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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman

2010 FEB -5 P 4: 46

GARY PIERCE
Commissioner

CORP COMMISSION
DOCKET CONTROL

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

NOTICE OF FILING
REPLY TESTIMONY OF DON PRICE

Attached is the Reply Testimony of Don Price filed on behalf of Verizon.

RESPECTFULLY SUBMITTED this 5th day of February, 2010.

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Arizona Corporation Commission
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FEB - 5 2010

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BEFORE THE ARIZONA CORPORATION COMMISSION

**IN THE MATTER OF THE REVIEW)
AND POSSIBLE REVISION OF)
ARIZONA UNIVERSAL SERVICE) DOCKET NO. RT-00000H-97-0137
FUND RULES, ARTICLE 12 OF THE)
ARIZONA ADMINISTRATIVE CODE.)**

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

REPLY TESTIMONY OF

DON PRICE

ON BEHALF OF VERIZON

February 5, 2010

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS**
3 **ADDRESS.**

4 A. My name is Don Price. I am a Director - State Public Policy for Verizon.
5 My business address is 701 Brazos, Suite 600, Austin, Texas, 78701.

6 **Q. ARE YOU THE SAME DON PRICE WHO FILED DIRECT**
7 **TESTIMONY IN THIS PROCEEDING ON VERIZON'S BEHALF**
8 **ON DECEMBER 1, 2009?**

9 A. Yes, I am.

10 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR REPLY**
11 **TESTIMONY.**

12 A. The purpose of my reply testimony is to address various aspects of the
13 direct testimony filed by other parties and reiterate Verizon's positions on
14 the issues in this proceeding.

15 **Q. DOES THE VARIOUS PARTIES' TESTIMONY EVIDENCE**
16 **BROAD SUPPORT FOR REFORMING LECS' INTRASTATE**
17 **ACCESS RATES IN ARIZONA?**

18 A. Yes. Staff, Qwest, AT&T, and the ALECA members all agree with
19 Verizon that the Commission should act to reduce excessive access rates.
20 These parties also agree that such reductions would result in benefits
21 including price efficiency, reduced opportunity for arbitrage, elimination
22 of artificial rate differentials resulting from historic (but no longer

1 relevant) regulatory decisions and distinctions, and a more consistent and
2 rational intrastate switched access rate regime.

3 There is also wide agreement among the parties that access reform
4 is appropriate for both incumbent local exchange carriers (“ILECs”) and
5 competitive local exchange carriers (“CLECs”). Not only do Staff and
6 most of the other parties broadly support access reform, Staff, like
7 Verizon, recommends reducing both ALECA members’ and CLECs’
8 intrastate access rates, and has not advocated further reductions in Qwest’s
9 rates at this time.¹

10 **Q. HAS VERIZON’S POSITION CHANGED AS A RESULT OF THE**
11 **ARGUMENTS PRESENTED IN THE OTHER PARTIES’**
12 **TESTIMONY?**

13 A. No. Verizon’s stance on the twelve issues listed in the Arizona
14 Corporation Commission’s (“Commission”) September 29, 2009
15 Procedural Order (“Order”) remains as set forth in my December 1, 2009
16 Direct Testimony (“Verizon Direct”).²

17 Verizon continues to recommend that the Commission require all
18 local exchange carriers (“LECs”), including ALECA members and
19 CLECs, to cap their intrastate access charges at the regional Bell
20 Operating Company’s (“RBOC”)—here, Qwest’s—levels. To the extent
21 that any affected carrier chooses not to absorb such reductions, Verizon

¹ See Direct Testimony of Wilfred Shand, on behalf of the Arizona Corporation Commission (Utilities Division), filed January 8, 2010 (“Staff Direct”) at 2-3; 11; 26.

² At pages 19-23 of my Direct Testimony, I set forth a summary response to each of the twelve issues following my longer discussion of some of the key policy issues in this proceeding.

1 continues to advocate that the Commission allow the carrier to recoup any
2 “foregone” revenue through retail pricing flexibility, and *not* through an
3 expansion of the size or scope of the Arizona Universal Service Fund
4 (“AUSF”). I will explain below Verizon’s rationale in support of its
5 positions.

6 **Q. DO YOU HAVE ADDITIONAL INTRODUCTORY COMMENTS?**

7 A. Yes. I think it is important for the Commission to recognize the unique
8 industry perspective that Verizon provides. Because Verizon operates as
9 an incumbent LEC, a competitive LEC, a provider of wireless services,
10 and as an interexchange carrier, Verizon has not taken—and indeed cannot
11 take—parochial positions on the crucial public policy issues implicated by
12 access charge reform.

13 **Q. HOW IS YOUR REPLY TESTIMONY ORGANIZED?**

14 A. Because Verizon’s position on the twelve issues in the Order remains
15 unchanged, my reply testimony will focus on two major issues: the
16 critical need, at minimum, for the Commission to cap CLECs’ intrastate
17 switched access rates as expeditiously as possible, and the impropriety of
18 expanding the AUSF to serve as an insurance policy or recovery
19 mechanism for “lost” access revenues and LEC profits. In the remainder
20 of my testimony, I address a few of the key points made by each party in
21 its direct testimony. Given the volume of testimony that has been filed, it
22 is neither practicable nor necessary to address every point made by every

1 party. For that reason, the fact that I do not comment on a particular point
2 made by any party should not be construed as my agreement with that
3 point.

4 **II. AT A MINIMUM, THE COMMISSION SHOULD TAKE**
5 **IMMEDIATE STEPS TO CAP CLECS' ACCESS RATES**

6 **Q. DO YOU AGREE WITH THE JOINT CLECS'**
7 **RECOMMENDATION THAT THE "COMMISSION SHOULD**
8 **FIRST ADDRESS RURAL ILEC ACCESS RATES BEFORE**
9 **ADDRESSING CLEC ACCESS RATES"?**

10 A. No. Contrary to Messrs. Denney's and Garrett's assertions, there is no
11 good reason to delay reform of CLEC access rates in Arizona.³ In fact, the
12 decision to constrain CLEC access rates should be one of the easiest
13 aspects of the Commission's deliberations in this case. CLECs have
14 demonstrated a willingness and ability to charge excessive access rates,
15 and that behavior derives from the fact that, once a customer chooses retail
16 service from a CLEC, other carriers have no choice but to deliver calls to
17 the CLEC even though they must incur the CLEC's unreasonably high
18 access rates. Thus, competition does not discipline the CLEC's access
19 rates.

20 Mr. Denney's testimony cautions the Commission against "price
21 regulat[ing] CLECs" and argues that there is no justification for the

³ See Direct Testimony of Douglas Denney on behalf of the Joint CLECs, filed December 1, 2009 ("Jt. CLEC Direct"). Mr. Denney asserts at p. 7 of his testimony that "there is ... every reason not to" take action on CLECs' access rates. See also Direct Testimony of Douglas Garrett on behalf of Cox Communications, filed December 1, 2009 ("Cox Direct"). At page 3 of his testimony, Mr. Garrett urges this Commission to "await federal action" before taking steps to reform CLECs' access rates.

1 Commission to constrain CLECs' access rates.⁴ But as explained in
2 Verizon's and other parties' testimony CLEC access rates are not subject
3 to price-disciplining competition in the way that their retail rates are.
4 Furthermore, the numerous regulatory bodies that have examined the issue
5 confirm Verizon's position. As I noted in my direct testimony, every state
6 commission that has formally considered capping CLEC access rates has
7 concluded that a benchmarking approach is good policy.⁵ AT&T witness
8 Dr. Aron testified that at least 17 states have imposed constraints on
9 CLEC access rates.⁶

10 Reforming and rationalizing CLECs' intrastate switched access
11 rates is an important component of access reform in Arizona, as it has
12 been in other states. If the Commission takes no other action in this
13 proceeding, it should at least require CLECs to cap their intrastate
14 switched access rates at Qwest's level. This is consistent with my direct
15 testimony, which recommended that the rates of *all* Arizona LECs be
16 capped at Qwest's levels, and cautioned that if the Commission decided to
17 accomplish access reform in stages, it should focus *first* on the CLECs.
18 Constraining CLECs' intrastate switched access rates (by capping them at

⁴ See Jt. CLEC Direct at 5. Mr. Denney's comment about price regulation of CLECs is meritless, because Article II of the Commission's rules, entitled "Competitive Telecommunications Services" allows CLECs to price a "competitive telecommunications service" up to the "maximum tariffed rate approved by the Commission." (R14-2-1102.11) In preparation of this testimony, I reviewed the tariffs of the joint CLECs. Those carriers appear to have significant room to increase retail service rates before reaching the "maximum" rates approved by the Commission.

⁵ See Verizon Direct at 11, footnote 10.

⁶ See Direct Testimony of Dr. Debra J. Aron on behalf of AT&T, filed December 1, 2009 ("AT&T/Aron Direct") at 52-53.

1 Qwest's levels) is the simplest and most efficient way to begin moving
2 towards more efficient access pricing. That is because, unlike the ALECA
3 member companies, CLECs already possess retail pricing flexibility.

4 **Q. DOES STAFF SUPPORT REFORMING CLECS' INTRASTATE**
5 **ACCESS RATES?**

6 A. Yes. Like Verizon, Staff recommends reducing both ALECA members'
7 and CLECs' intrastate access rates, and does not advocate subjecting
8 Qwest's rates to further reductions at this time.⁷ I address the slight
9 differences in Verizon's and Staff's positions below, but the key point is
10 that Staff agrees that access reductions would result in benefits that
11 include price efficiency, reduction of arbitrage opportunities, elimination
12 of differences in rates as a result of regulatory decisions and distinctions,
13 and establishment of more consistent and rational intrastate switched
14 access rates,⁸ and that reform is appropriate for both CLECs and ILECs
15 other than Qwest.

