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BEFORE THE ARIZONA CORPORATION COMMISSION

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- 6 **BOB STUMP**
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- 7

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**
 14 **INVESTIGATION OF THE COST OF**
 15 **TELECOMMUNICATIONS ACCESS.**

DOCKET NO. T-00000D-00-0672

NOTICE OF JOINT FILING

16 Qwest Corporation and Qwest Communications Company LLC jointly file the Reply
 17 Testimony of Lisa Hensley Eckert and Peter B. Copeland, respectively.

18 Respectfully submitted this 5th day of February, 2010.

19 QWEST CORPORATION
 20 QWEST COMMUNICATIONS COMPANY, LLC

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Arizona Corporation Commission
DOCKETED

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DOCKETED BY *[Signature]*

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2 **were filed this 5th day of February, 2010 with:**

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, AZ 85007

7 **COPY of the foregoing emailed**
8 **This 5th day of February, 2010 to:**

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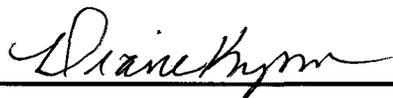
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26 

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN MAYES

Chairman

GARY PIERCE

Commissioner

SANDRA KENNEDY

Commissioner

PAUL NEWMAN

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE REVIEW AND)
POSSIBLE REVISION OF ARIZONA)
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ADMINISTRATIVE CODE)
)
IN THE MATTER OF THE INVESTIGATION)
OF THE COST OF TELECOMMUNICATIONS) DOCKET NO. T-00000D-00-0672
ACCESS)

REPLY TESTIMONY

OF

LISA HENSLEY ECKERT

ON BEHALF OF

QWEST CORPORATION

FEBRUARY 5, 2010

REPLY TESTIMONY OF LISA HENSLEY ECKERT

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1

I. INTRODUCTION

2 **Q. PLEASE STATE YOUR NAME.**

3 A. My name is Lisa Hensley Eckert.

4 **Q. ARE YOU THE SAME LISA HENSLEY ECKERT WHO FILED DIRECT**
5 **TESTIMONY IN THIS CASE?**

6 A. Yes I am.

7 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

8 A. I am responding to issues raised in the testimony of AT&T, Sprint, Verizon, Staff,
9 CLECs. The issues that I intend to directly address are:

- 10 (1.) What Local Exchange Companies should be included in this docket
11 (2.) What rate is appropriate
12 (3.) What agreements should be filed
13 (4.) Should IXCs be required to flow through any savings

1 **II. WHAT LOCAL EXCHANGE COMPANIES SHOULD BE**
2 **INCLUDED IN THIS DOCKET?**

3 **Q. DR. ARON AND DR. OYEFUSI OF AT&T REPEATEDLY STATE THAT**
4 **QWEST RATES SHOULD BE REDUCED IN THIS DOCKET, IN**
5 **ADDITION TO THE RATES OF OTHER LECS. WHAT IS YOUR**
6 **RESPONSE?**

7 **A.** Previously, AT&T argued that Qwest switched access rates and the rural ILEC
8 and CLEC rates should be bifurcated. At the time, AT&T advocated that the
9 issues of RBOC access rates were different enough from the other interests, that
10 bifurcation makes sense. In essence, the Qwest rates were "low hanging fruit",
11 and AT&T was interested in quick results. Qwest has already reduced access four
12 times in the last eight years (totaling \$27M) without corresponding decreases
13 from other parties. Qwest believes that the appropriate step is to reduce other
14 LECs to the Qwest Intrastate rate.

15 **Q. SPRINT ALSO ADVOCATES FOR THE REDUCTION OF QWEST**
16 **SWITCHED ACCESS RATES, AND CLAIMS THAT QWEST'S LONG**
17 **DISTANCE ARM HAS ALSO ADVOCATED FOR ACCESS RATE**
18 **REDUCTIONS IN OTHER STATES. IS THIS TRUE?**

19 **A.** Qwest's advocacy, both in and out of the 14-states where it operates as an ILEC,
20 is for the establishment of a state switched access rate based upon the rate of the
21 primary RBOC in the state. It is true that at one time Qwest had advocated for

1 interstate parity both as an RBOC as well as an IXC. However, the blossoming
2 of arbitrage situations led Qwest to refine that advocacy. In fact, QCC's current
3 advocacy in the continuing switched access cases in Pennsylvania is that all
4 CLECs and rural ILECs should bring their rates to the Verizon intrastate rates.

