12 **Commission?**

13 A. The following information was included in the Industry Report:

14
15 Based on the Team's high-level discussion of system requirements, DES-
16 FAA has estimated an initial programming cost of \$27,558 and an annual
17 cost of \$325,300 to determine eligibility status. The foregoing estimate of
18 ongoing costs is based on a monthly application rate of 90,000, which may
19 vary, and assumes that DES-FAA would only handle notification of
20 eligibility status.²⁵

21
22 **Q. How much does it cost non-Lifeline and Link-Up customers to implement the DES**
23 **central administration?**

24 A. In the Industry Report, the Arizona ETCs indicated that it would cost about \$325,300 a
25 year.

26
27 **Q. Would implementation of this recommendation require a rulemaking?**

28 A. Staff believes that implementation of this proposal would require a rulemaking.
29

²⁴ Industry Report, Page 3

²⁵ Industry Report. Pages 5 - 6.

1 **Q. What is Staff's recommendation on the ALECA proposal to have DES handle**
2 **centralized administration and automatic enrollment of the Lifeline and Link-Up**
3 **programs?**

4 A. Staff recommends that Arizona ETCs be authorized to implement the recommendations
5 that have been recommended in the Industry Report. Staff does not recommend, however,
6 that recovery of the costs of implementing these recommendations be recoverable from
7 the AUSF. If the projections contained in the industry report are accurate, the incumbent
8 local exchange companies stand to gain \$38 million a year in additional revenues that they
9 would not receive absent the federal programs. Given that that potential increase in
10 revenues, Staff believes that the beneficiaries of these funds should contribute the
11 relatively small amount of money they would have to spend in order to reap the potentially
12 massive return on those expenditures.

13
14 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

15 **Q. Please summarize the Staff positions on the list of issues posed by the ALJ in the**
16 **October 1, 2009 Procedural Order.**

17 A. The list of issues and Staff's position on those issues follow:

18
19 1. What carriers should be covered by access reform?

20
21 *ALECA members*
22 *CLECs*

23
24 2. To what target level should access rates be reduced?

25
26 *ALECA members' access rates should be reduced to Qwest's intrastate rates*
27 *CLECs' access rates should be capped at the incumbent LEC's rates.*

28
29 3. What procedures should the Commission implement to achieve the desired
30 reduction in access rates?

31
32 *The following alternatives assume that the ALECA member company is not*
33 *willing to simply absorb the switched access charge reductions.*
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35

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Alternative A:

It is Staff's position that a company should be required to show that it, in fact, has no other source of funds to offset switched access charge rate reductions before it is authorized to receive an AUSF surcharge subsidy. As is shown in Exhibit WMS-2, the residential local exchange service rates for the rural incumbent LECs range from \$9.25 to \$24.46 per month. Staff believes that it would be inequitable to require ratepayers with a \$24.46 monthly rate to provide an AUSF surcharge subsidy to a company and its ratepayers whose monthly local service rate is, for example, \$9.25. Staff recommends that the rural incumbent local exchange companies be required to file R14-2-103 information to allow the Company and the Commission to increase rates to levels that generate additional revenues while providing service at reasonable rates, before they are authorized to receive AUSF surcharge subsidies.

Alternative B:

If the Commission does not accept Alternative A, and desires to proceed with access reform immediately without a full R14-2-103 filing; Staff recommends the following process to address this phase of access charge reform for ALECA members.

First step – AUSF surcharge until the company's rates have been addressed by the Commission in a rate case. With 3 months of the Commission's Decision, the company may file for AUSF support on a revenue neutral basis. The amount of the surcharge would be equal to the amount of the carrier's reduction in access charges. Such application would include financial information sufficient for the Commission to make a fair value finding and fair value rate or return determination. Beginning twelve months of a Commission decision granting the temporary AUSF support, companies would be required to file a rate case or rate review filing pursuant to A.A.C. R14-2-103. The company may elect to reduce its access charges on its own without AUSF support in which case it would not be required to file a rate case, unless it wants authorization to change other rates and charges.

Second step – rate review for the purpose of increasing local and other service rates to levels that do not harm ratepayers and continued AUSF surcharge revenue if the rate increases are not sufficient to cover the access revenue reductions or the new revenue requirement. Staff recommends filing on a staggered basis due to Staff resource constraints. Staff recommends the following schedule for the ALECA members' filings:

<i>Frontier (White Mountains)</i>	<i>Within 12 months of a Decision</i>
<i>Valley Telephone Coop</i>	<i>15 months after a Decision</i>
<i>SCUTA</i>	<i>18 months after a Decision</i>
<i>Navajo Communications</i>	<i>21 months after a Decision</i>
<i>Frontier (Rural)</i>	<i>24 months after a Decision</i>
<i>Copper Valley</i>	<i>27 months after a Decision</i>
<i>Accipiter</i>	<i>30 months after a Decision</i>
<i>Arizona Telephone Company</i>	<i>33 months after a Decision</i>