16 **Q. WOULD YOU ADDRESS THE JOINT CLECS' ARGUMENT**
17 **THAT THE IXCS WOULD, IN EFFECT, BE GETTING A FREE**
18 **RIDE AS A RESULT OF VERIZON'S RECOMMENDATION**
19 **THAT CARRIERS SHOULD RECOVER MORE OF THEIR**
20 **COSTS FROM THEIR END USERS⁹?**

21 A. Yes. As an initial matter, I think it is important to note how Mr. Denney
22 frames his argument. He states that Verizon advocates that the rates it
23 pays "to use a carrier's network be shifted from the IXC and onto all

⁷ See Staff Direct at 2-3; 11; 26.

⁸ *Id.* at 9.

⁹ See Jt. CLEC Direct at 41.

1 customers and carriers doing business in Arizona, whether or not they are
2 using the network that is being utilized by the IXC.”¹⁰ Mr. Denney has
3 misinterpreted or misstated Verizon’s position. Verizon advocates giving
4 ILECs increased pricing flexibility to allow them to recover from their
5 own end users any lost access revenue they choose not to absorb, but not
6 allowing them to recover it from the AUSF or any other carrier. There is
7 compelling evidence that the access rates IXCs pay for the use of the
8 LECs’ networks are significantly above the cost of access, as I discuss in
9 more detail below. If Mr. Denney is arguing for continued high access
10 rates, then there are at least two fundamental flaws to his argument. First,
11 he simply assumes, without any explanation, that the *status quo* is
12 reasonable. This is simply not credible, as the record demonstrates.
13 Second, Mr. Denney’s argument appears to rest on a misconception that
14 somehow all customers are *either* toll customers or local service
15 customers, but not both. This is wrong, because long distance customers
16 are also local service customers. Creating an artificial construct where
17 local service customers and long distance customers represent distinct
18 customer groups, as Mr. Denney’s argument seems to do, does not reflect
19 how telecommunications services are provided.

20 **Q. IN HIS TESTIMONY, MR. DENNEY OFFERS THAT “CLECS**
21 **OPERATE IN A COMPETITIVE MARKET.” HAS THE FCC OR**
22 **ANY OTHER STATE COMMISSION FOUND THAT CLEC**
23 **SWITCHED ACCESS RATES ARE COMPETITIVE?**

¹⁰ *Id.*

1 A. No. The FCC and state commissions rejected this argument. In adopting
2 a cap on CLEC interstate access charges (at the level of the competing
3 ILEC), the FCC observed that the market for CLEC switched access
4 services “does not appear to be *structured* in a manner that allows
5 competition to discipline rates.”¹¹ The FCC found “ample evidence that
6 the combination of the market’s failure to constrain CLEC access rates,
7 our geographic rate averaging rules for IXCs, the absence of effective
8 limits on CLEC rates and the tariff system create an arbitrage opportunity
9 for CLECs to charge unreasonable access rates.”¹²

10 On the state side, not one state commission that has investigated
11 the issue has declined to constrain CLEC intrastate access rates.¹³
12 Recently, West Virginia joined the growing list of states that have
13 imposed caps on CLECs’ switched access rates.¹⁴ And less than two
14 months ago, the Massachusetts Department of Telecommunications and
15 Cable (“DTC”) denied reconsideration of its June 2009 decision capping
16 CLEC rates at the RBOC’s (Verizon Massachusetts) level¹⁵—action that
17 the DTC found necessary “to correct the market failure regarding CLEC

¹¹ See *Reform of Access Charges Imposed by Competitive Local Exchange Carriers*, Seventh Report and Order and Further Notice of Proposed Rulemaking, 16 FCC Rcd 9923 (April 26, 2001) (“*CLEC Rate Cap Order*”) at ¶ 32 (emphasis in original).

¹² *Id.* at ¶ 34.

¹³ See pages 15-16 of my direct testimony, where I identified the numerous states that have adopted benchmarking approaches like the FCC’s as a simple and effective means of reducing CLEC intrastate access rates to reasonable levels.

¹⁴ *Petition by Verizon West Virginia Inc. et al. Requesting that Commission Initiate a General Investigation of the Switched Access Charges of Competitive Local Exchange Carriers Operating in WV*, Commission Order, Case No. 08-0656-T-PC (Nov. 23, 2009).

¹⁵ *Petition of Verizon New England Inc. et al. for Investigation Under Chapter 159, Section 14, of the Intrastate Access Rates of Competitive Local Exchange Carriers*, Order on Motion for Reconsideration or Clarification, D.T.C. 07-9 (December 7, 2009).

1 intrastate switched access rates.”¹⁶ The Massachusetts DTC found that a
2 rate cap based on Verizon’s intrastate switched access rates constitutes “an
3 appropriate mechanism to ensure that CLEC switched access rates are just
4 and reasonable, *in the absence of sufficient competition*, because ...
5 Verizon’s rates have been found to be just and reasonable.”¹⁷ Most
6 recently, the New Jersey Board of Public Utilities issued an order capping
7 CLECs’ intrastate access rates at the level charged by the competing
8 ILEC, based on a rejection of the CLECs’ claims: “[T]he Board does not
9 find persuasive the Joint CLECs’ claim that they do not have a monopoly
10 on intrastate access services and that the Board should permit the market
11 to control Intrastate Access Rates.”¹⁸

12 **Q. ARE THERE CONDITIONS IN ARIZONA THAT MAKE CLEC**
13 **ACCESS RATES SUBJECT TO RELATIVELY GREATER**
14 **COMPETITIVE PRESSURE THAN IN OTHER STATES?**

15 A. No. The same factors that prompted the FCC and numerous other states to
16 cap CLECs’ switched access rates apply with equal force to CLEC
17 intrastate access services in Arizona. Indeed, in the absence of market
18 discipline, CLEC rates in Arizona vary significantly from each other as

¹⁶ *Petition of Verizon New England Inc. et al. for Investigation Under Chapter 159, Section 14, of the Intrastate Access Rates of Competitive Local Exchange Carriers*, Final Order, D.T.C. 07-9 (June 22, 2009) (“*MA DTC Order*”) at 23-24.

¹⁷ *Id.* (emphasis added).

¹⁸ *In the Matter of the Board’s Investigation and Review of Local Exchange Carrier Intrastate Exchange Access Rates*, Docket No. TX08090830, (N.J. B.P.U. Feb. 1, 2010), at 27. Verizon has requested a stay of this decision pending appeal on the ground that the Board did not allow ILECs pricing flexibility and the opportunity to recover lost access revenues that were used by the Board to provide contribution to residential basic exchange services.

1 well as from the prevailing RBOC rate.¹⁹ While some CLECs charge
2 reasonable access rates, many others choose to, and can, maintain
3 unreasonably high intrastate switched access rates. As I discussed at
4 pages 8-9 of my direct testimony, CLECs have market power in the
5 provision of access services because carriers have no choice but to use a
6 CLEC's switched access services when they handle interexchange calls
7 originating from the CLEC's customers and when they deliver
8 interexchange calls for termination to the CLEC's customers. Because of
9 this factor, the FCC and other states have concluded that direct constraints
10 on CLEC access rates are the only effective way to discipline those rates.

11 **Q. IS YOUR CONCLUSION THAT REGULATORY INTERVENTION**
12 **IS REQUIRED SUPPORTED BY THE MASSACHUSETTS DTC'S**
13 **RECENT DECISION?**

14 A. Yes. In its Final Order (affirmed on reconsideration), the Massachusetts
15 DTC recognized that IXCs cannot decline to terminate calls to CLECs
16 whose access charges they believe are too high.²⁰ It thus found that while
17 effective market-based pricing would otherwise constrain access rates,
18 "there is a market failure in the CLEC switched access market."²¹ It
19 reached this conclusion after finding that the "[e]vidence strongly shows

¹⁹ Based on its internal, proprietary data, Verizon estimates that CLECs' intrastate switched access rates in Arizona range from less than 1¢ per minute to nearly 8¢ per minute.

²⁰ See MA DTC Order at 5.

²¹ *Id.* at 6.

1 that CLECs have market power in providing intrastate switched access
2 service.”²²

3 The Massachusetts DTC found market failures in both the
4 originating and terminating CLEC switched access markets. It concluded
5 that the market for terminating switched access “is not sufficiently
6 competitive because a carrier’s customers do not have competitive
7 alternatives for terminating their calls,”²³ leaving IXCs unable to constrain
8 the level of terminating access charges and giving CLECs market power
9 that precludes a sufficiently competitive terminating access market.²⁴ This
10 inability results from the fact that the cost causer (the party receiving the
11 call) “is insulated from changes in wholesale access prices because they
12 are not the customer of the IXC paying the terminating access charges,”
13 and thus “cannot be expected to react ‘in response to changes in
14 [wholesale] price.’”²⁵

15 The Massachusetts DTC concluded that “the originating switched
16 access market also is not sufficiently competitive.”²⁶ Although it noted
17 that with originating switched access, the calling party is the cost-causer
18 and “could, theoretically, react in response to high origination rates,” it
19 held that because IXCs cannot geographically deaverage their interstate
20 toll rates, doing so for intrastate toll calls “is not practicable” given the

²² *Id.* at 9.

²³ As the Massachusetts DTC noted, “IXCs do not have the option of purchasing access from another vendor because customers can have only one LEC serving them.” *Id.* at 11.

²⁴ *Id.* at 10.

²⁵ *Id.* at 13.

²⁶ *Id.* at 14.

1 “unnecessarily burdensome and confusing dual charge situation in which
2 IXCs would be required to separately track and bill an individual
3 customer’s calls by LEC.”²⁷

4 Having found that CLECs possessed market power in both the
5 originating and terminating switched access markets, the Massachusetts
6 DTC concluded that a rate cap based on the RBOC rate was the
7 appropriate solution to ensuring just and reasonable CLEC access rates.²⁸
8 Noting that “every state that has acted on CLEC access rates has
9 implemented a cap, with the majority of those states setting a rate ceiling
10 at the ILEC intrastate rate,”²⁹ it found that as a result of its newly-ordered
11 rate cap, “a market distortion will be removed, thus furthering competition
12 within the telecommunications industry,” which would, in turn, “result in
13 lower long distance rates for consumers in the Commonwealth.”³⁰

14 **Q. MR. DENNEY CONTENDS THAT THE JOINT CLECS’ ACCESS**
15 **RATES IN ARIZONA ARE “REASONABLE.” HAS HE**
16 **PROVIDED ANY BASIS FOR HIS CLAIM?**

17 A. No. Mr. Denney simply argues that others have not demonstrated that the
18 joint CLECs’ access rates are “unjust or unreasonable.” The information
19 Mr. Denney provides on the access rates of the joint CLECs is sufficient to
20 demonstrate the very point he argues against. The data presented in Mr.
21 Denney’s Table 1 prove that CLECs are able to charge above-market

²⁷ *Id.* at 15-16.