5 **Q. WHY DID QWEST REFINE ITS ADVOCACY?**

6 A. Qwest refined its advocacy because we found that quirks in how interstate access
7 rates are determined for CLECs and Rural ILECs can allow those carriers to have
8 quite high interstate switched access rates. A rule that their intrastate rate must
9 not exceed those high interstate rates therefore had no beneficial effect on
10 lowering intrastate switched access rates. As Qwest has testified previously, high
11 intrastate switched access rates create the opportunity for those carriers to engage
12 in arbitrage, for example traffic pumping, rural benchmark fraud, origination of
13 8XX call by VoIP companies in high access areas, and distorts local competition.

14 Because of the rural switched access rules at the FCC, small rural ILECs are
15 allowed to charge much higher rates than the larger ILECs. In fact, QCC found
16 that there were rural ILECs in Iowa (where traffic pumping was rampant)
17 charging as much as 13 cents per minute for *interstate* traffic. In addition, some
18 CLECs are allowed to charge higher interstate switched access rates if they
19 compete against a rural ILEC, or if they classify themselves as a "rural
20 benchmark" CLEC. This designation allows the CLEC to charge the highest
21 NECA band 8 rate for interstate traffic. In Arizona, some small rural ILECs

1 charge interstate rates as high as 5.5 cents per minute, which a rural CLEC could
2 benchmark to, and still be able to pump traffic or engage in other forms of
3 arbitrage. By adopting a uniform intrastate rate, this arbitrage opportunity is
4 reduced for intrastate traffic, which would not be the case if all the CLEC is
5 required to do is lower their intrastate rate to a disproportionately high interstate
6 rate.

7 For the RBOC, the high intrastate switched access rates of CLECs and rural
8 ILECs have caused competitive distortions in the market place. For instance,
9 when any company overbuilds in the Qwest ILEC service area, they should not be
10 allowed to charge higher switched access rates in order to offer local service at
11 lower rates--resulting in the IXC community subsidizing those lower local rates.

12 **Q. BOTH DOUGLAS DENNEY FILING ON BEHALF OF THE JOINT**
13 **CLECS AND DOUGLAS GARRETT OF COX COMMUNICATION**
14 **REQUEST THAT THE COMMISSION WAIT UNTIL THE FCC ACTS**
15 **ON INTERCARRIER COMPENSATION REFORM. DOES QWEST**
16 **AGREE?**

17 **A.** No. First and foremost, the FCC has already acted with regards to CLEC access
18 rates, and the Arizona Commission should act to match what the FCC originally
19 decided in 2001, and has repeatedly re-affirmed. . The FCC clearly stated in the

1 7th and 8th report and order¹ that CLEC access should not exceed the rate of the
2 ILEC against whom they compete, as switched access is a monopoly service.
3 There is no indication that the FCC's position on CLEC access rules is likely to
4 change any time soon, even if the FCC accelerated the pace of intercarrier comp
5 reform.

6 **Q. HAS THE FCC ADDRESSED CLEC ACCESS RATES MORE**
7 **RECENTLY?**

8 A. Yes, on January 13, 2010, the FCC released an order In the Matter of Petition of
9 Northern Telephone and Data Corp. for the Waiver of Section 61.26 (b)(1) of the
10 Commission Rules, WC Docket No 09-216. In that order, the FCC rejected the
11 request of NTD to waive the commission rules which mandate that CLECs must
12 benchmark their rates to that of the competing ILEC. NTD claimed that they had
13 higher costs, therefore they should be allowed to charge higher access rates. The
14 FCC rejected this contention, as it has done repeatedly since the 2001 CLEC
15 access order. On page one, paragraph one of the NTD order, the FCC states:

16 In this Order, we deny a waiver petition filed by Northern Telephone and
17 Data Corp. (NTD) because it fails to show any of the criteria necessary to
18 establish good cause for a waiver. (footnote omitted) NTD's petition for a
19 waiver of section 61.26 (b)(1) of the Commission's rules, which limits the
20 intersatate access charges NTD may impose on interexchange carriers

¹ *In the Matter of Access Charge Reform; 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, 16 FCC Rcd 9923, 9941-49 (2001) ("*CLEC Access Order*"). Eighth Report and Order and Fifth Order on Reconsideration, 19 FCC Rcd 9108, 9116-17 ¶ 17 (2004)