1	<i>Table Top Telephone Company</i>	<i>36 months after a Decision</i>
2	<i>Southwestern Telephone Company</i>	<i>39 months after a Decision</i>
3	<i>Midvale Telephone Exchange</i>	<i>42 months after a Decision</i>

4. Should carriers be permitted to contract for access rates that differ from their tariffed rates?

Yes. While the Commission has not required the filing of switched access service agreements in the past, Staff recommends that the Commission require the filing of these agreements on a going forward basis. The Commission has jurisdiction to require the filing of any interconnection agreement between carriers impacting their operations in Arizona. Moreover, Staff believes that if a company enters into an agreement for switched access service with an IXC or other provider, the contracts' provisions should be made available to any other similarly situated customer/carrier which desires to enter into a similar agreement. The CLECs should be required to amend their tariffs to allow contracts and further indicate the agreements will be filed with the Commission for public inspection and made available to other similarly situated carriers.

5. What revenue sources should be made available to carriers to compensate for the loss of access revenues?

Staff believes that rate increases should be authorized where appropriate, and then AUSF surcharges should be implemented to recover any revenue shortfall. However, if the Commission wants to immediately provide the benefits of access rate reductions, Staff recommends that the companies be able to receive AUSF surcharge revenues to offset access charge reductions on a temporary basis but that they subsequently be required to make a R14-2-103 filing. A waiver of the current AUSF rules would have to be requested and granted by the Commission to allow immediate recovery of access charge reductions through the AUSF surcharge mechanism. In this manner, the Commission could immediately implement a revenue neutral rate change in order to allow intrastate intercarrier compensation reform to progress.

6. How much of access cost recovery, if any, should be shifted to end users? What showing should be required for such a shift? What should be the role of "benchmark" rates and how should benchmarks be set?

Staff does not recommend implementation of statewide benchmark local service rates at this time. However, a "benchmark rate" for each company should be set when the company submits its rate review filing as recommended above.

7. Procedurally what will be required of a carrier if it seeks a "revenue neutral" increase in local rates?

Staff believes that a change to other rates of the company could be made to offset the switched access charge reduction as long as the change in rates was overall revenue neutral outside of a rate case. Staff believes that such a scenario would be permissible under the Scates case.

Similarly, a revenue neutral change could be accomplished by reducing the companies' switched access rates and using the AUSF on a temporary basis to

1 *offset the switched access rate reductions on a revenue neutral basis. Or, Staff*
2 *believes that a combination of changes to local rates and AUSF surcharges*
3 *could be used to offset any access charge reductions on a revenue neutral basis*
4 *outside of a rate case.*

5
6 *Procedurally, under any of these scenarios, the company would have to make a*
7 *filing with the Commission showing the rate changes and demonstrating that*
8 *they were in fact revenue neutral. Staff would also recommend that company be*
9 *required to file financial information sufficient for the Commission to make a*
10 *fair value finding and a fair value rate of return finding. Finally, if the carrier*
11 *were to be given temporary AUSF support outside of a rate case, the carrier*
12 *would have to obtain a waiver of the Commission's current AUSF rules.*

- 13
14 8. Assuming that AUSF funds will also be used as a compensating revenue source,
15 what specific revisions (including specific recommended amendment language) to
16 the existing rules are needed to allow use of AUSF funds for that purpose?

17
18 *The existing rules appear to allow the use of the AUSF surcharge as a means of*
19 *keeping rates in high cost areas affordable. A specific provision would have to*
20 *be added to the rules to allow for the use of AUSF revenues to compensate*
21 *carriers for revenue reductions resulting from Access Reform. However, a*
22 *waiver of the rules would allow the Commission to immediately proceed to*
23 *implement intercarrier compensation reform, which Staff believes is in the*
24 *public interest.*

- 25
26 9. Which carriers should be eligible for AUSF support?

27
28 *Staff recommends that carriers of last resort that have a requirement to provide*
29 *service to all prospective customers should be eligible to have a portion of their*
30 *costs recovered through a surcharge on all telecommunications services*
31 *provided in the State.*

32
33 *Under Staff's proposal, further reduction in Qwest's access rates is not*
34 *recommended in this docket at this time. Such reductions would occur in the*
35 *future and therefore, Qwest would not be eligible for AUSF surcharge support at*
36 *this time.*

- 37
38 10. What should be supported by AUSF? Access replacement only? High cost loops?
39 Line extensions? Centralized administration and automatic enrollment for Lifeline
40 and Link-up?