²⁸ *Id.* at 17; 22-24.

²⁹ *Id.* at 23-24.

³⁰ *Id.* at 1.

1 rates—that is, access rates that exceed those charged by Qwest.³¹ While
2 the retail market for services to end user customers in Arizona is highly
3 competitive, it is clear that the extent of competition for those *retail*
4 services has no bearing, and in no way provides a constraint, on CLECs’
5 ability to continue charging excessive *access* rates.

6 Mr. Denney also claims that the joint CLECs’ access rates are
7 “reasonable” based on a comparison between the access rates of the joint
8 CLECs and those of the Verizon and AT&T CLECs. This argument
9 proves nothing. Verizon and other parties are recommending that the
10 Commission impose a general cap on CLECs’ access rates, including the
11 Verizon and AT&T CLEC rates. But because no such cap exists today,
12 there is no incentive for Verizon unilaterally to reduce its access rates
13 when other CLECs are not required to do so. To the contrary, I have
14 argued that excessive access rates provide carriers with an artificial
15 competitive advantage. No carrier, Verizon included, would give up such
16 an advantage without knowledge that its competitors must also do the
17 same. Mr. Denney’s arguments do not overcome the fact that CLECs
18 have market power in the provision of access services, and that regulatory
19 intervention is warranted.

20 **Q. IS THERE ANY MERIT TO COX’S ARGUMENT THAT THIS**
21 **COMMISSION SHOULD DO NOTHING AT THIS TIME**
22 **REGARDING CLECS’ ACCESS RATES, BUT RATHER SHOULD**

³¹ See Jt. CLEC Direct at 19.

1 **AWAIT ACTION BY THE FEDERAL COMMUNICATIONS**
2 **COMMISSION?**

3 A. No. First, the FCC already has established a policy with respect to CLEC
4 access rates. Verizon and others here are asking only that this
5 Commission take action consistent with that policy. The FCC has
6 determined that the market does not constrain CLECs' switched access
7 rates, so direct regulatory intervention in the form of a cap is necessary to
8 ensure that those rates are reasonable. The interstate and intrastate access
9 markets are no different in this regard, and parties here are recommending
10 the same kind of cap in the intrastate jurisdiction that the FCC has already
11 imposed in the interstate jurisdiction, for the same reasons.

12 The current lack of any reasonableness requirement for CLEC
13 access charges is harmful to both consumers and competition, and thus
14 there is no public policy benefit to Cox's proposal³² to perpetuate the
15 detrimental *status quo* until some indefinite point in the future.³³ This
16 Commission can proceed now with necessary corrective action, and
17 address at a later date any issues that *may* arise as a result of possible
18 *further* FCC action, sometime in the future, with respect to CLECs'
19 intrastate access rates.

20 I also disagree with Cox's assertion that comprehensive national
21 reform is the "only" viable approach to reform of CLEC intrastate access

³² See Cox Direct at 3; 5-6. Mr. Garrett's suggestion that a ten year "transition period" be adopted simply is not credible given the rapid pace of changes in telecommunications.

³³ The Federal Communications Commission has been considering intercarrier compensation issues for approximately eight years without taking decisive action.

1 charges. Cox does not (and cannot) dispute that this Commission now has
2 jurisdiction over intrastate access rates. Although comprehensive national
3 reform is the best approach to fixing problems with the current intercarrier
4 compensation regime as a whole for all carriers, there is no indication that
5 such comprehensive reform is coming anytime soon. As I said, the FCC
6 has already taken action with respect to CLEC access rates, so there is no
7 reason to wait for any further policy direction from the FCC in that regard,
8 as numerous other states have concluded. Cox's argument is simply an
9 excuse to delay swift action by this Commission and to continue to benefit
10 one subset of service providers to the disadvantage of others.

11 **Q. BOTH COX AND THE JOINT CLECS ARGUE THAT THE**
12 **COMMISSION SHOULD ALLOW A LENGTHY TRANSITION**
13 **PERIOD IF IT DECIDES TO CAP CLECS' ACCESS RATES.³⁴ DO**
14 **YOU AGREE?**

15 A. No. As I noted earlier, the CLECs have substantial flexibility under the
16 Commission's rules to immediately adjust their retail rates to offset any
17 foregone access revenues. Arizona CLECs already have been on notice
18 that a reduction in rates was possible, at a minimum since the Commission
19 initiated the discussion of the issues to be addressed by this docket in
20 December 2001.³⁵ As the testimonies of various parties have detailed, the
21 FCC and numerous other state commissions consistently have taken steps
22 to reduce CLEC rates to ILEC levels over the last decade. And all

³⁴ See Jt. CLEC Direct at 50-53; Cox Direct at 85.

³⁵ See Procedural Order, Docket No. T-00000D-00-0672 (December 3, 2001).

1 Arizona CLECs have been tracking ILEC access rates for their own
2 interstate access charges for years, in accordance with the FCC's 2001
3 decision capping CLECs' interstate switched access rates.³⁶ In other
4 words, Arizona CLECs already have had plenty of time and notice to
5 prepare for a reduction in access charges, such that no additional phase-in
6 or transition period is necessary.

7 **Q. MR. DENNEY ALSO MAKES THE CLAIM THAT CAPPING**
8 **CLECS' ACCESS RATES COULD RESULT IN**
9 **"CONFISCATORY" RATES.³⁷ IS THERE ANY MERIT TO HIS**
10 **ARGUMENT?**

11 A. None whatsoever. I am not a lawyer, but it is my understanding that Mr.
12 Denney's reliance on court decisions interpreting traditional regulatory
13 concepts is misplaced, because the rates of CLECs are not "regulated."
14 And even if the concept were relevant—which it is not—Mr. Denney
15 provides no data to support his claim, so the argument is purely
16 hypothetical.

17 Furthermore, the argument simply does not make sense. Nothing
18 in Verizon's proposal—or the proposals of AT&T or the Staff—would in
19 any way limit the "cost" that any CLEC can recover from its services. To
20 the contrary, Verizon acknowledges that CLECs have pricing flexibility
21 with respect to their retail services and can therefore look to their own end
22 user customers for recovery of their costs. Verizon's position is in line

³⁶ See *CLEC Rate Cap Order*.

³⁷ See *Jt. CLEC Direct* at 33.

1 with the FCC's and other states' rules capping CLECs' access rates. In its
2 2001 decision, the FCC stated the issue as follows:

3 Similarly, CLECs retain the flexibility to charge their end
4 users higher rates for the access service to which they
5 subscribe. Here again, if the CLEC provides a superior
6 product, the end user likely will be willing to pay for it;
7 however, if a CLEC attempts to impose an unreasonable
8 surcharge on its customer, the customer receives accurate
9 price signals and may be motivated to find an alternative
10 provider.³⁸

11
12 The issue before the Commission is not whether a CLEC can recover its
13 costs, but rather how to prevent CLECs from imposing excessive costs on
14 carriers who have no choice but to deliver traffic to and from the CLECs'
15 end users. None of the access reduction proposals offered by the parties
16 would limit CLECs' ability to recover costs from their end users.

17 In addition, Mr. Denney's proposal ignores the fact that CLECs'
18 rates have never been subject to traditional regulatory oversight. As the
19 FCC explained, reliance on a benchmark rather than some other rate-
20 setting mechanism for CLECs' access rates is reasonable because of "the
21 historical lack of regulation on the process of CLEC ratemaking,"³⁹ a
22 situation that applies with equal force to Arizona and other states.

23 **Q. HOW DO YOU RESPOND TO MR. DENNEY'S**
24 **RECOMMENDATION THAT, IF THE COMMISSION CHOOSES**
25 **TO ESTABLISH A CAP ON CLECS' ACCESS RATES, IT**
26 **SHOULD USE QWEST'S 1999 ACCESS RATE LEVELS AS THE**
27 **BENCHMARK?**

³⁸ See *CLEC Rate Cap Order* at ¶ 43.

³⁹ *Id.* at ¶ 44.

1 A. This is a red herring. Qwest's current access rates are the result of
2 extensive review by the Commission, and as discussed above, are a
3 reasonable proxy or benchmark for the CLECs. Also, as mentioned
4 earlier, the CLECs have been on notice since at least 2001 that their access
5 rates could be changed in this proceeding.

6 **Q. IS THERE A DIFFERENCE BETWEEN THE STAFF**
7 **RECOMMENDATION THAT CLECS CAP THEIR INTRASTATE**
8 **ACCESS RATES AT THE COMPETING ILEC'S RATE, RATHER**
9 **THAN QWEST'S AND VERIZON'S RECOMMENDATION THAT**
10 **QWEST'S RATES BE THE BENCHMARK?**

11 A. Yes, but it is a distinction without a difference because the result of Staff's
12 proposal is the same as Verizon's. This is because Staff also recommends
13 that ALECA members (ILECs other than Qwest) cap their rates at Qwest's
14 levels. As Staff recognizes, "[i]f Staff's access charge rate reformation is
15 adopted by the Commission, the incumbent LEC's rates will be Qwest's
16 current intrastate rates."⁴⁰ Thus, as a practical matter, Staff's
17 recommendation is identical to Verizon's – that the intrastate access rates
18 of all LECs in the state, including CLECs, should be capped at Qwest's
19 levels.