1 (IXCs), involves the competitive local exchange carrier (LEC) access rate
2 benchmark adopted and affirmed in previous orders. (footnote omitted)

3 **Q. STAFF, ON PAGE 11 OF WILLIAM SHAND'S TESTIMONY SUGGESTS**
4 **THAT A CLEC'S COST OF PROVIDING SERVICE COULD JUSTIFY A**
5 **HIGHER ACCESS RATE. DOES THE FCC'S ACTION IN THE NTD**
6 **CASE, AND OTHERS SUPPORT THAT CONCLUSION?**

7 A. No, Staff's proposal, on page 11, lines 19- 22 of Mr. Shand's direct testimony
8 states:

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

14 This statement does not reflect what criteria, if any, must be produced in order for
15 a CLEC to prove that they truly have a higher cost structure than the ILEC for
16 providing switched access services. On page 2 of the NTD order, the FCC
17 rejected this approach for CLEC access rates.

18 Subsequently, in the *CLEC Access Reconsideration Order*, the
19 Commission rejected several petitions for reconsideration of the rules
20 adopted in the *CLEC Access Reform Order*. With particular relevance to
21 NTD's request here, the Commission rejected a waiver petition by TDS
22 Metrocom (TDS) to permit competitive LECs to tariff higher access rates
23 if they can demonstrate that their costs exceed those of the incumbent
24 LECs with which they compete. The Commission pointed out that TDS's
25 request "assume[d] incorrectly that the Commission adopted a cost-based
26 approach to competitive LEC access charges in its *CLEC Access Reform*
27 *Order*." The Commission stressed that it had "explicitly declined to apply
28 this sort of regulation to competitive LECs." More recently, the

1 Commission has denied requests similar to NTD's. Specifically, the
2 Commission rejected PrairieWave Telecommunications, Inc.'s
3 (PrairieWave's) request for a waiver of section 61.26 of the Commission's
4 rules. And the Commission also denied a petition by OrbitCom requesting
5 that the Commission forbear from tariff regulations set forth in sections
6 61.26(b) and (c). (footnotes omitted)

7 The Arizona Commission should similarly reject a cost-based approach to setting
8 access rates for CLECs. Like the interstate switched access charge, the intrastate
9 switched access charges are primarily subsidies to local service. The rate for
10 intrastate switched access has been a function of the size of the subsidy required,
11 not the cost of the service.

1 **III. WHAT RATE IS APPROPRIATE?**

2 **Q. DO ANY OF THE PARTIES SUPPORT QWEST'S CONTENTION THAT**
3 **THE APPROPRIATE RATE LEVEL IS THE QWEST INTRASTATE**
4 **RATE?**

5 A. Yes. Several parties have agreed that the appropriate level of for switched access
6 reduction is for all LECs to bring their rates to the same level as Qwest's current
7 intrastate rates.

8 Staff, ALECA, and Verizon have all supported the position that the Qwest
9 intrastate switched access rate is the appropriate level for the intrastate rates of all
10 LECs in Arizona.

11 On page 2, lines 17-21 of the Direct Testimony of Wilfred Shand on behalf of the
12 Staff, he addresses ALECA rates as follows:

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

19 Mr.Shand also addresses CLEC rates on page 11, lines 12-17, stating:

20 Staff recommends that CLECs' maximum switched access rates be capped
21 at the incumbent LEC's rates and that the CLECs should be required to
22 reduce their maximum switched access rates to the level of the incumbent
23 local exchange carrier. If Staffs access charge rate reformation is adopted

1 by the Commission, the incumbent LEC's rates will be Qwest's current
2 intrastate rates. Staff believes that the FCC solution is appropriate.

3 ALECA witness Douglas Merideth, on page 7, lines 13- 21 states:

4 ...using the Qwest statewide intrastate composite rate is an appropriate
5 step in reforming Arizona's intrastate switched access regime. By
6 reducing each ALECA member composite rate to the Qwest composite
7 rate, the commission would promote equity between urban/suburban and
8 rural areas of the state. Furthermore, since the Qwest composite rate is
9 publicly available, it provides a simple and straightforward target rate for
10 switched access reform. Lastly, using the Qwest composite rate instead of
11 the ALECA members' composite interstate rates will lessen the burden of
12 the Arizona high-cost universal service fund and corresponding surcharge
13 that may be applied to end user bills.

