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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission
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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

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IN THE MATTER OF THE
INVESTIGATION OF THE COST OF
TELECOMMUNICATIONS ACCESS.

Docket No. T-00000D-00-0672

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
Testimony Summary of Dr. Ben Johnson in the above-referenced matter.

RESPECTFULLY SUBMITTED this 12th day of March, 2010.

Michelle Wood
Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 12th day of
3 March, 2010 with:

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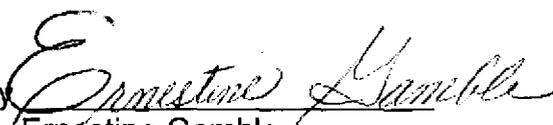
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SUMMARY
of the
TESTIMONY
of
BEN JOHNSON, PH.D.
On Behalf of
The Residential Utility Consumer Office
Before the
Arizona Corporation Commission

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

Q. Can you briefly summarize your direct testimony?

A. Yes. I filed both direct and rejoinder testimony. I suggested certain public policy goals that should guide the Commission's decisions, including universal service, inter-customer equity, rate continuity, economic efficiency, technological innovation, and effective competition. I explained potential consequences of transferring cost recovery responsibility away from switched access charges, including the likelihood of higher bills for certain users, as well as the potential for increasing the profits of the interexchange carriers, particularly if they do not pass the full amount of the benefits through to their customers in Arizona.

I recommend the Commission take a cautious approach, and to make sure that any changes that are introduced are beneficial to the public interest – not merely to the corporate interests of certain carriers. Considering the beneficial impact of technological changes and growth in the use of other services, carriers should have the burden of

1 proving they should be provided with replacement revenues if access charges are
2 reduced. If replacement revenues are necessary, I recommend the Commission consider
3 expanding the AUSE. Furthermore, if payments from the AUSE are to be significantly
4 expanded, I recommend examining options for simultaneously expanding the scope of the
5 fund, to encompass additional carriers and additional services. The focus of an expanded
6 AUSE should be to provide targeted, portable support for the highest cost areas within the
7 state.

8 Cash subsidies from the fund should be limited to the amounts needed to achieve
9 the relevant public policy goals, and payments should be tightly targeted to unusually
10 high cost areas, with a particular emphasis on low income consumers and other
11 subscriber groups that would be lost to the network absent the support mechanism. Also,
12 it would be preferable to calculate AUSE payments based on a carrier-neutral benchmark,
13 rather than basing them on the embedded costs or revenue requirement of the incumbent
14 LECs.

15

16 **Q. Can you briefly summarize your rejoinder testimony?**

17

18 A. Yes. In response to Staff witness Wilifred Strand, I explained that there are
19 practical, logistical and legal issues that would need to be resolved before implementing
20 any changes to the AUSE. I also explained that the current cap on CLEC federal support
21 should not preclude adopting a policy of transferability for state universal service
22 support.

23

24 In response to the reply testimony of Verizon witness Don Price, I explained that
using Qwest's access rates to cap rates for other carriers can be problematic, because this

1 proceeding doesn't include any cost studies or detailed information concerning these
2 rates. Furthermore, Qwest's costs are primarily incurred within the state's urban areas,
3 whereas the focus of this proceeding is on the State's rural areas. Therefore, whatever
4 percent share of joint and common costs is being borne by Qwest's intrastate access rates,
5 a much smaller share of the analogous costs of rural carriers would be borne by those
6 same rates if they were to be charged by smaller carriers operating exclusively within the
7 rural parts of the State.

8 In response to the reply testimony of AT&T witness Debra Aron, I discussed some
9 important differences between wireline service and "alternatives" such as wireless and
10 VOiP service. I also discussed the history of judicial and regulatory decisions regarding
11 the proper recovery of joint and common costs, which helps explain the rationale behind
12 the current level of switched access charges, and I offered some brief comments about a
13 long series of mergers which ultimately enabled AT&T and Verizon to gain control over
14 dozens of competing long distance carriers, internet backbone carriers, and competitive
15 local exchange carriers.

16 Rather than realizing the vision of numerous small carriers vigorously competing
17 with each other in individual local markets, we have instead seen massive industry
18 concentration which is similar to what happened in the early 1900's up until the Bell
19 System was broken up in the mid-1980's by the AT&T antitrust case. As a result of these
20 mergers, AT&T and Verizon control huge portions of the internet backbone and long
21 distance markets, in addition to large shares of various wireline and wireless markets
22 throughout the country. Yet, neither of these firms has shown much interest in competing
23 with each other in local voice or internet access markets. The lone exception is wireless,
24 where they do compete aggressively.

1 Finally, in response to the reply testimony of ALECA witness Douglas Meredeth,
2 I explained that the ability to use local network facilities for both voice and data purposes
3 has greatly reduced the “real” cost of voice traffic, but that impact of this favorable trend
4 isn’t necessarily fully reflected in the cost data reported for intrastate regulatory purposes,
5 because *that data doesn't necessarily reflect the full impact* of increasing volumes of data
6 traffic. The Commission should not rely on mere assurances from ALECA members that
7 they are following the FCC's rules. This Commission can and should examine these
8 issues, and consider the proper allocation of costs for intrastate jurisdictional purposes,
9 before implementing any decisions which have the effect of increasing intrastate rates.