20 **III. NO AUSF EXPANSION TO FUND INTRASTATE ACCESS**
21 **REFORM**

22 **Q. SOME PARTIES SUGGEST EXPANSION OF THE AUSF TO**
23 **SERVE AS AN ACCESS REVENUE RECOVERY MECHANISM.**
24 **DOES VERIZON CONTINUE TO OPPOSE SUCH EFFORTS?**

⁴⁰ See Staff Direct at 11.

1 A. Yes. No party has provided any justification for or concrete evidence of a
2 need to expand the AUSF to subsidize traditional wireline local telephone
3 service in Arizona's current, hypercompetitive intermodal
4 telecommunications environment. Nor has any party demonstrated why
5 other carriers and their customers should be penalized through AUSF
6 assessments because of the fact that customers in the competitive
7 marketplace have availed themselves of service alternatives to the ALECA
8 member companies' services. Rather, the Commission should reduce the
9 member companies' access rates and allow them to exercise retail pricing
10 flexibility for recovery of foregone access revenues.

11 To reiterate, as noted in my direct testimony, expansion of the
12 AUSF to fund intrastate access reform would be detrimental to both
13 consumers and carriers by expanding the AUSF beyond its intended
14 purpose (and increasing the contribution burden on consumers),⁴¹ and by
15 encouraging carriers to continue relying on artificial subsidies, which is
16 not appropriate in a competitive environment, rather than operating more
17 efficiently.⁴² Expanding the AUSF in this manner (the price tag for which

⁴¹ See Decision No. 70659 (AUSF Amendments Proceeding; Docket No. RT-00000H-97-0137) (Dec. 22, 2008) at 1 ("The AUSF was established to maintain statewide average rates and the availability of basic telephone service to the greatest extent reasonably possible."); *see also* Decision No. 63267 (same docket) (Dec. 15, 2000) at 1; Decision No. 56639 (AUSF Establishment Dockets) (Sept. 22, 1989) at 5, 32 (purpose of AUSF is to "ameliorate the upward pressure on basic local rates in rural areas" and "ensure that the high cost of providing wireline local exchange service in rural areas will not diminish the availability of affordable service.

⁴² See Verizon Direct at 4.

1 ALECA has calculated at \$23 million)⁴³ would simply perpetuate the
2 anticompetitive *status quo*, under which one set of providers (LECs)
3 recover network costs from other providers (presently IXC). Such a
4 result is incompatible with and harmful to the workings of a competitive
5 market for communications services.⁴⁴

6 **Q. PLEASE EXPLAIN IN MORE DETAIL THE BASIS FOR YOUR**
7 **POSITION.**

8 A. The historic justification for a universal service fund is to ensure that
9 consumers in all areas have access to basic telephone service at affordable
10 rates. Basic telephone service traditionally was provided only via wireline
11 local exchange service. Because the costs of providing wireline local
12 telephone exchange service in certain rural areas historically tended to be
13 higher than the costs of providing wireline service in more densely
14 populated urban areas, all things otherwise equal, the theory was that rates
15 charged to consumers in those rural areas would tend to be higher and
16 possibly unaffordable. Universal service funds therefore attempted to
17 make service in rural areas more affordable by providing an explicit
18 subsidy to local exchange carriers that offered wireline service to rural
19 areas. By defraying a portion of the costs of providing wireline service in
20 rural areas, the fund allowed rural local exchange carriers to charge
21 affordable rates.

⁴³ See Direct Testimony of Douglas Duncan Meredith on behalf of the Arizona Local Exchange Carriers Association, filed December 1, 2009 (“ALECA Direct”) at 8-9.

⁴⁴ *Id.* Note particularly ALECA’s proposal that, unlike other contributors to the expanded AUSF, its members’ contributions to the AUSF would be reimbursed from the AUSF.

1 Subsequent events, including the rise of competition, technological
2 innovation, and the proliferation of intermodal providers, have
3 dramatically altered that landscape and rendered that justification moot.
4 This is not only true nationally, but also in Arizona. For example, the
5 testimony of Dr. Oyefusi provides evidence that both wireless and
6 broadband services are widely available even in the rural areas of
7 Arizona.⁴⁵ For example, he explains that, as of 2008, 97 percent of
8 Arizona residents over the age of 15 have a wireless phone.⁴⁶ These
9 developments have driven down the costs associated with providing basic
10 telecommunications services in rural areas. (For example, wireless
11 providers often can provide service in rural areas at lower costs than can
12 traditional wireline carriers, and even wireline providers can use new
13 technology to reach rural areas more efficiently and cost-effectively.) The
14 result has been greater choice and lower rates for consumers. These are
15 not new developments, as the Commission's order in the 2005 Qwest
16 alternative regulation docket noted that "Qwest provides statistics and
17 relies on evidence from Staff and other parties that indicates there is
18 significant CLEC-based competition as well as 'intermodal' wireless and
19 VoIP alternatives in Arizona" and that "Qwest provides other examples of
20 significant changes in the telecommunications market... ."⁴⁷ No party has

⁴⁵ See AT&T/Direct Testimony of Dr. Ola Oyefusi on behalf of AT&T, filed December 1, 2009 ("AT&T/Oyefusi Direct") at 33.

⁴⁶ *Id.* at 32.

⁴⁷ See Opinion and Order, Docket No. T-01051B-03-0454 (March 26, 2006) at 15-16.

1 presented any evidence that subsidies and/or AUSF expansion are
2 necessary to assure that consumers in all areas of the state have access to
3 affordable service. Without that evidence, any former justification for
4 providing AUSF support to ALECA members is unjustified now.

5 **Q. WHAT ARE THE IMPLICATIONS OF THESE DEVELOPMENTS**
6 **ON THE ISSUES BEFORE THE COMMISSION IN THIS**
7 **PROCEEDING?**

8 A. Those parties that support recovery of foregone access revenues through
9 an expanded AUSF are ignoring these very real changes in the
10 telecommunications landscape, and simply assume that all of the historic
11 conditions that originally supported the rationale for universal service
12 funding still exist today. In particular, those parties cling to the
13 assumptions that: (a) universal service mandates access to a traditional
14 landline phone (because the ALECA member companies' wireline local
15 exchange service is the only service that would be subsidized); (b) the
16 costs of providing telecommunications service to rural areas remain
17 prohibitively high (so there is no requirement that any ALECA member
18 demonstrate that it actually faces high costs); and (c) without a new,
19 explicit subsidy to the ALECA member companies, consumers in rural
20 areas cannot obtain access to basic telephone service at affordable rates
21 from either an ALECA member or some other provider. There is no
22 evidence that any of these assumptions is correct in today's environment,
23 and no evidence to support a new or expanded subsidy that will

1 necessarily penalize customers that have already availed themselves of
2 other competitive service options. Rather, when consumers have access to
3 quality services that are being provided by a number of competing carriers
4 and technologies, at affordable rates (as is the case in Arizona today), the
5 goals of universal service are achieved and government subsidies—
6 particularly new ones based solely on anecdotal evidence—are
7 unnecessary.

8 **Q. ARE THERE OTHER REASONS WHY THE COMMISSION**
9 **SHOULD NOT EXPAND THE AUSF?**

10 A. Yes, and the Joint CLECs and Verizon agree on this point. As Mr.
11 Denney observes in opposing an expanded AUSF, there is no public
12 policy rationale for requiring new, innovative services—including wireless
13 and VoIP⁴⁸—to help fund the rural telephone companies' chosen business
14 models. And that is particularly the case where, as in the instant
15 proceeding, there has been no demonstration that service would otherwise
16 be unaffordable, that alternatives to traditional wireline service do not
17 exist, or that wireline carriers could not provide the service without such
18 funds. The Commission should not burden new services and technologies
19 (and the customers that use them) with legacy regulatory obligations that
20 have outlived their usefulness. Indeed, these service and technology
21 innovations are spurring competition in the telecommunications

⁴⁸ In addition to the policy reasons not to apply state USF obligations to VoIP services, Verizon will discuss the legal obstacles to doing so in its briefs.

1 marketplace, thereby providing an impetus for reduced rates in the
2 traditional wireline sector. Burdening such services and customers with
3 unnecessary new fees is the surest way to drive investment dollars away
4 from Arizona. Should the Commission choose to force wireless and VoIP
5 providers to contribute to an expanded AUSF, the result will simply be
6 higher rates, chilling of innovation, reduced investment, and fewer
7 competitive options and fewer benefits for consumers.⁴⁹ For all these
8 reasons, the Commission should not hamper the continued growth of
9 wireless⁵⁰ and VoIP by imposing new fees on customers of these services.

10 **Q. IS THE INTERCARRIER COMPENSATION REGIME FOR**
11 **WIRELESS CARRIERS THE SAME AS THAT FOR WIRELINE**
12 **INTEREXCHANGE CARRIERS?**

13 A. No. Unlike wireline interexchange carriers, which operate using the
14 concept of Local Access Transport Areas (“LATAs”), wireless carriers
15 operate using a different concept, that of Major Trading Areas
16 (“MTAs”).⁵¹ The vast majority of Arizona is within one MTA.⁵² Traffic
17 between a wireless customer and an end user of a LEC within an MTA is
18 considered local traffic, pursuant to § 51.701(b)(2) of the FCC’s rules,⁵³

⁴⁹ As AT&T’s Dr. Aron noted, wireless carriers only pay intrastate access charges in very limited circumstances, and thus, their customers would not directly benefit from the access reductions under consideration here. *See* AT&T/Aron Direct at 40.

⁵⁰ For example, AT&T’s Dr. Aron cited a CDC study published last year that showed that 18.9% of Arizona households are wireless-only. *See* AT&T/Aron Direct at 95, footnote 111.

⁵¹ *See* 47 C.F.R. 24.202.

⁵² *See, e.g.*, AT&T/Aron Direct at 44.

⁵³ *See* 47 C.F.R. 51.701(b)(2).