14 Page 7, line 22 through page 8, line 7 of Verizon's testimony of Don Price states:

15 The Commission has scrutinized and reduced Qwest's intrastate access
16 rates several times over the past few years, recognizing that reducing high
17 access charges promotes competition and is in the public interest.
18 (footnote omitted) However, the Commission has not addressed switched
19 access rates comprehensively. For example, the Commission does not
20 currently impose any such discipline on CLEC's intrastate switched access
21 rates, even though the same reasons that spurred the FCC to regulate the
22 CLEC's interstate switched access rates (as discussed further below) hold
23 true in the intrastate context.

24 **Q. IF QWEST'S ILEC SWITCHED ACCESS RATES ARE SUBSEQUENTLY**
25 **LOWERED AT SOME FUTURE TIME, SHOULD OTHER LECS RATES**
26 **ALSO BE REDUCED?**

27 **A.** Yes, CLEC rates should not exceed the ILEC rate, and should be adjusted
28 accordingly. However, it is apparent that the process by which carriers reduce
29 their switched access rates must include the opportunity to recover the revenue

1 shortfall that results. This process will take considerable time, as is evidenced by
2 the fact that Staff's proposed schedule for rate reviews extend out three and one
3 half years. If Qwest's intrastate switched access rate is reduced during the
4 pendency of the other carriers' rate reviews, their duty to further reduce rates will
5 become unduly complicated.

6 The Staff has noted that Qwest's intrastate switched access rates should not be
7 reduced at this time. [Direct testimony of Wilfred Shand, page 2, lines 20 and 21,
8 and page 3, lines 3 and 4] Qwest proposes that the Commission determine to
9 have another phase of access investigation, after all carriers have reduced their
10 rates equal to Qwest's current intrastate rates. That subsequent phase would
11 include all wireline carriers, since they will all be on a "level playing field" by
12 virtue of their rates having been equalized by this phase. Other plans are
13 unacceptable, because they result in disparate rates and timing, thereby replicating
14 the same problems that were created when Qwest's rates were the only rates
15 treated by the Commission in the past.

1 **IV. WHAT AGREEMENTS SHOULD BE FILED?**

2 **Q. STAFF RECOMMENDS IN THE TESTIMONY OF WILFRED SHAND**
3 **THAT AGREEMENTS BETWEEN ILECS AND IXC FOR SWITCHED**
4 **ACCESS SERVICES, THOUGH THEY ARE NON- 251**
5 **INTERCONNECTION AGREEMENTS, SHOULD BE FILED. DOES**
6 **QWEST AGREE?**

7 **A.** Qwest agrees that agreements between LECs and IXCs for services which are
8 otherwise tariffed and involve intrastate switched access services should be made
9 available to all IXCs on a non-discriminatory basis. Whether such agreements
10 are filed with the Commission or otherwise made public is not a critical
11 distinction. The important requirement is that such agreements must be promptly
12 disclosed to the public and made available to all IXCs.

13 **Q. AS AUTHORITY FOR ITS RECOMMENDATION THAT SUCH**
14 **AGREEMENTS MUST BE FILED WITH THE COMMISSION, THE**
15 **STAFF CLAIMS COMMISSION JURISDICTION TO REQUIRE THE**
16 **FILING OF ANY INTERCONNECTION AGREEMENT BETWEEN**
17 **CARRIERS. DOES QWEST AGREE?**

18 **A.** No. Qwest does not accept the Staff's theory as an accurate statement of the
19 Commission's authority. The Commission's authority to regulate intrastate rates
20 for telecommunication services, however, is directly on point. The
21 Commission's rules currently provide that every telecommunications company

1 shall maintain on file with the Commission all current tariffs and rates. See,
2 A.A.C. R14-2-1106.B.4, regarding competitive telecommunications carriers, and
3 R14-2-510.F regarding incumbent LECs. The Commission Staff urges, and
4 Qwest agrees, that CLECs should be required to amend their tariffs to allow
5 contracts, subject to public disclosure and availability of the offer to other
6 carriers.

7 It is important that the Commission craft the filing requirement to only include the
8 services which fall under its jurisdiction. In order that the filing or public
9 disclosure requirement that is crafted as a result of this proceeding not be
10 overbroad, Qwest urges that the requirement explicitly apply only to contracts for
11 intrastate switched access services.