41
42 *Until the company files a rate case, only access reform replacement revenues*
43 *should be supported through the implementation of an AUSF surcharge. Given*
44 *that the a reduction in access rates from current rates to Qwest's current access*
45 *rates will shift approximately \$23 million and the fact that the FCC currently*
46 *has a High Cost Loop Support mechanism in place that provides significant*
47 *revenues for high cost loops and that the companies have not been subject to a*
48 *rate review for longer than a decade, Staff is only recommending AUSF*
49 *surcharge support in connection with switched access charge reform.*

50
51 *Staff does not propose to redefine the AUSF rules at this time. For purposes of*
52 *this case, Staff believes that only access charge reform replacement revenues are*
53 *at issue. Staff further recommends that any other changes to the AUSF rules be*

1 *addressed at the time that the FCC issues its order on intercarrier compensation*
2 *or modifying the federal High Cost Fund.*

3
4 *Staff recommends that Arizona Eligible Telecommunications Carriers ("Arizona*
5 *ETCs") implement the recommendations contained in the Report and*
6 *Recommendations of the Arizona Eligible Telecommunications Carriers*
7 *("ETCs") on Lifeline and Link-Up ("the Industry Report") which was submitted*
8 *to the Commission on December 21, 2005. Staff does not recommend that the*
9 *costs of implementing these recommendations be recoverable through an AUSF*
10 *surcharge. If the projections contained in the industry report are accurate, the*
11 *incumbent local exchange companies stand to gain \$38 million a year in*
12 *additional revenues that they would not receive absent the federal programs.*
13 *Given this potential increase in revenues, Staff believes that the beneficiaries of*
14 *these funds will contribute the relatively small amount of money to reap a*
15 *potentially substantial return on those expenditures.*

- 16
17 11. What should be the basis of AUSF contributions and what should be the structure
18 of any AUSF surcharge(s)?

19
20 *Staff recommends that the AUSF surcharges be assessed on jurisdictional retail*
21 *revenues rather than the current methodology which assessed the AUSF*
22 *surcharge on intrastate long distance revenues and on interconnection trunks.*
23 *Implementation of this recommendation would require a rule change or*
24 *amendment.*

- 25
26 12. Any other specific revisions to the AUSF rules.

27
28 *None.*

29
30
31 **Q. Does this conclude your direct testimony?**

32
33 **A. Yes, it does.**
34

ILEC Access Charges

	CCL-Orig	CCL-Term	LT	LS	Orig/min	Term/min	Date
Midvale	0.042800	0.054400	0.053500	0.038900	0.135200	0.146800	4/14/1995
Midvale (Young)	0.020000	0.020000	0.030000	0.030000	0.080000	0.080000	4/14/1995
SCUTA	0.036200	0.051200	0.100500	0.063200	0.199900	0.214900	1/1/1990
Qwest (Note 2) Tandem Switched Miles	0.000000	0.000000	Note 1	0.017300	0.017300 **	0.017300 **	12/4/2008
0	0.000000	0.000000	0.000000	0.017300	0.017300	0.017300	12/4/2008
Over 0 to 8	0.000000	0.000000	0.000299	0.017300	0.017599	0.017599	12/4/2008
Over 8 to 25	0.000000	0.000000	0.000600	0.017300	0.017900	0.017900	12/4/2008
Over 25 to 50	0.000000	0.000000	0.001068	0.017300	0.018368	0.018368	12/4/2008
Over 50	0.000000	0.000000	0.001645	0.017300	0.018945	0.018945	12/4/2008
Copper Valley	0.020000	0.020000	0.030000	0.030000	0.080000	0.080000	4/14/1995
Valley	0.058900	0.058900	0.029900	0.013300	0.102100	0.102100	11/1/1995
Southwesten	0.010000	0.229345	0.019328	0.029703	0.059031	0.278376	5/1/1998
Arizona Telephone	0.010000	0.030215	0.020597	0.044054	0.074651	0.094866	5/1/1998
Frontier (Rural)	0.019370	0.048170	0.011160	0.017140	0.047670	0.076470	5/1/1990
Frontier (White Mountains)	0.025200	0.105556	Note 1	0.060970	0.086170 **	0.166526 **	12/1/1994
Navajo Communications	Concurs in Qwest rates						
Accipiter	0.010000	0.024200	Note 1	0.017300	0.027300 **	0.041500 **	3/16/1997
Table Top	0.036000	0.040000	0.040000	0.040000	0.116000	0.120000	9/1/2000

Note 1 - LS depends on mileage and whether direct trunked transport or tandem switched transport is used.