1 and as such, the classification of such traffic for intercarrier compensation
2 purposes is local, meaning that access charges do not apply.⁵⁴

3 Conversely, if a wireless call originates in one MTA but terminates
4 to a LEC end user in a separate MTA, that "interMTA" call would be
5 subject to access charges. That situation is minimal in Arizona, as can be
6 verified by review of the interconnection agreements on file with the
7 Commission (such as those between Arizona LECs and Verizon Wireless).
8 One of the agreed terms in many of those agreements is that the interMTA
9 factor used to determine the volume of interMTA traffic subject to access
10 charges generally is zero. In other words, the carriers have agreed that
11 there is so little interMTA traffic in Arizona (if any) that the appropriate
12 traffic factor for compensation purposes is zero. Again, this reflects the
13 fact that the state of Arizona is substantially in one MTA.

14 **Q. GIVEN THE FACTS, WHAT WOULD BE THE EFFECT OF**
15 **REQUIRING WIRELESS CARRIERS TO PAY INTO AN**
16 **EXPANDED AUSF FOR THE PURPOSE OF PRESERVING**
17 **ALECA MEMBERS' INTRASTATE ACCESS REVENUE**
18 **STREAMS, AS ALECA RECOMMENDS?**

19 A. In short, the effect would be to force wireless carriers and their customers
20 to subsidize access services that they do not use.

21 **Q. WOULD REQUIRING WIRELESS CARRIERS AND THEIR**
22 **CUSTOMERS TO CONTRIBUTE TO AN EXPANDED AUSF**
23 **HAVE OTHER NEGATIVE CONSEQUENCES?**

24 A. Yes. I noted above that wireless carriers have entered into interconnection

⁵⁴ See, e.g., AT&T/Aron Direct at 41-44.

1 agreements with a number of LECs in Arizona. Where parties have
2 agreed that the volume of interMTA traffic is zero, they have thus agreed
3 that the LECs are not due any “access” compensation (because all traffic is
4 compensated at the rate for “local” traffic). A decision to require wireless
5 carriers and their customers to pay into an expanded AUSF in order to
6 replace the ALECA members’ foregone access revenues would
7 circumvent and conflict with the agreed terms and intent of the parties’
8 negotiated and Commission-approved interconnection agreements. This is
9 yet another reason why the Commission should not expand the AUSF as
10 proposed by the ALECA members to compensate them fully for foregone
11 access revenues. To do so would be contrary to sound public policy,
12 would not be competitively neutral to providers in the marketplace, and is
13 in no way appropriate in or consistent with a competitive environment.

14 **Q. DO OTHER PARTIES AGREE WITH VERIZON, AT LEAST IN**
15 **PART?**

16 A. Yes. For example, Dr. Aron acknowledges that allowing the ALECA
17 members to recover foregone access revenue through increased retail rates
18 is “from a purely economic perspective, [a] generally superior”
19 approach.⁵⁵ She goes on to explain that such an approach is preferable,
20 because it utilizes “society’s scarce resources in a way that maximizes the
21 overall consumer welfare that those resources can produce.”⁵⁶ Also,

⁵⁵ *Id.* at 90.

⁵⁶ *Id.* at 91.

1 Cox's witness Mr. Garrett points out that the effect of requiring *all* carriers
2 to reduce their intrastate switched access rates but allowing only *certain*
3 *classes of* carriers to recover such foregone revenues from the AUSF "will
4 inevitably distort competition."⁵⁷ Sprint's witness Mr. Appleby observes
5 that "[a]llowing LECs to recover revenue from their own end user services
6 exposes that revenue to the rigors and efficiency of competition,"⁵⁸ a
7 concept that is echoed by the Joint CLECs' witness, Mr. Denney.⁵⁹ Thus,
8 expanding the AUSF as a means of replacing ALECA members' foregone
9 access revenues is simply not sound public policy, because of the negative
10 implications on competition and because such an approach fails to
11 maximize consumer welfare.

12 And Staff observed that with one exception, Qwest is the only
13 Arizona ILEC to have had its rates examined in the past decade, allowing
14 for "no bona fide recent sense" of the remaining ILECs' financial
15 condition, "other than their assertion that they need AUSF in order to
16 survive the decline in access revenues."⁶⁰ As Staff rightly observed, "it is
17 not equitable to require customers of other companies to subsidize the
18 ALECA members *based solely on anecdotal statements of need.*"⁶¹

⁵⁷ See Cox Direct at 5. Even the Joint CLECs concede that AUSF funds should not be used to replace CLEC revenues lost as a result of access reform. See Jt. CLEC Direct at 60.

⁵⁸ See Direct Testimony of James A. Appleby on behalf of Sprint, filed December 1, 2009 ("Sprint Direct") at 22.

⁵⁹ See Jt. CLEC Direct at 10.

⁶⁰ See Staff Direct at 19.

⁶¹ *Id.* (emphasis added).

1 **Q. DOES VERIZON HAVE ANY RECOMMENDATIONS IN THE**
2 **EVENT THE COMMISSION NONETHELESS PROCEEDS TO**
3 **EXPAND THE AUSF TO SERVE AS AN ACCESS REVENUE**
4 **REPLACEMENT MECHANISM?**

5 A. Again, Verizon is strongly opposed to this approach. There has been no
6 factual showing justifying such an expansion of the AUSF. However, if
7 evidence was presented proving that affordable alternatives do not exist at
8 certain specific locations *and* that AUSF is the only means to assured
9 affordable service to those areas, the Commission must ensure that it
10 tightly constrains the AUSF.

11 Thus, at minimum, the following conditions would be necessary:

- 12 ► CLECs have significant pricing flexibility and no legacy policy
13 burdens, and should not receive subsidies for the long-overdue
14 rationalization of their intrastate switched access rates.
15
- 16 ► In keeping with Staff's recognition that it is inequitable to require
17 other carriers to subsidize ALECA's members "based solely on
18 anecdotal statements of need," the Commission should not
19 automatically authorize recovery from the AUSF for foregone
20 access revenues. Instead, any carrier seeking recovery from the
21 AUSF for such revenues should not only be required to increase its
22 local retail rates to an appropriate Commission-set benchmark, but
23 should also be required to demonstrate (through a factual showing,
24 and not simply a sworn assertion) that it cannot continue to provide
25 basic local service in a specific area without continuing to receive
26 a subsidy.
27
- 28 ► The Commission should cap the size of the AUSF and set an end
29 date for the availability of temporary AUSF subsidies for foregone
30 access revenues that is no more than three years in the future. The
31 fund should not serve as a permanent access revenue replacement
32 mechanism; failure to curtail this possibility would perpetuate the
33 competitive harms created by the current access system (as one set
34 of carriers would continue to subsidize another). The AUSF
35 should be phased out completely within no more than three years
36 of its initiation.
37

- 1 ▶ As discussed in more detail below, wireless and VoIP providers
2 should be exempted from contributing to the AUSF for access
3 revenue replacement purposes.
4
5 ▶ The AUSF, and carriers' draws from it, should be resized annually
6 to account for reductions in intrastate access minutes of use and
7 access lines. Otherwise, ALECA members would reap the
8 windfall of subsidies based on levels of traffic that have declined
9 over time as a result of competition.

10
11 **IV. OTHER RESPONSES TO INDIVIDUAL PARTIES**

12 **Q. ARE THERE OTHER ISSUES YOU'D LIKE TO ADDRESS IN**
13 **ADDITION TO THESE TWO MAIN ONES?**

14 A. Yes. I will briefly address a few additional points made by each
15 individual party, starting with Staff.

16 **Staff of the Arizona Commerce Commission ("Staff")**
17

18 **Q. IS THE STAFF'S TESTIMONY GENERALLY ALIGNED WITH**
19 **VERIZON'S RECOMMENDATIONS?**

20 A. Yes. Staff recognizes that the current intrastate switched access regime is
21 susceptible to arbitrage and that reform would bring a number of
22 benefits.⁶² Staff and Verizon are in agreement on the core
23 recommendation – that the intrastate switched access rates of both RLECs
24 and CLECs be reduced to Qwest's levels⁶³ – although Verizon's proposal
25 would result in more rapid implementation than Staff's, expediting the
26 benefits of access reform in Arizona.

⁶² See Staff Direct at 9.

⁶³ *Id.* at 2. Like Verizon, Staff does not recommend further reductions in Qwest's intrastate access rates at this time. *Id.* at 3.

1 Staff proposes that CLECs' intrastate switched access rates be
2 capped at the level of the ILECs with which they compete, but as
3 explained above (and as acknowledged by Staff), this ultimately results in
4 the same effect as ordering CLECs to cap their intrastate access rates at
5 Qwest's levels, because the ILECs' rates would also be capped at Qwest's
6 levels.⁶⁴ In other words, Verizon's proposal is effectively identical to
7 Staff's, but presented as a single standard applicable to all LECs.

8 **Q. PLEASE EXPLAIN YOUR STATEMENT ABOVE THAT,**
9 **COMPARED WITH STAFF'S RECOMMENDATION, VERIZON'S**
10 **PROPOSAL FOR IMPLEMENTATION WOULD EXPEDITE THE**
11 **BENEFITS OF ACCESS REFORM IN ARIZONA.**

12 A. Staff's primary proposal would prohibit ALECA members from
13 recovering lost access revenues from the AUSF unless they have no other
14 source of replacement revenue, and as a result, would require them to
15 make an R14-2-103 filing seeking to increase their local rates.⁶⁵ After the
16 Commission completed its R14-2-103 review, and depending on the
17 results of the review, the RLEC would then possibly be entitled to seek
18 AUSF funds. If ALECA members would not be required to reduce their
19 intrastate access rates to Qwest's levels until completion of the
20 investigation and review, then Verizon and Staff's approaches diverge,
21 since under the Staff's proposed process, it would take a number of years

⁶⁴ *Id.* at 11.

⁶⁵ *Id.* at 27.

1 to realize the benefits of access reductions, because a rate case would need
2 to be completed for every ALECA member before reductions could occur.