1 A. No. The reason why they should not is long distance rates are not set on a state
2 by state basis. This means that there are no retail long distance rates that are
3 unique to Arizona. . Rather, long distance rates are set on a national basis using a
4 model that includes access costs for multiple jurisdictions, as well as market
5 factors in a highly competitive industry. As in any competitive market, long
6 distance rates will tend to move towards the long run incremental cost of
7 providing the service over time. Carriers have every incentive to minimize their
8 costs in order to offer competitive rates in the marketplace. However, due to the
9 number of factors involved in setting rates, it is difficult to demonstrate exactly
10 how or when a specific cost savings may have been passed through to Arizona
11 customers.

12 **Q. HOW DO REDUCTIONS IN SWITCHED ACCESS RATES BENEFIT**
13 **CONSUMERS?**

14 A. When switched access rates are lowered, consumers benefit by those reductions.
15 An example of that is the graph produced by AT&T in response to the Joint
16 CLECs' First Set of Data Requests to AT&T, Request No. 1, DR 1, Table 1:
17 Documents Relied upon by Dr. Aron, one of which is a chart showing reductions
18 in access expense and toll rates in Arizona. What is clear from the graph is that as
19 switched access rates decline, the price of long distance also declines.² The long

² See Highly Confidential Exhibit LHE-2

1 distance market is highly competitive, and historically, any reductions in cost
2 translate into reductions in long distance rates.

3 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

4 **A. Yes**

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE REVIEW AND
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INVESTIGATION OF THE COST OF
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STATE OF DENVER
COUNTY OF DENVER

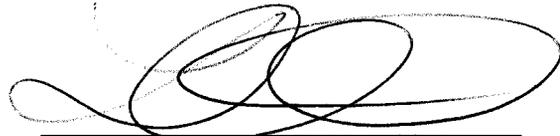
AFFIDAVIT OF
LISA HENSLEY-ECKERT

: SS

Lisa Hensley-Eckert, of lawful age being first duly sworn, deposes and states:

1. My name is Lisa Hensley-Eckert. I am Staff Director Public Policy for Qwest Corporation in Denver, Colorado. I have caused to be filed written Reply Testimony in Docket Nos. RT-00000H-97-0137 and T-00000D-00-0672.
2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.



Lisa Hensley-Eckert

SUBSCRIBED AND SWORN to before me this 3 day of February, 2010.


Notary Public

My Commission Expires: 4/13/14



BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN MAYES

Chairman

GARY PIERCE

Commissioner

SANDRA KENNEDY

Commissioner

PAUL NEWMAN

Commissioner

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)
**IN THE MATTER OF THE INVESTIGATION)
OF THE COST OF TELECOMMUNICATIONS) DOCKET NO. T-00000D-00-0672
ACCESS)****

**REPLY TESTIMONY
OF
PETER B. COPELAND
ON BEHALF OF
QWEST CORPORATION**

FEBRUARY 5, 2010

REPLY TESTIMONY OF PETER B. COPELAND

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1 **I. IDENTIFICATION OF WITNESS**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION**
3 **WITH QWEST CORPORATION.**

4 A. My name is Peter B. Copeland. My business address is 1801 California Street,
5 Denver, Colorado, and I am currently employed by Qwest Corporation (“Qwest”)
6 as Director of Cost and Economic Analysis in the Public Policy department.

7 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?**

8 A. Yes.

9 **II. PURPOSE OF TESTIMONY**

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 A. My testimony covers universal service positions presented by the parties to this
12 docket. Specifically, I review the positions of Staff where there is substantial
13 alignment with Qwest’s point of view and where there is a divergence in point of
14 view. Also, I discuss the positions of ALECA where Qwest disagrees with their
15 policy proposals.

1 **III. CONTRASTING STAFF'S AND QWEST'S POSITIONS**

2 **Q. WHAT AUSF RULE CHANGES DOES THE STAFF SUPPORT?**

3 A. Based on the testimony of Mr. Shand, the Staff recommends that the AUSF
4 surcharges should be assessed on intrastate retail revenues rather than the current
5 method that includes interconnection trunks, access lines and intrastate long
6 distance. Mr. Shand's testimony noted that this recommendation requires a rule
7 change or amendment.