** - Does not include local transport

Note 2 - Direct Trunked Transport is mileage sensitive, but not minutes of use sensitive

Miles	Fixed	Per mile	Miles	Per min
0 --	--	--	0	0.000000
Over 0 to 8	0.000199	0.000020	5	0.000299
Over 8 to 25	0.000255	0.000023	15	0.000600
Over 25 to 50	0.000263	0.000023	35	0.001068
Over 50	0.000265	0.000023	60	0.001645

**COMMISSION STAFF'S FIRST SET OF DATA REQUESTS
DOCKET NOS. : RT-00000H-97-0137 and T-00000D-00-0672
RESPONSES OF ARIZONA LOCAL EXCHANGE CARRIERS ASSOCIATION
MAY 29, 2009**

STF 1.3 Please provide for each of your Arizona LECs its current retail local exchange rates including any mandatory EAS charges and touch tone charges, if not included in the basic rate, for:

- a. primary line residential flat rate service;
- b. single line business flat rate service; and
- c. multi-line business flat rate service.

Response: Please see the following for each member:

Citizens Utilities Rural Company (d/b/a Frontier Citizens Utilities Rural)

- a. \$10.76 per month
- b. \$23.03 per month
- c. \$23.03 per month

Citizens Telecommunications Company of the White Mountains (d/b/a Frontier Communications of the White Mountains)

- a. \$16.10 per month
- b. \$35.60 per month
- c. \$37.85 per month

Navajo Communications Company, Inc. (a Citizens company)

- a. \$17.10 per month
- b. \$59.40 per month
- c. \$59.40 per month

Midvale Telephone Exchange, Inc.

- a. \$24.46 per month
- b. \$30.00 per month
- c. \$30.00 per month

South Central Utah Telephone Association

Exchange 643

- a. \$13.18 per month
- b. \$13.18 per month
- c. \$32.78 per month

Exchange 875

COMMISSION STAFF'S FIRST SET OF DATA REQUESTS
DOCKET NOS. : RT-00000H-97-0137 and T-00000D-00-0672
RESPONSES OF ARIZONA LOCAL EXCHANGE CARRIERS ASSOCIATION
MAY 29, 2009

- a. \$11.00 per month
- b. \$11.00 per month
- c. \$18.00 per month

Weighted Average by line count

- a. \$12.06 per month
- b. \$23.04 per month
- c. \$24.59 per month

Table Top Telephone Company, Inc.

- a. \$13.55 per month
- b. \$33.15 per month
- c. \$33.15 per month

Valley Telephone Cooperative

- a. \$13.75 per month
- b. \$19.75 per month
- c. \$19.75 per month

Exchange 575-557

- a. \$15.28 per month
- b. \$21.53 per month
- c. \$21.53 per month

Weighted Average by line count

- a. \$13.84 per month
- b. \$19.95 per month
- c. \$19.87 per month

Copper Valley Telephone, Inc.

- a. \$12.40 per month
\$13.18 per month, includes EAS charge for Exchange 829 customers
\$12.60 per month weighted average by line count
- b. \$16.65 per month
- c. \$16.65 per month

Arizona Telephone Company (TDS)

- a. \$9.25 per month
- b. \$19.20 per month

**COMMISSION STAFF'S FIRST SET OF DATA REQUESTS
DOCKET NOS. : RT-00000H-97-0137 and T-00000D-00-0672
RESPONSES OF ARIZONA LOCAL EXCHANGE CARRIERS ASSOCIATION
MAY 29, 2009**

c. \$26.10 per month

Southwestern Telephone Company (TDS)