3 **Q. BUT DIDN'T STAFF OFFER AN ALTERNATIVE PROPOSAL?**

4 A. Yes. Staff stated that if the Commission wished to proceed with access
5 reform more expeditiously, it could allow ALECA members to obtain
6 temporary AUSF support on a revenue-neutral basis until they had
7 completed a full R14-2-103 proceeding, which would have to be filed
8 within a year of the Commission awarding them temporary AUSF
9 funding. At that time, the Commission would consider whether to allow
10 each RLEC to raise retail rates and/or continue to receive AUSF support
11 on a demonstration that authorized rate increases were insufficient to
12 recover foregone access revenues.⁶⁶ Staff proposed a staggered filing
13 schedule that would not require the first such R14-2-103 filing to be made
14 until a year after the issuance of an order to reduce access rates, and the
15 last filing not until three and half years after the Commission's order.⁶⁷
16 Adding in the time it would take actually to conduct and complete the
17 R14-2-103 reviews, it would be upwards of four or more years before the
18 "temporary" AUSF support to ALECA members could be terminated.

19 **Q. DOES VERIZON AGREE WITH STAFF'S "ALTERNATIVE"**
20 **PROPOSAL?**

⁶⁶ *Id.*

⁶⁷ *Id.* at 27-28.

1 A. No, for the following reasons. First, LECs should look to their own
2 customers rather than their competitors (and their customers) for any
3 needed funds. In this regard, the Commission should recognize that the
4 significant intermodal competition that exists in Arizona serves to limit the
5 rates that competitors can charge, so a market mechanism is already in
6 place that ensures consumers have access to services at reasonable rates.
7 Second, a “temporary” fund would take on a life of its own and be
8 extremely difficult to dissolve. Because consumers will bear the burden of
9 any expanded AUSF, it is unreasonable to impose such a burden without
10 evidence that demonstrates it is required and without strict constraints on
11 the fund.

12 **Q. HOW DOES VERIZON’S PROPOSAL DIFFER FROM STAFF’S?**

13 A. Verizon’s proposal would implement all access rate reductions within 30
14 days of a commission order directing the reductions to be made and would
15 allow the ILECs immediate retail pricing flexibility. Verizon urges the
16 Commission to enter an order capping the intrastate access rates of all
17 LECs at the composite of the Qwest intrastate switched access rate
18 elements for the functions that the LEC at issue actually performs in
19 providing its switched access service.⁶⁸ Verizon proposes that the order
20 further direct that if a LEC’s current intrastate access rate complies with

⁶⁸ See Verizon Direct at 20.

1 the new cap, it should file, within 30 days, a sworn affidavit attesting that
2 its current intrastate switched access tariff is in compliance with the order.

3 If a LEC's current intrastate access rates do not comply with the
4 new cap, the order would require the LEC to file, within 30 days, both a
5 new intrastate switched access tariff that complies with the order (bearing
6 an effective date no later than 30 days after the order) and a sworn
7 affidavit attesting that the new intrastate switched access tariff complies
8 with the order. To the extent that the retail rates of any LEC required to
9 file a new intrastate switched access tariff as a result of the order are not
10 already subject to pricing flexibility, the LEC could adjust its retail rates
11 or choose to absorb the reduction with its other revenue streams. Verizon
12 proposes that the LEC be permitted to quantify the revenue reduction
13 associated with the ordered access reductions and file proposed retail tariff
14 changes within 30 days of the order.

15 **Q. WHAT MECHANISM DOES VERIZON RECOMMEND FOR**
16 **PROCESSING THE ALECA MEMBERS' TARIFF FILINGS?**

17 A. Verizon recommends that the Commission allow the ALECA members'
18 proposed retail rates to become effective on a temporary basis, pending
19 completion of a simplified earnings review mechanism, along the lines of
20 the process discussed by Qwest witness Copeland.⁶⁹ Such an approach
21 would accomplish access reform in a timely manner. In fact, a simplified
22 review mechanism should be used to implement whatever decision the

⁶⁹ See Qwest/Copeland Direct at 6.

1 Commission reaches in this proceeding. Procedural delay would be
2 particularly harmful where, as here, there is wide agreement among the
3 parties on the competitive and consumer benefits that would result from
4 access reform in Arizona.

5 **Q. DOES STAFF AGREE WITH VERIZON THAT THE**
6 **COMMISSION SHOULD PERMIT CARRIERS TO ENTER INTO**
7 **SWITCHED ACCESS AGREEMENTS?**

8 A. Yes. Like Verizon, Staff supports permitting CLECs to enter into off-
9 tariff switched access agreements. As explained in my direct testimony,
10 the FCC has recognized that market-based mechanisms are the best way to
11 produce efficient prices and promote the public interest.⁷⁰ Negotiated
12 intercarrier compensation agreements are the best long-term solution to
13 ensuring the efficiency of telecommunications markets in the face of
14 substantial technological change. Among other advantages, this kind of
15 approach, by virtue of being technologically neutral, adapts more easily to
16 changing technologies, encouraging their introduction without the need to
17 modify the regulatory regime.

18 Staff suggests that the commission require such agreements to be
19 filed with the commission, require CLECs to modify their tariffs to allow
20 for such agreements, and require CLECs to make the same contractual

⁷⁰ See *Access Charge Reform; Price Cap Performance Review for Local Exchange Carriers; Low-Volume Long Distance Users; Federal-State Joint Board On Universal Service*, Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45, 15 FCC Rcd 12962, ¶ 178 (May 31, 2000) (“*CALLS Order*”).

1 terms available to all similarly situated carriers.⁷¹ Verizon agrees with
2 Staff's suggestions.

3 **Q. STAFF RECOMMENDS THAT IXCS SHOULD BE REQUIRED TO**
4 **MAKE FILINGS CONFIRMING THAT THEY HAVE PASSED**
5 **THROUGH TO THEIR CUSTOMERS THE SAVINGS THAT**
6 **WOULD RESULT FROM ACCESS RATE REDUCTIONS.⁷²**
7 **WHAT IS VERIZON'S POSITION ON STAFF'S PROPOSED**
8 **FLOW-THROUGH REQUIREMENT?**

9 A. Verizon certainly agrees that access rate reductions should and will benefit
10 customers.⁷³ However, Staff's proposed flow-through requirement⁷⁴
11 would constrain the ways in which the customer benefits of access
12 reduction can materialize. As several witnesses have explained, reducing
13 intrastate access rates will enhance competition in the long distance
14 market and thereby benefit consumers. Competition in that market will
15 ensure that retail long distance rates include the effects of access cost
16 savings. This is because of the simple truth that in a competitive market,
17 long distance carriers that refuse to pass along the benefits of cost savings
18 will lose customers to those that do.

19 In such a highly competitive market,⁷⁵ there is no need for the
20 Commission to impose a rigid flow-through requirement that would
21 constrain the ways in which customer benefits can arise. Cost savings
22 may be reflected in reduced rates, or in rates that stay the same because

⁷¹ See Staff Direct at 3.

⁷² *Id.* at 13.

⁷³ See Staff Direct at 12; AT&T/Aron Direct at 105; AT&T/Oyefusi Direct at 40-42

⁷⁴ *Id.* at 13.

⁷⁵ There can be no question that the market for long distance services is highly competitive, in stark contrast with the market for access services.

1 the savings have offset other cost increases, or in a smaller rate increase
2 than otherwise would have been implemented. Also, competitors in the
3 long distance market may choose to invest the savings in advanced
4 technology, improved service quality or customer service, or they could
5 introduce new services or features, thereby bringing tangible benefits to
6 consumers in other ways. Competition will ensure that such benefits are
7 passed along to consumers in one way or another, obviating the need for
8 regulatory intervention.

9 Moreover, implementing a flow-through requirement – even if it
10 were otherwise lawful and made sense in a competitive market (and it
11 does not) – would be impractical given the wide variety of long distance
12 services available today. For example, customers can choose from a
13 block-of-time toll calling plan, a flat-rate, all-distance calling package, a
14 pre-paid calling card, or various other plans to satisfy their long distance
15 service needs. Given the differing rate plans and the various ways in
16 which consumers pay for retail interexchange service (*e.g.*, as one
17 component of a bundled service package, flat-rate, per-minute or
18 combination thereof), it would be impractical to impose—and impossible
19 to police—a flow-through requirement. Similarly, since many
20 customers—especially business customers—obtain service via contracts
21 that set forth the rates, terms and conditions of service (often on a multi-
22 state basis), it would be extremely impractical (and likely impossible) to
23 attempt to jury-rig a flow-through requirement that could apply to

1 contractual arrangements. Nevertheless, if the Commission requires
2 meaningful access reductions, Verizon would be willing to eliminate its
3 Instate Access Recovery Fee, which is paid by certain residential
4 customers in Arizona.⁷⁶

5 **Q. STAFF OPPOSES ALECA'S PROPOSAL TO USE THE AUSF FOR**
6 **HIGH COST LOOP FUNDING SUPPORT. DOES VERIZON**
7 **AGREE WITH STAFF ON THIS POINT?**

8 A. Yes. ALECA's proposal is nothing more than a solution in search of a
9 problem. ALECA proposes that the Commission create an entirely new
10 fund—and impose additional burdens on all Arizona consumers—without
11 any evidence that the costs at issue are not already being recovered
12 through other rates and without any justification or attempt to tie this to
13 universal service needs. Staff noted that ALECA's proposal would
14 require approximately \$9 million in additional AUSF support and thus
15 recommended that the Commission take no action at this time and instead
16 “await further action with respect to the federal funding mechanism.”⁷⁷
17 Verizon agrees wholeheartedly. Staff rightly expresses significant
18 concern about ALECA's proposal for a substantial additional increase in
19 the AUSF (above and beyond that associated with ALECA's proposal to
20 expand the AUSF to serve as an access revenue recovery mechanism). I

⁷⁶ Verizon's Instate Access Recovery Fee is a monthly fee of \$1.40 that is assessed on certain residential customers utilizing the company's stand-alone long distance service. The fee applies only to those customers who have a minimum amount of long distance usage charges in the billing period. *See* Arizona Tariff No. 2, Price List, 1st Revised Page A-54.

⁷⁷ *See* Staff Direct at 22-23; ALECA Direct at 11.

1 agree with Staff's recommendation that the Commission reject ALECA's
2 proposal.