8 **Q. DOES QWEST AGREE WITH STAFF'S RECOMMENDATION?**

9 A. Yes, Qwest agrees with Staff that a rule change is advisable. The funding of the
10 AUSF should be based on a method that requires all carriers operating and
11 offering intrastate telecommunications services in Arizona to contribute in an
12 equitable and non-discriminatory manner – it should be sustainable and
13 competitively and technologically neutral. Carriers operating wireline, wireless,
14 and cable telephony should all contribute to the AUSF.

15 **Q. DOES STAFF PROPOSE TO REDEFINE ANY OTHER AUSF RULES AT**
16 **THIS TIME?**

17 A. Yes. Staff proposes that a specific provision be added to the rules to allow for the
18 use of AUSF revenues to compensate carriers for revenue reductions resulting
19 from access reform.

1 **Q. DOES QWEST CONCUR THAT A RULE CHANGE IS NECESSARY?**

2 A. Yes. The rules should be clarified to encompass access reform as well as keeping
3 rates affordable in high cost areas.

4 **Q. DOES STAFF PROPOSE ANY CHANGE IN THE CURRENT AUSF**
5 **RULES CONCERNING THE ELIGIBILITY TO DRAW FUNDS FROM**
6 **AUSF?**

7 A. No. Mr. Shand provides two alternative methods, under the current rules for
8 receiving AUSF funds to offset intrastate access reductions in whole or in part.
9 The first alternative requires companies to file R14-2-103 information to allow a
10 Company and the Commission to increase rates to levels that generate additional
11 revenues while providing service at reasonable rates, before the companies are
12 authorized to receive AUSF subsidies.

13 The second alternative provides that a company may file an application to reduce
14 its intrastate access rates on a revenue neutral basis in exchange for temporary
15 AUSF support. The application would include company financial information
16 sufficient for the Commission to make a fair value finding and fair value rate of
17 return determination. Within 12 months of a Commission decision granting
18 temporary AUSF support, companies would be required to file a rate case or rate
19 review pursuant to A.A.C R14-2-103.

1 **Q. DO THE STAFF ALTERNATIVES VARY SUBSTANTIALLY FROM**
2 **QWEST'S POSITION ON THE AUSF RULES?**

3 A. No. Qwest agrees that companies should be required to make a financial showing
4 before the Commission prior to the use of AUSF as a compensating revenue
5 source for access reductions by a LEC. The two variations proposed by the Staff
6 are acceptable methods for utilizing AUSF.

7 **Q. DOES THE STAFF RECOMMEND STATE-WIDE BENCHMARK**
8 **LOCAL RATES AS A MEANS OF SHIFTING ACCESS COST**
9 **RECOVERY TO END USERS?**

10 A. No. The Staff prefers that a benchmark rate for each company should be set when
11 a company submits its rate review filing.

12 **Q. HOW DOES THE APPLICATION OF A STATE-WIDE BENCHMARK**
13 **END USER RATE AS PROPOSED BY QWEST DIFFER FROM THE**
14 **COMPANY-SPECIFIC BENCHMARK THAT THE STAFF PROPOSES**
15 **TO USE?**

16 A. The state-wide benchmarks would be set through a rulemaking process in which
17 the Commission considers the affordability of specific rates. To the extent that
18 the state-wide benchmark is set above a company's current authorized local rates,
19 any access reductions can be initially offset by increases in the local exchange
20 rates as long as revenue neutrality is maintained. Under Qwest's proposal, LECs

1 requesting AUSF in addition to increasing local rates to the benchmark need to
2 make a financial showing under the Commission's existing rules. In contrast, the
3 Staff proposal looks at a combination of local rates and AUSF as part of a fair
4 value rate of return filing in a single proceeding.

5 **Q. WHAT IS THE IMPACT OF USING A COMPANY SPECIFIC**
6 **BENCHMARK VERSUS A STATE-WIDE BENCHMARK?**

7 A. Currently, there is a wide range of local residential rates in the state. Basic
8 residential exchange rates range from a low of \$9.25 per month to a high of
9 \$24.46 per month. Using a company specific benchmark could increase some of
10 these rates as part of an application to offset decreases in intrastate access charges.
11 However, no company's fair value rate of return application would establish a
12 minimum acceptable level for end user charges prior to being considered for a
13 grant of AUSF. In contrast, Qwest's proposal for a state-wide benchmark would
14 create a minimum acceptable level for end user charges as part of the fair value
15 rate of return application.