- a. \$11.25 per month
- b. \$24.90 per month
- c. \$20.24 per month

Zona Communications

- a. \$16.98 per month
- b. \$35.98 per month
- c. \$35.98 per month

Table 3.31
ILEC High-Cost Loop Support Data
for 2007 by Study Area

Study Area Code	Type	Status	Study Area Name	Holding Company Name	Unseparated NTS Revenue Requirement \$	Number of Loops	Unseparated NTS Revenue Requirement per Loop \$	Projected High-Cost Loop Support Payments for 2009 \$	Percent of Total %
ALABAMA TOTAL					742,079,806	1,970,808	376.54	20,318,116	1.907
250282	C	R	BLOUNTSVILLE TEL CO	Otelco Inc.	2,238,796	3,350	668.30	527,657	0.050
250283	A	R	BRINDLEE MOUNTAIN	Otelco Inc.	4,684,954	11,069	423.25	0	0.000
250284	C	R	BUTLER TEL CO	Telephone And Data Systems, Inc.	4,100,168	7,712	531.66	457,390	0.043
250285	A	R	CASTLEBERRY TEL CO		454,240	957	474.65	21,296	0.002
250286	C	R	NATIONAL OF ALABAMA	Telephone Electronics Corporation	1,581,286	1,952	810.09	515,039	0.048
250290	C	R	FARMERS TELECOM COOP		10,296,743	17,771	579.41	1,614,352	0.151
250295	C	R	GRACEBA TOTAL COMM		3,259,069	4,093	796.25	1,037,461	0.097
250298	C	R	GULF TEL CO - AL	CenturyTel, Inc.	19,319,947	53,572	360.64	0	0.000
250299	C	R	HAYNEVILLE TEL CO		1,520,636	2,429	626.03	305,585	0.029
250300	C	R	HOPPER TELECOMM. CO.	Otelco Inc.	4,445,385	3,395	1,309.39	2,167,120	0.203
250301	A	R	FRONTIER-LAMAR CNTY	Frontier Communications Corporation	956,874	2,020	473.70	43,703	0.004
250302	C	R	WINDSTREAM AL	Windstream Corporation	14,833,366	27,778	534.00	1,689,734	0.159
250304	C	R	MILLRY TEL CO		3,737,968	6,756	553.28	495,633	0.047
250305	C	R	MON-CRE TEL COOP		2,867,234	2,917	982.94	1,147,809	0.108
250306	C	R	FRONTIER COMM.-AL	Frontier Communications Corporation	5,383,361	12,538	429.36	0	0.000
250307	C	R	MOUNDEVILLE TEL CO		1,256,189	1,564	803.19	404,571	0.038
250308	C	R	NEW HOPE TEL COOP		4,056,214	5,345	758.88	1,205,000	0.113
250311	A	R	OAKMAN TEL CO (TDS)	Telephone And Data Systems, Inc.	1,158,507	2,230	519.51	114,647	0.011
250312	A	R	OTELCO TELEPHONE LLC	Otelco Inc.	2,505,080	7,175	349.14	0	0.000
250314	C	R	PEOPLES TEL CO	Telephone And Data Systems, Inc.	9,495,009	15,148	626.82	1,914,698	0.180
250315	C	R	PINE BELT TEL CO		2,425,840	2,486	975.80	964,902	0.091
250316	C	R	RAGLAND TEL CO		1,799,764	1,268	1,419.37	913,990	0.086
250317	C	R	ROANOKE TEL CO	Telephone Electronics Corporation	2,936,144	4,784	613.74	557,764	0.052
250318	C	R	FRONTIER COMM.-SOUTH	Frontier Communications Corporation	5,049,865	11,501	439.08	0	0.000
250322	A	R	UNION SPRINGS TEL CO		2,085,252	4,418	471.99	90,672	0.009
255181	C	N	SO CENTRAL BELL-AL	AT&T, Inc.	529,818,504	1,523,645	347.73	0	0.000
259788	C	N	CENTURYTEL-AL-SOUTH	CenturyTel, Inc.	58,068,028	125,942	461.07	4,129,093	0.387
259789	C	N	CENTURYTEL-AL-NORTH	CenturyTel, Inc.	41,745,382	106,993	390.17	0	0.000
ALASKA TOTAL					201,849,721	337,614	597.87	43,130,197	4.047
610989	C	R	ADAK TEL UTILITY		1,759,194	197	8,929.91	1,251,682	0.117
613000	C	N	ACS OF ANCHORAGE	Alaska Communications Systems	41,531,395	98,603	421.20	677,420	0.064
613001	C	R	ARCTIC SLOPE TEL		3,294,289	2,811	1,171.93	1,504,537	0.141
613001A	C	R	ARCTIC SLOPE TEL		1,111,924	2,541	437.59	0	0.000
613002	C	R	BETTLES TEL CO INC	Alaska Power & Telephone	87,581	207	423.10	0	0.000
613003	C	R	BRISTOL BAY TEL COOP		1,782,389	1,679	1,061.58	759,696	0.071
613004	C	R	BUSH-TELL INC.		971,090	1,029	943.72	374,633	0.035