3 **Q. DOES VERIZON ALSO AGREE WITH STAFF'S REJECTION OF**
4 **ALECA'S PROPOSAL TO FUND CENTRALIZED**
5 **ADMINISTRATION AND AUTOMATIC ENROLLMENT IN**
6 **LIFELINE AND LINK-UP?**

7 A. Yes, for all the reasons Staff outlines.⁷⁸

8 **Arizona Local Exchange Carrier Association ("ALECA")**

9 **Q. DOES VERIZON AGREE WITH ALECA'S POSITION?**

10 A. For all the reasons I discussed above in Section III of my testimony, I
11 disagree with ALECA's proposal to allow its members to recover from a
12 greatly-expanded AUSF—on a dollar-for-dollar basis—all of the member
13 companies' intrastate access revenues foregone as a result of access
14 reform.⁷⁹

15 There are, however, a few areas on which Verizon agrees with
16 ALECA witness Mr. Meredith. For example, I agree that reducing
17 intrastate access rates brings about various benefits, including the
18 promotion of competition and a reduction in the incentive to engage in
19 arbitrage. I also concur with his recommendation that the benchmark for
20 ALECA members should be Qwest's switched access rates, rather than
21 their own interstate rates.

⁷⁸ *Id.* at 24-26.

⁷⁹ *See* ALECA Direct at 6-8.

1 **Q. DOES VERIZON OBJECT TO ALECA'S PROPOSAL TO**
2 **ACHIEVE INTRASTATE ACCESS REFORM USING THE AUSF**
3 **AS A "MAKE-WHOLE" MECHANISM?**

4 A. Yes. For all the reasons discussed above in Section III of my testimony,
5 expanding the current AUSF as suggested by Mr. Meredith, is, among
6 other things, contrary to sound public policy. The preferable approach, as
7 noted in my direct testimony, would be to grant those carriers greater retail
8 pricing flexibility for rate-regulated services, as this would afford rate-
9 regulated carriers a sufficient opportunity to recover their network costs
10 from their own customers, rather than from competitors.⁸⁰ These
11 measures would both curtail the artificial subsidies that exist in the current
12 intrastate access regime, and encourage all carriers to operate efficiently,
13 as is appropriate in a truly competitive environment.

14 **Cox Arizona Telecom, L.L.C. ("Cox")**
15

16 **Q. DOES VERIZON AGREE WITH COX'S POSITION IN THIS**
17 **PROCEEDING?**

18 A. There is very little agreement. Cox urges the Commission not to take any
19 action and instead await federal action on access and intercarrier
20 compensation reform, in part due to the unsupported assertion that
21 arbitrage can "only" be curtailed by addressing access reform through a
22 national framework.⁸¹

23 **Q. DOES COX AT LEAST CONCEDE THAT REFORM WOULD BE**
24 **BENEFICIAL?**

⁸⁰ See Verizon Direct at 20, 21; see also AT&T/Aron Direct at 90-91.

⁸¹ See Cox Direct at 3; 5-6.

1 A. Yes and no. On the one hand, by urging the Commission to allow the
2 FCC to act on intercarrier compensation issues,⁸² Cox appears to
3 recognize the need for access reform, and to consider it a worthy goal.
4 Yet, Cox appears to dispute the benefits of access reform in light of the
5 “shift in consumer behavior” towards use of alternatives to traditional
6 wireline service.⁸³ The flaw in Cox’s reasoning is that Mr. Garrett ignores
7 that the ongoing failure to reform the access charge system may be a
8 factor in the “shift” to which he refers. That is, the artificial wholesale
9 pricing disparities in the current intrastate access regime may have
10 contributed to customers choosing alternate technologies such as wireless
11 services. Verizon’s access reform recommendations would lessen any
12 such disparities, move pricing toward true costs and let the competitive
13 market provide benefits to customers..

14 **Q. COX DOES OFFER SOME RECOMMENDATIONS IN THE**
15 **EVENT THAT THE COMMISSION DECIDES TO PROCEED**
16 **WITH ACCESS REFORM NOW RATHER THAN AWAITING**
17 **FCC ACTION. WHAT ARE YOUR THOUGHTS ON COX’S**
18 **PROPOSALS?**

19 A. As noted in Section II of my testimony above, I disagree with Cox’s
20 recommendation that the Commission focus initially on the intrastate
21 switched access rates charged by RLECs, and address CLEC (and large
22 ILEC) rates later.⁸⁴

⁸² *Id.* at 3.

⁸³ *Id.* at 4.

⁸⁴ *Id.* at 7.

1 As also noted above, I cannot concur in Cox's suggestion that the
2 Commission allow CLECs to maintain intrastate access rates that exceed
3 those of the ILECs, and allow CLECs an extended transition period if they
4 ultimately are required to reduce their rates.⁸⁵

5 Eschelon Telecom of Arizona, Inc.; Mountain Telecommunications,
6 Inc.; Electric Lightwave, LLC; McLeodUSA Telecommunications Services,
7 Inc. d/b/a PAETEC Business Services; tw telecom of arizona llc;
8 and XO Communications Services, Inc.
9 ("Joint CLECs")
10

11 **Q. DOES VERIZON AGREE WITH THE JOINT CLECS' POSITIONS**
12 **IN THIS PROCEEDING?**

13 A. No. The one area of agreement is on the Joint CLECs' recommendation
14 that CLECs not be permitted to recover lost access revenue from the
15 AUSF should the Commission decide that it may be appropriate to expand
16 the fund to serve as an access revenue recovery mechanism for some
17 carriers in the state.⁸⁶ Mr. Denney stated that he was "not aware of any
18 state that has established such a fund for CLEC access revenue
19 recovery,"⁸⁷ and neither am I. This is for good reason because (as I have
20 discussed in both my direct testimony and here) CLECs are not burdened
21 with the legacy regulations and obligations imposed upon incumbent
22 carriers, and they have substantial pricing flexibility to recover any lost
23 access revenues through retail rate modifications.

⁸⁵ *Id.* at 3.

⁸⁶ *See* Jt. CLEC Direct at 60.

⁸⁷ *Id.*

1 **Q. WHAT IS VERIZON'S RESPONSE TO THE JOINT CLECS'**
2 **RECOMMENDATION THAT THE COMMISSION SHOULD**
3 **EXPAND THE SCOPE OF THIS PROCEEDING TO "ESTABLISH**
4 **RATES THAT WIRELESS CARRIERS PAY TO LECS TO**
5 **TERMINATE INTRASTATE, INTRAMTA TRAFFIC"?**⁸⁸

6 A. This issue is not within the scope of the proceeding, and the Joint CLECs
7 have provided no valid reason to expand the scope to include the issue.
8 Wireless carriers were not provided notice that the issue would be
9 addressed in this proceeding, and to add this new issue now would be
10 unfair to the various entities that potentially would be affected by
11 including the issue at this late date. Furthermore, I cannot see any reason
12 for expanding the scope of the proceeding as recommended by the Joint
13 CLECs other than to make the Commission's task more difficult. Given
14 the importance and complexity of the access reform issues already within
15 the scope of the proceeding, the Commission should decline to expand the
16 scope.

17 My disagreement with the remainder of Joint CLEC's testimony
18 has been addressed by my discussion above.

19 **Qwest Corporation and Qwest Communications Company, LLC ("Qwest")**
20

21 **Q. ARE THERE AREAS OF AGREEMENT BETWEEN VERIZON**
22 **AND QWEST IN THIS PROCEEDING?**

23 A. Yes. Verizon agrees with several points made by Qwest, and many of
24 those have already been addressed. In addition, Verizon agrees with
25 Qwest that the cost of providing access service need not be a focus of this

⁸⁸ See Jt. CLEC Direct at 22.

1 proceeding.⁸⁹ As explained by several parties, access rates were not
2 originally set based on cost. Instead, they were set well above the
3 economic cost of providing access services to provide a contribution that
4 kept basic local rates artificially low. For all the reasons discussed above,
5 this social policy objective has been met, and with Verizon's
6 recommendation that all LECs be allowed pricing flexibility to recover
7 lost access revenues, maintaining such contributions is no longer
8 reasonable or appropriate. Furthermore, the FCC established its
9 benchmark for "just and reasonable" CLEC interstate access rates without
10 engaging in an anachronistic cost of service analysis, and this Commission
11 can (and should) do the same in the intrastate context.

12 **Q. ARE THERE ALSO POINTS WHERE QWEST AND VERIZON'S**
13 **RECOMMENDATIONS DIVERGE?**

14 A. Yes there are. Qwest is amenable to allowing carriers to recover lost
15 access revenues from the AUSF, albeit only if certain benchmarks and
16 prerequisites are met.⁹⁰ However, as explained above and in my direct
17 testimony, it is not appropriate to augment the AUSF for such purposes. It
18 is time to stop perpetuating the artificial subsidies of the current access
19 regime and establish policies that allow carriers to recover a greater
20 portion of their network costs from their own end users.

⁸⁹ See Direct Testimony of Peter B. Copeland on behalf of Qwest, filed December 1, 2009 ("Qwest/Copeland Direct") at 6.

⁹⁰ See, e.g., Qwest/Eckert Direct at 3; Qwest/Copeland Direct at 5-6.

1 **Q. DOES QWEST RECOMMEND LETTING ALL CARRIERS THAT**
2 **ARE REQUIRED TO REDUCE THEIR INTRASTATE SWITCHED**
3 **ACCESS CHARGES RECOVER THOSE LOST REVENUES**
4 **FROM THE AUSF?**

5 A. Apparently so (albeit not without making certain threshold showings).
6 However, for the reasons I have mentioned previously (both above and in
7 my direct testimony), it is inappropriate to allow any carriers to recover
8 lost access revenue from the AUSF. It would be particularly egregious to
9 allow CLECs to do so, given their lack of legacy regulation and their
10 substantial ability to recover any access reductions they choose not to
11 absorb from their local retail rates. As I mentioned above, I am unaware
12 of any state that has authorized allowing non-ILECs to recover lost access
13 revenues from a universal service fund, and with good reason.