16 **Q. DOES QWEST CONTINUE TO PREFER A STATE-WIDE**
17 **BENCHMARK?**

18 A. Yes. However, Qwest can accept the use of Staff's proposed company specific
19 benchmark.

1 **Q. WHAT IS STAFF'S POSITION CONCERNING THE FUNDING**
2 **CENTRALIZED ADMINISTRATION AND AUTOMATIC**
3 **ENROLLMENT FOR LIFELINE LINKUP CUSTOMERS?**

4 A. Staff does not accept the Arizona Eligible Telecommunications Carriers 2005
5 report recommendation that centralized administration and automatic enrollment
6 for lifeline and linkup customers should be funded through AUSF. Staff suggests
7 that the IIECs stand to gain \$38M in additional annual revenue as a result of
8 adding new lifeline and linkup customers through the centralized administration
9 automatic enrollment process.

10 **Q. IS THIS AN ACCURATE DEPICTION OF THE \$38M INCREASE?**

11 A. No. The \$38M represents an estimate of new federal USF lifeline and linkup
12 funds that could be received by the ILECs if the centralized administration and
13 automatic enrollment process generate 400,000 additional lifeline and linkup
14 customers. However, the Staff proposal ignores the fact that the \$38M in federal
15 lifeline and linkup funds is an offset for ILEC reductions in the federal subscriber
16 line charge and reductions in the state basic exchange tariff rate of \$38M.
17 Therefore, the \$38M is designed to keep the ILEC whole for reduced revenues
18 elsewhere and is not a windfall which can be used to fund centralized
19 administration and automatic enrollment. The AUSF represents the best source of
20 funding for the public policy goal of expanding the lifeline and linkup programs
21 to reach all eligible consumers.

1 **IV. CONTRASTING ALECA'S AND QWEST'S POSITIONS**

2 **Q. WHAT CHANGES DOES ALECA PROPOSE TO SUPPORT HIGH COST**
3 **LOOPS FROM AUSF?**

4 A. ALECA recommends a portion of the AUSF support be based on the embedded
5 cost algorithms used to calculate the Federal High Cost Loop Support (HCLS).
6 This fund calculates interstate support for rural companies. Currently, the Federal
7 High Cost Loop Support funds 65 percent of the loop costs between 115 – 150
8 percent of the national average cost and 75 percent of the loop costs in excess of
9 150 percent of the national costs. The ALECA proposal would fund all costs
10 above the 115 percent threshold either through the existing federal support or the
11 AUSF.

12 **Q. DOES QWEST RECEIVE SUPPORT FROM THE FEDERAL HCLS**
13 **MECHANISM?**

14 A. No. Non-rural companies receive high cost support based on a forward-looking
15 economic model through the Federal High Cost Model fund. Qwest does not
16 receive any federal high cost funding in Arizona.

1 **Q. DOES QWEST AGREE WITH STAFF THAT THE ALECA PROPOSAL**
2 **FOR HIGH COST LOOP FUNDING SHOULD NOT BE FUNDED**
3 **THROUGH AUSF?**

4 A. Qwest agrees with Staff that high cost loop funding should not be provided
5 through AUSF in the manner proposed by ALECA. Staff states that the
6 Commission should await further FCC action with respect to the federal high cost
7 loop funding mechanism prior to taking any action on the ALECA proposal.

8 **Q. DOES QWEST HAVE OTHER REASONS FOR NOT SUPPORTING THE**
9 **ALECA PROPOSAL FOR PROVIDING HIGH COST LOOP SUPPORT**
10 **THROUGH AUSF?**

11 A. Yes. There are two additional reasons that Qwest does not support the ALECA
12 proposal. First, the current AUSF rules provide a means for rural carriers to
13 receive high cost loop support through AUSF. This involves making a financial
14 showing under the Commission's rules.