613005	A	R	CIRCLE UTILITIES		28,614	43	665.45	6,681	0.001
613006	C	R	COPPER VALLEY TEL		11,933,109	5,105	2,337.53	7,195,150	0.675
613007	C	R	CORDOVA TEL COOP		2,641,963	1,797	1,470.21	1,363,819	0.128
613008	C	R	ACS-FAIRBANKS, INC.	Alaska Communications Systems	14,365,475	33,903	423.72	0	0.000
613010	C	R	ACS-N GLACIER STATE	Alaska Communications Systems	32,219,728	47,871	673.05	7,710,674	0.724
613011	C	R	INTERIOR TEL CO INC	TelAlaska Holdings, Inc.	5,577,908	5,131	1,087.10	2,419,828	0.227
613011A	C	R	INTERIOR TEL CO INC	TelAlaska Holdings, Inc.	1,684,272	3,095	544.19	208,768	0.020
613012	C	R	ACS-AK JUNEAU	Alaska Communications Systems	4,841,735	16,959	285.50	0	0.000
613013	C	R	KETCHIKAN PUBLIC UT		5,980,044	8,384	713.27	1,603,330	0.150
613015	C	R	MATANUSKA TEL ASSOC		43,597,455	57,304	760.81	13,001,815	1.220
613016	C	R	MUKLUK TEL CO INC	TelAlaska Holdings, Inc.	1,505,660	1,571	958.41	589,269	0.055
613016A	C	R	MUKLUK TEL CO INC	TelAlaska Holdings, Inc.	825,345	2,502	329.87	0	0.000
613017	C	R	ALASKA TEL CO	Alaska Power & Telephone	3,331,272	4,408	755.73	983,345	0.092
613017A	C	R	ALASKA TEL CO	Alaska Power & Telephone	2,422,750	6,337	382.32	0	0.000
613018	C	R	NUSHAGAK ELEC & TEL		2,289,908	2,401	953.73	892,168	0.084
613019	C	R	OTZ TEL COOPERATIVE		2,778,790	3,587	774.68	851,175	0.080
613020	C	R	ACS-N SITKA	Alaska Communications Systems	6,086,942	12,914	471.34	259,583	0.024
613022	C	R	ACS-AK GREATLAND	Alaska Communications Systems	1,336,682	3,545	377.06	0	0.000
613023	C	R	UNITED UTILITIES INC	GCI Communication Corp.	4,752,352	8,205	579.20	744,066	0.070
613023A	C	R	UNITED UTILITIES INC	GCI Communication Corp.	1,642,456	4,410	372.44	0	0.000
613025	C	R	YUKON TEL CO INC		386,495	578	668.68	91,205	0.009
613026	A	R	NORTH COUNTRY TEL CO	Alaska Power & Telephone	111,642	178	627.20	22,550	0.002
613025	C	R	SUMMIT TEL & TEL -AK		971,262	319	3,044.71	618,802	0.058
AMERICAN SAMOA TOTAL					4,560,265	10,594	430.46	0	0.000
673900	C	R	AMERICAN SAMOA		4,560,265	10,594	430.46	0	0.000
ARIZONA TOTAL					880,677,982	2,076,125	424.19	23,279,575	2.185
450815	C	R	HOPI TELECOMM. INC.		1,340,981	1,777	754.63	394,951	0.037
452169	C	R	SAN CARLOS APACHE		2,900,368	2,680	1,082.23	1,294,126	0.118
452171	C	R	ARIZONA TELEPHONE CO	Telephone And Data Systems, Inc.	2,031,994	3,865	525.74	214,356	0.020
452172	C	R	CITIZENS-FRNTNR-RURAL	Frontier Communications Corporation	39,503,942	92,273	428.12	0	0.000
452173	C	R	TOHONO O'ODHAM UTIL.		3,467,749	3,902	888.71	1,259,632	0.118
452174	C	R	SOUTHWESTERN TEL CO	Telephone And Data Systems, Inc.	2,516,561	4,340	579.85	395,686	0.037
452176	C	R	VALLEY TEL COOP-AZ	Valley Telephone Cooperative	10,665,770	7,572	1,408.58	5,396,711	0.506
452179	C	R	GILA RIVER TELECOM.		5,415,044	3,686	1,469.08	2,794,336	0.262
452191	C	R	ACCIPITER COMM.		2,316,292	269	8,610.75	1,644,759	0.154
452200	C	R	FORT MOJAVE TEL, INC.		1,315,972	1,114	1,181.30	604,077	0.057
452226	C	R	MIDVALE-AZ		2,617,844	1,511	1,732.52	1,444,024	0.136
452302	C	R	VERIZON CALIF-AZ	Verizon Communications Inc.	3,378,695	7,115	474.87	159,343	0.015
453334	C	R	TABLE TOP TEL CO		3,873,062	4,583	845.09	1,329,537	0.125
454426	C	R	CITIZENS-FRNTNR-WH MT	Frontier Communications Corporation	21,322,426	37,664	566.12	3,077,447	0.289
454449	C	R	NAVAJO-AZ-FRONTIER	Frontier Communications Corporation	11,810,843	22,479	525.42	1,242,031	0.117