14 **Sprint Communications Company, L.P., Sprint Spectrum, L.P.**
15 **and Nextel West Corp. (“Sprint”)**
16

17 **Q. SPRINT URGES IMMEDIATE INTRASTATE ACCESS RATE**
18 **REDUCTIONS IN ARIZONA – DOES THIS MEAN VERIZON**
19 **AGREES WITH SPRINT’S PROPOSAL?**

20 A. While Verizon certainly shares Sprint’s goal of rationalizing and
21 reforming the current intrastate switched access charge regime in Arizona,
22 Verizon differs with Sprint on the best means of achieving this goal.
23 Sprint recommends that the Commission require all LECs in Arizona,
24 including Qwest, to mirror their *own interstate rates*.⁹¹ As discussed both
25 above and in my direct testimony, Verizon believes that *Qwest’s intrastate*

⁹¹ See Direct Testimony of James A. Appleby on behalf of Sprint, filed December 1, 2009 (“Sprint Direct”) at 20-21.

1 rates should serve as a benchmark for all carriers. Verizon's proposal
2 satisfies Sprint's goal of avoiding the necessity of lengthy and expensive
3 cost review proceedings, but has the added benefit of proposing rates that
4 have been subject to the greatest degree of review and have already been
5 found "just and reasonable" by this Commission. For these reasons,
6 Qwest's current intrastate access rates should be used as the standard for
7 all carriers in the state.

8 **Q. DO YOU AGREE WITH SPRINT THAT IF A LEC WHICH HAS**
9 **BEEN REQUIRED TO REDUCE ITS INTRASTATE ACCESS**
10 **RATES SEEKS AUSF SUPPORT, THE COMMISSION SHOULD**
11 **FIRST REQUIRE THE LEC TO DEMONSTRATE SUCH NEED**
12 **THROUGH A THOROUGH FINANCIAL REVIEW OF ITS**
13 **TOTAL OPERATIONS?**

14 A. As noted both here and in my direct testimony, Verizon is strongly
15 opposed to expanding the AUSF to serve as an access recovery
16 mechanism. However, if the Commission disregards Verizon's
17 recommendations, I would agree with Sprint that the Commission should
18 at least require a LEC seeking such support to make a strong factual
19 showing that it cannot recover lost access revenues through revised retail
20 rates, that it can only cover its costs of providing local service with
21 support from the AUSF, and that alternatives are not available to its
22 customers at affordable rates.

1
2 **AT&T Communications of the Mountain States and TCG Phoenix**
3 **("AT&T")**
4

5 **Q. IS THERE ANY COMMONALITY BETWEEN AT&T'S AND**
6 **VERIZON'S POSITIONS IN THIS PROCEEDING?**

7 A. Yes, there is a fair amount of overlap. Verizon neither shares AT&T's
8 willingness to allow at least partial recovery of access revenues foregone
9 as a result of Commission-ordered rate reductions from the AUSF (which
10 would require increasing the AUSF),⁹² nor supports AT&T's proposal to
11 require all LECs in Arizona to mirror their interstate rates (already
12 addressed above in my response to Sprint).⁹³ However, as noted in the
13 introductory section of my testimony, I agree with the AT&T witnesses
14 that intrastate access rate reductions in Arizona are sorely needed, and that
15 access reform in Arizona would likely result in lower long distance rates.⁹⁴
16 AT&T appropriately recognizes that a cap on CLECs' intrastate access
17 rates is warranted, just as the FCC has already implemented on the
18 interstate side.⁹⁵

19 **Q. WITH WHICH ASPECTS OF AT&T'S POSITION IN THIS**
20 **PROCEEDING DOES VERIZON TAKE ISSUE?**

⁹² See AT&T/Oyefusi Direct at 7; 51-52.

⁹³ See AT&T/Oyefusi Direct at 6; 22; 25. Dr. Oyefusi claims that using carriers' interstate rates as a benchmark will simplify their access billing because one set of rates will apply to all toll traffic (id. at 45), but this is simply incorrect. Carriers' billing systems will continue to have to separate traffic into various jurisdictional buckets, and the systems will continue to be populated with specific rates for each distinct type (or jurisdiction) of traffic.

⁹⁴ See AT&T/Aron Direct at 27-37; 51-65; AT&T/Oyefusi Direct at 40-42. Dr. Oyefusi identifies specific rates that AT&T will reduce if its recommendations are adopted.

⁹⁵ See AT&T/Oyefusi Direct at 23-24; AT&T/Aron Direct at 86.

1 A. One major concern is AT&T's willingness to allow the AUSF to be used
2 as an access recovery mechanism – and thereby to grow precipitously, to
3 the detriment of both carriers and their customers, who would have to
4 finance the expansion of the fund. Although one AT&T witness – an
5 economist – observes that retail price modifications “would be the most
6 economically efficient means” of recovering access revenues foregone as
7 a result of rationalizing Arizona's current intrastate switched access
8 regime,⁹⁶ AT&T does not oppose AUSF expansion as part of intrastate
9 access reform, provided that it is coupled with some degree of recovery
10 through local retail rates.⁹⁷ AT&T takes this position while recognizing
11 that safeguards already exist under the current state and federal Lifeline
12 and Link-Up plans to ensure that low-income customers remain on the
13 public switched network, even in the event of retail rate changes.⁹⁸ For all
14 the reasons I have discussed, Verizon disagrees with an expansion of the
15 AUSF.

16 **Q. DOES VERIZON ENDORSE AT&T'S PROPOSAL, ECHOED BY**
17 **SPRINT, THAT THE COMMISSION REQUIRE ALL CARRIERS**
18 **TO MIRROR THEIR OWN INTERSTATE SWITCHED ACCESS**
19 **RATES?**

⁹⁶ *Id.* at 14; 90-91.

⁹⁷ That said, AT&T does state that AUSF recovery for lost access revenues should not be authorized on lines for which the service provider has full pricing flexibility, nor on unregulated bundles. *See* AT&T/Aron Direct at 88-89. AT&T also cautions against the dangers of allowing AUSF recovery for lost access revenues in the absence of a local service rate benchmark, or a benchmark that is too low, since either condition would increase carriers' draw from the AUSF, creating new economic and competitive distortions (*id.* at 101) in the effort to remedy the ones caused by the current intrastate access regime. While Verizon remains opposed to AUSF recovery for foregone access revenues, I do agree with these two points made by AT&T if the AUSF does play a role in access reform.

⁹⁸ *Id.* at 99.

1 A. No. While Verizon supports the goal of intrastate switched access rate
2 reductions, it is more appropriate to require all LECs to mirror Qwest's
3 intrastate switched access rates (versus each LEC's own interstate rates).
4 AT&T's Dr. Oyefusi claims that many states have adopted its proposed
5 approach⁹⁹ – which it refers to as a “parity requirement” – but AT&T's
6 proposal is not the norm for states that have proceeded with intrastate
7 access reform, and I disagree with Dr. Oyefusi's characterization for a
8 number of the listed states.¹⁰⁰ Typically, there is no parity requirement, or
9 to the extent there is, it is because the state's largest LEC has either been
10 ordered to, or agreed to, take its intrastate access rates down to interstate
11 levels (but other LECs in the same state have not done so).

12 **Residential Utility Consumer Office (“RUCO”)**

13 **Q. DOES VERIZON HAVE A RESPONSE TO RUCO'S TESTIMONY?**

14 A. RUCO's recommendation is that the Commission should carefully
15 consider all arguments and information before reaching a decision, and
16 should act in the public interest, rather than to the benefit of any specific

⁹⁹ See AT&T/Oyefusi Direct at 48 and Exhibit F thereto.

¹⁰⁰ For example, Indiana does not require mirroring of interstate rates. Indiana statute simply provides that intrastate switched access rates that “mirror the provider's interstate rates” shall be deemed just and reasonable. See Ind. Code § 8-1-2.6-1.5. The Wisconsin statute only requires price-regulated carriers with more than 150,000 access lines to cap their intrastate switched access rates at their interstate levels, but does not require this for all LECs. See Ch. 196.196(2)(b)1., Wis. Stats. In fact, in late 2009, the Wisconsin Commission opened a new docket – PSCW Docket No. 5-TR-105 – to investigate overarching access reform in Wisconsin. In Georgia, Kentucky, Tennessee and other states, AT&T and AT&T alone has an ongoing parity requirement as a result of its election of various types of regulation or pursuant to a settlement. Many of Dr. Oyefusi's other citations are similarly overstated.

1 set of carriers.¹⁰¹ Verizon agrees with this proposition. However, RUCO
2 offers no specific proposal for achieving it, so there is little to which
3 Verizon can respond.

4 **Q. RUCO WITNESS DR. JOHNSON ARGUES THAT “IT MAKES NO**
5 **ECONOMIC SENSE TO IMPOSE THE ENTIRE COST OF THE**
6 **ACCESS LINE, AS PART OF THE PRICE OF LOCAL SERVICE,**
7 **ON THE PARTICULAR END USER WHO REQUESTS**
8 **INSTALLATION OF THE LINE.”¹⁰² WOULD VERIZON’S**
9 **PROPOSALS HAVE THE EFFECT OF IMPOSING “THE ENTIRE**
10 **COST OF THE ACCESS LINE” ON THE ALECA MEMBERS’**
11 **END USERS?**

12 A. No. Verizon has proposed that the Commission utilize Qwest’s current
13 intrastate access rates as the benchmark for the ALECA members. The
14 Qwest intrastate access rates are set well above economic cost, meaning
15 that those rates contain a contribution toward joint and common costs,
16 including the cost of the local loop. So leaving aside any disagreement I
17 might have with Mr. Johnson’s cost allocation theories, the Commission
18 need not be concerned with the scenario Dr. Johnson portrays.

19 **V. CONCLUSION**

20 **Q. DOES THIS CONCLUDE YOUR REPLY TESTIMONY?**

21 A. Yes.

¹⁰¹ See Direct Testimony of Ben Johnson, PhD, on behalf of RUCO, filed January 6, 2010 (“RUCO Direct”) at 48, for example.

¹⁰² See RUCO Direct at 28.