15 Second, the proposed ALECA rules could lead to double recovery of loop costs
16 through the HCLS because the HCLS algorithms are based on unseparated loop
17 costs. In other words, the HCLS includes the costs within both the state and
18 interstate jurisdictions. Currently, 25 percent of every ILEC's loop cost are
19 allocated to the federal jurisdiction. The federal loop costs are recovered through
20 the federal subscriber line charge (SLC) and the Interstate Common Line Support

1 (ICLS) fund, if necessary. Therefore, when the HCLS provides recovery for 75
2 percent of the costs above 150 percent of the national average, the other 25
3 percent of the costs above 150 percent are already allocated to the federal
4 jurisdiction and recovered through SLCs and ICLS. The same is true for costs
5 between 115 – 150 percent of the national average. Currently, the rural ILECs in
6 Arizona are forecast by USAC to receive approximately \$23 M1 in HCLS in
7 2010. ALECA's request for additional state funding based on the HCLS
8 calculations could substantially increase the AUSF.

9 Rather than attempting to use a system that could lead to double recovery of loop
10 costs, the Commission should utilize its current rules for determining support for
11 high cost areas in the state.

12 V. REVENUE NEUTRAL RATE CHANGES

13 **Q. WHAT IS QWEST'S RECOMMENDATION FOR REVENUE NEUTRAL**
14 **RATE CHANGES?**

15 **A.** Qwest recommends that residential and business local rates may be raised up to a
16 benchmark in a revenue neutral manner to offset reductions in intrastate access.

¹ USAC 1st Quarter 2010 HC-01 Report found at: <http://www.universalservice.org/about/governance/fcc-filings/2010/quarter-1.aspx>

1 **Q. WHAT IS STAFF'S POSITION CONCERNING A REVENUE NEUTRAL**
2 **INCREASE IN RATES?**

3 A. Staff's position is that a change to other rates of the company could be made to
4 offset the switched access charge reduction as long as the change in rates was
5 overall revenue neutral outside of a rate case.

6 **Q. WHAT IS THE PRIMARY DIFFERENCE BETWEEN QWEST'S**
7 **POSITION AND STAFF'S POSITION IN THIS AREA?**

8 A. The major difference is that Qwest proposes the use of statewide benchmark local
9 rates and staff recommends that company specific benchmarks be employed. As I
10 stated earlier, the use of company specific benchmarks is acceptable to Qwest.

11 **VI. SUMMARY OF TESTIMONY**

12 **Q. CAN YOU BRIEFLY SUMMARIZE YOUR TESTIMONY?**

13 A. Yes. Staff and Qwest positions are very close on the major issues of AUSF rule
14 changes that include: 1) the manner in which the AUSF surcharge is applied; 2)
15 the current rules do not need to be changed for qualification for AUSF support;
16 and 3) that revenue neutral rate changes can take place outside of a fair value rate
17 of return proceeding. Qwest and Staff disagree that the AUSF should fund the
18 centralized administration and automatic enrollment in lifeline and linkup
19 programs. Qwest supports AUSF funding for these modifications to the lifeline
20 and linkup programs. Qwest and ALECA disagree on the issue of including a

1 new high cost loop component in AUSF based on the Federal High Cost Loop
2 Fund. Qwest supports the current rules as being sufficient to fund high cost areas
3 of the state and that using the HCLS could lead to issues of double recovery of
4 costs.

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 **A. Yes.**

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE REVIEW AND
POSSIBLE REVISION OF ARIZONA
UNIVERSAL SERVICE FUND RULES,
ARTICLE 12 OF THE ARIZONA
ADMINISTRATIVE CODE

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) DOCKET NO. RT-00000H-97-0137
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IN THE MATTER OF THE
INVESTIGATION OF THE COST OF
TELECOMMUNICATIONS ACCESS

)
) DOCKET NO. T-00000D-00-0672
)
)

STATE OF DENVER
COUNTY OF DENVER

AFFIDAVIT OF
PETER COPELAND

: SS

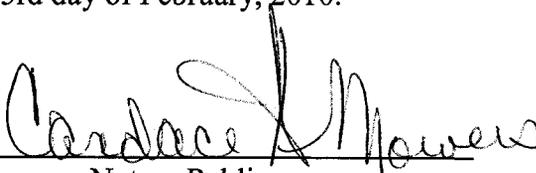
Peter Copeland, of lawful age being first duly sworn, deposes and states:

1. My name is Peter Copeland. I am Director, Legal Issues for Qwest Corporation in Denver, Colorado. I have caused to be filed written Reply Testimony in Docket Nos. RT-00000H-97-0137 and T-00000D-00-0672.
2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.


Peter Copeland

SUBSCRIBED AND SWORN to before me this 3rd day of February, 2010.


Notary Public

My Commission Expires: 4/13/14