Table 3.31
ILEC High-Cost Loop Support Data
for 2007 by Study Area

Study Area Code	Type	Status	Study Area Name	Holding Company Name	Unseparated NTS Revenue Requirement \$	Number of Loops	Unseparated NTS Revenue Requirement per Loop \$	Projected High-Cost Loop Support Payments for 2009 \$	Percent of Total %
			ARIZONA (CONT.)						
455101	C	N	QWEST CORP-AZ	Qwest Communications International, Inc.	761,711,916	1,877,440	405.72	0	0.000
457991	C	R	SADDLEBACK COMM CO		3,210,557	1,157	2,774.90	2,010,241	0.189
457991A	C	R	SADDLEBACK COMM CO		1,277,966	2,698	473.67	58,318	0.005
			ARKANSAS TOTAL		565,218,219	1,162,844	486.07	55,751,196	5.232
401142	C	R	CENTURYTEL NW-AR-RUS	CenturyTel, Inc.	50,217,150	91,713	547.55	6,386,657	0.599
401143	C	R	CENTURYTEL NW-AR-SIL	CenturyTel, Inc.	9,316,131	17,189	541.98	1,134,765	0.106
401144	C	R	CENTURYTEL-CENTRAL A	CenturyTel, Inc.	55,917,915	62,536	894.17	20,443,764	1.919
401144A	C	R	CENTURYTEL-CENTRAL A	CenturyTel, Inc.	391,198	1,076	363.57	0	0.000
401691	C	R	WINDSTREAM AR	Windstream Corporation	38,755,074	94,520	410.02	0	0.000
401692	C	R	ARKANSAS TEL CO		3,023,259	8,125	372.09	0	0.000
401697	C	R	CENTRAL ARKANSAS TEL		2,180,205	3,018	722.40	597,819	0.056
401698	C	R	CLEVELAND COUNTY TEL	Telephone And Data Systems, Inc.	1,931,677	3,185	606.49	354,019	0.033
401699	C	R	DECATUR TEL CO INC	Telephone And Data Systems, Inc.	600,712	1,100	546.10	75,564	0.007
401702	C	R	SOUTH ARKANSAS TEL		3,271,714	3,549	921.87	1,233,941	0.116
401704	C	R	LAVACA TEL CO-AR		1,966,941	1,462	1,345.38	972,697	0.091
401705	C	R	CENTURYTEL- ARKANSAS	CenturyTel, Inc.	15,613,739	16,654	937.54	5,986,104	0.562
401709	C	R	MADISON COUNTY TEL		2,317,756	3,745	618.89	451,092	0.042
401710	A	R	MAGAZINE TEL CO		530,399	986	537.93	62,497	0.006
401711	C	R	CENTURYTEL-MTN HOME	CenturyTel, Inc.	13,664,591	19,483	701.36	3,551,837	0.333
401712	A	R	MOUNTAIN VIEW TEL CO	Yelcot Holding Group, Inc.	3,375,630	7,093	475.91	163,646	0.015
401713	C	R	NORTH ARKANSAS TEL		5,763,756	7,254	794.56	1,829,491	0.172
401718	C	R	PRAIRIE GROVE TEL CO		7,288,670	9,223	790.27	2,296,406	0.216
401720	C	R	CENTURYTEL-REDFIELD	CenturyTel, Inc.	1,371,673	1,590	862.69	482,250	0.045
401721	C	R	RICE BELT TEL CO		770,058	807	954.22	300,163	0.028
401722	A	R	E RITTER TEL CO	E. Ritter Communications, Inc.	2,137,992	3,985	536.51	248,909	0.023
401724	C	R	SW ARKANSAS TEL COOP		5,277,893	5,813	907.95	1,950,416	0.184
401726	C	R	TRI-COUNTY TEL CO-AR	E. Ritter Communications, Inc.	5,942,882	6,604	899.89	2,187,258	0.205
401727	C	R	CENTURYTEL-SOUTH AR	CenturyTel, Inc.	1,495,056	1,215	1,230.50	703,679	0.066
401729	C	R	WALNUT HILL TEL CO	Townes Telecommunications	5,967,349	5,166	1,155.12	2,699,878	0.253
401733	C	R	YELCOT TEL CO INC	Yelcot Holding Group, Inc.	2,281,481	3,507	650.55	505,699	0.047
401734	C	R	ARKWEST COMM., INC.		3,481,802	5,051	689.33	875,247	0.082
403031	C	R	SCOTT COUNTY TEL CO	Cypress Break, LLC	249,521	123	2,028.62	144,863	0.014
405211	C	N	SOUTHWESTERN BELL-AR	AT&T, Inc.	320,115,997	777,072	411.95	102,535	0.010
			CALIFORNIA TOTAL		4,406,520,672	18,406,883	239.40	36,317,238	3.408
542301	C	R	CALAVERAS TEL CO		4,824,484	4,384	1,100.48	2,111,529	0.198
542302	C	N	VERIZON CA(CONTEL)	Verizon Communications Inc.	130,108,155	374,768	347.17	0	0.000
542308	C	R	CITIZENS-FRONTIER CA	Frontier Communications Corporation	65,509,470	116,754	561.09	9,158,000	0.859
542311	C	R	CAL-ORE TELEPHONE CO	LICT Corporation	3,140,936	2,521	1,245.91	1,489,197	0.140
542313	C	R	UCOR TELEPHONE CO		1,837,785	1,325	1,387.01	922,918	0.087
542315	C	R	GLOBAL DBA FRONTIER	Frontier Communications Corporation	4,277,118	14,966	285.79	0	0.000
542318	C	R	FORESTHILL TEL CO.	Sebastian Enterprises, Inc.	3,898,633	3,110	1,253.58	1,855,020	0.174
542319	C	N	VERIZON-CA (GTE)	Verizon Communications Inc.	954,611,659	3,418,308	279.26	0	0.000
542321	C	R	HAPPY VALLEY TEL CO	Telephone And Data Systems, Inc.	1,419,331	3,371	421.04	0	0.000
542322	C	R	HORNITOS TEL CO	Telephone And Data Systems, Inc.	386,254	649	595.15	66,618	0.006
542323	C	R	WINTERHAVEN TEL. CO.	Telephone And Data Systems, Inc.	900,132	1,260	714.39	242,017	0.023
542324	C	R	KERMAN TELEPHONE CO	Sebastian Enterprises, Inc.	5,829,898	6,758	862.67	2,049,613	0.192
542332	C	R	THE PONDEROSA TEL CO		13,585,873	9,287	1,462.89	6,997,308	0.657
542334	C	N	SUREWEST TEL		41,513,639	110,063	377.18	0	0.000
542338	C	R	SIERRA TELEPHONE CO		17,843,536	22,937	777.94	5,498,903	0.516
542339	C	R	THE SISKIYOU TEL CO		6,369,667	4,806	1,325.36	3,125,363	0.293
542343	C	R	VOLCANO TEL CO		8,166,742	11,149	732.51	2,292,981	0.215
542344	C	R	VERIZON W-COAST-CA	Verizon Communications Inc.	3,842,813	13,314	288.63	0	0.000
542346	C	R	PINNACLES TEL CO		678,195	270	2,511.83	415,842	0.039
543402	C	R	CITIZENS-FRNTIER-GST	Frontier Communications Corporation	8,082,194	14,913	407.85	0	0.000
544342	C	R	CITIZENS-FRNTIR-TUOLUM	Frontier Communications Corporation	3,089,977	6,695	461.54	91,929	0.009
545170	C	N	PACIFIC BELL	AT&T, Inc.	3,128,604,181	14,265,275	219.32	0	0.000
			COLORADO TOTAL		853,526,676	2,132,055	400.33	29,023,537	2.724
461835	C	R	SUNFLOWER TEL - CO	FairPoint Communications, Inc.	281,418	314	896.24	103,138	0.010
462178	C	R	AGATE MUTUAL TEL CO		353,339	139	2,542.01	217,228	0.020
462181	C	R	BIJOU TEL COOP ASSOC		1,298,132	1,412	919.36	488,276	0.046
462182	C	R	BLANCA TEL CO		1,731,648	1,245	1,390.88	870,808	0.082
462184	C	R	DELTA COUNTY TEL CO	Telephone And Data Systems, Inc.	4,642,521	10,039	462.45	143,783	0.013
462185	C	R	CENTURYTEL OF EAGLE	CenturyTel, Inc.	55,144,754	73,353	751.77	16,145,870	1.515
462186	C	R	EASTERN SLOPE RURAL		4,053,163	4,901	827.01	1,355,332	0.127
462187	C	R	THE EL PASO CNTY TEL	Qwest Communications International, Inc.	2,368,761	4,360	543.29	291,546	0.027
462188	C	R	FARMERS TEL CO - CO		708,047	576	1,229.25	333,056	0.031
462190	C	R	HAXTUN TEL CO	Townes Telecommunications	1,229,881	1,542	797.59	392,403	0.037
462192	C	R	BIG SANDY TELECOM	FairPoint Communications, Inc.	639,513	990	645.97	139,354	0.013
462193	C	R	NUCLA-NATURITA TEL		971,849	1,799	540.22	116,706	0.011
462194	C	R	NUNN TEL CO		1,307,545	708	1,846.82	737,311	0.069
462195	C	R	SOUTH PARK TEL. CO.	Corona Holdings, Inc.	872,629	210	4,155.37	582,291	0.055
462196	C	R	PEETZ COOP TEL CO		271,268	233	1,164.24	123,365	0.012
462197	C	R	PHILLIPS COUNTY TEL		1,615,931	1,861	868.31	572,289	0.054
462198	A	R	PINE DRIVE TEL CO		450,576	949	474.79	21,204	0.002
462199	C	R	PLAINS COOP TEL ASSN		2,450,920	1,407	1,741.95	1,354,585	0.127
462201	C	R	RICO TEL CO		49,653	212	234.21	0	0.000
462202	C	R	ROGGEN TEL COOP CO		410,005	274	1,496.37	213,326	0.020